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PSEG LONG ISLAND

Annual Report to LIPA Board of Trustees on Resource Planning and Renewable Energy

JULY 22, 2020
Background

The LIPA Board of Trustees Resource Planning and Renewable Energy policy requires annual reporting on:

- Compliance with applicable regulatory and environmental standards and the State’s Clean Energy Standard
- Performance of generating units
- Procurement activities of generation, renewable and distributed energy resources
- Activities representing interests of Long Island electric customers at State, regional and Federal levels
- Resource adequacy of the power supply portfolio
### Climate Leadership and Community Protection Act (CLCPA)

#### Green New Deal
- Changed 2030 electric energy target from 50% renewable to 70% renewable

#### Climate Leadership and Community Protection Act
- Passed by Legislature in late June 2019
- Establishes statewide goal for “zero-carbon” by 2050 – will require electrification of transportation and home heating
- Public Service Commission and Department of Environmental Conservation to establish regulations affecting utilities, power generators and buildings
- Excludes natural gas fuel cells from renewable energy sources*

*Status of fuel cells already under contract under prior CES rules to be determined*
Projected CES Targets and Anticipated Supply

- REC deficiency expected in 2020
- LIPA established Clean Energy Compliance Fund to fund future REC purchases in the event of shortfalls
- LIPA's estimated 2030 REC requirement increased from 3.6 million under the old CES program to 7.0 million under CLCPA
- Future needs to be met through REC purchases or additional procurements
- CLCPA rules may change eligibility of gas-fired fuel cells
- COVID-19 situation has impact on targets as well as on the supply of RECs
Renewable Procurement Activities

<table>
<thead>
<tr>
<th>Procurement</th>
<th>Date of Issuance</th>
<th>Operational As Of June 1, 2020 (MW)</th>
<th>Projected (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIT I</td>
<td>July 2012</td>
<td>38.8</td>
<td>38.8</td>
</tr>
<tr>
<td>FIT II</td>
<td>October 2013</td>
<td>30.6</td>
<td>32.2</td>
</tr>
<tr>
<td>280 MW RFP</td>
<td>October 2013</td>
<td>48.9</td>
<td>48.9</td>
</tr>
<tr>
<td>FIT II (Non-Solar)¹</td>
<td>March 2014</td>
<td>0</td>
<td>6.0</td>
</tr>
<tr>
<td>South Fork²</td>
<td>June 2015</td>
<td>0</td>
<td>130.0</td>
</tr>
<tr>
<td>2015 Renewable RFP</td>
<td>December 2015</td>
<td>0</td>
<td>59</td>
</tr>
<tr>
<td>FIT III</td>
<td>September 2016</td>
<td>7.1</td>
<td>18.8</td>
</tr>
<tr>
<td>FIT IV³</td>
<td>September 2016</td>
<td>0</td>
<td>7.4</td>
</tr>
<tr>
<td>FIT V</td>
<td>June 2020</td>
<td>0</td>
<td>TBD</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>125.4</td>
<td>341.1</td>
</tr>
</tbody>
</table>

¹ CLCPA has negated CES eligibility of gas-fired fuel cells
² Wind only
³ Two Fuel Cell Energy projects (18.5 and 13.9 MW) awards were cancelled
Rooftop Solar Program

- As of 12/31/2019, rooftop solar installations total 51,350 systems and 397 MWs (AC), providing an estimated 544 GWhs per year of energy (as an offset to demand).
- 2019 additions were 5,738 systems and 52 MWs (AC) providing an estimated 77 GWhs of energy.

*As of December 31, 2019*
## 2019 Energy Efficiency Program

### 2019 Performance
- Energy savings were 120% of goal
- Peak demand reductions were 110% of projection
- Expenses were 2% below budget

<table>
<thead>
<tr>
<th>Program</th>
<th>Energy Savings (MWh)</th>
<th>Coincident Demand Savings (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Goal</td>
<td>Verified Ex Ante</td>
</tr>
<tr>
<td>Commercial Efficiency Program</td>
<td>95,953</td>
<td>97,743</td>
</tr>
<tr>
<td>Residential Programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy Efficient Products</td>
<td>130,599</td>
<td>159,809</td>
</tr>
<tr>
<td>Home Comfort</td>
<td>2,728</td>
<td>3,472</td>
</tr>
<tr>
<td>Residential Energy Affordability Partnership (REAP)</td>
<td>1,472</td>
<td>1,472</td>
</tr>
<tr>
<td>Home Performance Programs</td>
<td>2,761</td>
<td>2,300</td>
</tr>
<tr>
<td>Home Energy Management</td>
<td>41,487</td>
<td>64,015</td>
</tr>
<tr>
<td><strong>Subtotal Residential Programs</strong></td>
<td><strong>179,047</strong></td>
<td><strong>231,068</strong></td>
</tr>
<tr>
<td><strong>Total Energy Efficiency Portfolio</strong></td>
<td><strong>275,000</strong></td>
<td><strong>328,811</strong></td>
</tr>
</tbody>
</table>
LIPA’s Carbon Footprint (2019 vs. 2030)

- LIPA’s carbon emissions expected to decrease approximately 48% by 2030 due to statewide 70% renewable energy target
- Graph below shows existing versus projected carbon footprint assuming 532 MW of solar and 1,810 MW of off-shore wind by 2030
Generating Unit Environmental Compliance

• Compliance with applicable regulatory and environmental standards
  o Air permits and continuous emissions monitoring
  o Water discharge permits – monthly sampling and reporting
  o Petroleum and chemical bulk storage
  o Waste management

• Power Supply Agreement with National Grid
  o NO\textsubscript{X} emission controls systems for Legacy Gas Turbines are in engineering review for material procurement, installation & implementation
  o 316b of Federal Clean Water Act requires best technology available to reduce fish entrainment and impingement at circulating water intake systems.
    - Port Jefferson – Installation of fish friendly traveling screens and circulating water pumps to meet updated DEC permit requirements has been completed and is now in the verification cycle
    - Northport – Installation of fish friendly traveling screens and circulating water pumps is underway. Northport 4 unit is complete, Units 1, 2, & 3 on schedule for completion between 2020 and 2022
    - E.F. Barrett – In process with NYSDEC to determine required technology. Likely outcome to be similar to Port Jefferson and Northport. No changes since last year
Generating Unit Performance  2019 vs. 2018

- All units met or exceeded contract targets
- Nine Mile Point 2 2019 capacity factor (99.1%) better than national average (94.2%)
- Availability of fleet is better than 2018 and New York average
- Heat rate (efficiency) performance of fleet is similar to last year
- Peaking units performed better than national average
Load Forecast Change From Last Year

- Comparison of NYISO Gold Book Forecasts
  - Does not reflect COVID-19 impact
- Little change in long term trend both before making reductions for energy efficiency and renewables and after making those reductions

Long Island Peak Load Forecasts
Regulatory Markets – Aligning Long Island Interests

• New York State and Independent System Operator Rulemaking
  o PSC Order on Resource Adequacy – working through the NYISO participant process on enhancements to existing market designs in order to align them with State Renewable Energy Policies and Targets
  o NY State DEC NOx Regulations – evaluated and incorporated final DEC NOx rules into a Compliance Plan for LIPA combustion turbines which was submitted to DEC
  o NYISO Demand Curve Reset – working with NYISO, consultants and market participants on updates and review of NYISO Capacity Markets required by Tariff every 4 years
  o Renewable Energy Integration – working through the NYISO participant process on development of rules governing the participation and operation of Energy Storage, Solar and Offshore Wind Resources in the NYISO Markets

• Working with NYSERDA and PSC
  o Integration of CL&CPA goals for renewable energy integration on Long Island
    ▪ Assessing LI T&D System for upgrades under State Public Policy Transmission Process
    ▪ Evaluation of opportunities for installation of Battery and Solar Facilities
Resource Adequacy

- Current resources meet projected LI Locational Capacity Requirement through 2040
- PSA contract expires May 2028. Most other contracts expire before 2040
- Implementation of CLCPA will require replacement of existing fossil units with renewable and storage options by 2040

Note: Capacity requirement decreases in year 2030 due to expiration of Marcus Hook contract

*As of July 8, 2020*
### BOARD AGENDA SUMMARY SHEET

<table>
<thead>
<tr>
<th>Committee or Board:</th>
<th>Date:</th>
<th>Board Meeting Date:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>July 10, 2020</td>
<td>July 22, 2020</td>
</tr>
</tbody>
</table>

**For All Board Voting Items:**

**Title of Agenda Item:** Approval of the Annual Report and Amendments to the Board Policy on Resource Planning, Energy Efficiency and Renewable Energy

**Consent Agenda:** ☐ Yes ☒ No

**Accompanying Presentation:** ☒ Yes ☐ No

**Recommendation from Committee:** ☒ N/A ☐ F&A; ☐ GP&P; ☐ Oversight & Clean Energy

**LIPA Presenter:** Rick Shansky  
**PSEG Long Island Presenter:** TBD

**Enterprise Risk Management Discussion:** ☐ Yes ☒ No

**For Policy Reports Only:**

**Type of Policy / Report:** ☐ Operating; ☐ Governance; ☐ Compliance; ☒ Mission

**Date of Last Report:** July 24, 2019  
**Compliance Since Last Report:** ☒ Yes ☐ No

**Proposed Changes to Policy:** ☒ Yes ☐ No

<table>
<thead>
<tr>
<th>Requested Action:</th>
<th>Summary: (include proposed amendments to Board Policies, if applicable)</th>
</tr>
</thead>
</table>
| The Board is requested to adopt a resolution: (i) approving the annual report on the Policy; (ii) finding that LIPA has complied with the Policy; and (iii) approving certain amendments to the Policy. | By Resolution No. 1372, dated July 26, 2017, the Board adopted the Policy. The Policy was last reviewed and amended by the Board by Resolution No. 1487, dated July 24, 2019.  
The Policy sets objectives for resource planning, power supply procurement, portfolio management, and energy efficiency programs that support LIPA’s mission and the State’s clean energy goals. The Policy also establishes regular performance reporting by Staff to enable the Board to assess performance against the objectives of the Policy. Staff proposes the following revisions to the Policy: changing the name of the Policy to the Board Policy on Resource Planning and Clean Energy; and other minor, nonmaterial revisions. The proposed changes are more specifically shown on Exhibit “B”. |
FOR CONSIDERATION
July 22, 2020

TO: The Board of Trustees
FROM: Thomas Falcone

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 Resource Planning, Energy Efficiency and Renewable Energy (the “Policy”); (ii) finding that the Long Island Power Authority (“LIPA”) has complied with the Policy; and (iii) approving certain amendments to the Policy, which resolution is attached hereto as Exhibit “A”.

Background

By Resolution No. 1372, dated July 26, 2017, the Board adopted the Policy. The Policy was last reviewed and amended by the Board by Resolution No. 1487, dated July 24, 2019.

The Policy sets objectives for resource planning, power supply procurement, portfolio management, and energy efficiency programs that support LIPA’s mission and the State’s clean energy goals. The Policy also establishes regular performance reporting by Staff to enable the Board to assess performance against the objectives of the Policy.

Compliance with the Policy

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

Compliance with each element of the Policy is discussed in detail below.

Planning

“Planning for a power supply portfolio that meets applicable New York State Independent System Operator and New York State Reliability Council requirements, environmental standards, and the State’s clean energy goals; and updating the Integrated Resource Plan to reassess system needs, as necessary, but no less than every five years.”

- Long Island capacity reserves are expected to meet NYISO’s minimum locational capacity requirement through 2040.
- The load forecast continues to decline through the late 2020’s. Projections for electric vehicles and heat pumps, as well as load reductions for behind-the-meter solar and other
distributed energy resources, are captured in the 2020 load forecast update.

- Implementation of the Climate Leadership and Community Protection Act (“CLCPA”) will require replacement of existing fossil fuel plants by 2040 with renewable energy, energy storage, and other carbon-free technologies.
- PSEG Long Island is studying Long Island’s peaking generation portfolio and integration of renewables, batteries, demand response, and distributed resources. The retirement of vintage peaking units in West Babylon and Glenwood Landing was announced in early 2020, and additional retirement feasibility studies will be completed by year-end for the retirement of 400 to 600 megawatts of steam units.
- LIPA plans to meet its share of the State’s Renewable Energy Standard through future procurements or REC purchases from NYSERDA.

**Managing the Portfolio**

“Managing the power supply portfolio to minimize cost and maximize performance, including the economic scheduling of assets, power plant availability and thermal efficiency, within contractual constraints.”

- All power supply portfolio contracts met or exceeded contract targets.
- Heat rate (i.e. efficiency) and availability of generation fleet continues to be better than industry average for comparable technologies.
- Nine Mile Point Unit 2’s capacity factor for 2019 (99.1%) exceeded industry average (94.2%).
- PSEG Energy Resource & Trade has met or exceeded all contractual performance targets, including Neptune and Cross Sound cable performance, generation bidding to the NYISO, load forecasting, fuel procurement and scheduling, as well as settlements and invoicing.
- LIPA obtained reductions in National Grid’s gas transportation rates starting in 2019, with further reductions expected as a result of a new rate design proposed in 2020 by the Department of Public Service in response to comments from stakeholders, including LIPA.

**Competitive Procurement**

“Minimizing cost by competitively procuring generation and distributed energy resources through wholesale market purchases, bilateral contracts, and if appropriate, after balancing cost and risk, ownership or pre-payments for energy, utilizing to the extent feasible and cost-effective, Authority-owned land and rights to acquire generating sites”

- LIPA has competitively procured 341.1 MW of Clean Energy Standard resources through RFPs and feed-in tariffs, including:
  o 125.4 MW of solar projects that are currently operational;
  o 72.3 MW of solar projects under development;
  o 130 MW of offshore wind under development; and
  o 13.4 MW of fuel cells under development.
- In 2020, PSEG Long Island has initiated three new procurements for renewable power supply and non-wires alternatives, including:
  o RFI/RFP for up to 175 MW of energy storage projects, in compliance with the storage mandate in the CLCPA;
- North Fork RFI for up to 130 MW of non-wires alternatives to address the power supply needs on the North Fork of eastern Long Island; and
- Community Solar feed-in tariff for up to 20 MW of new renewable resources whose benefits will be directed toward low- and moderate- income customers.

**Clean Energy**

“Procuring cost-effective renewable resources, renewable energy certificates ("RECs"), and behind-the-meter resources such as energy efficiency and demand response, including acting in coordination with other State energy authorities, if advantageous to our customers; integrating cost-effective distributed energy production and storage technologies; and enabling the economic and secure dispatch of resources deployed within the distribution system and on customer premises.”

- LIPA had sufficient RECs to meet its share of the State Clean Energy Standard for 2019 and is projected to be deficient in Tier-1 RECs beginning in 2020. Accordingly, LIPA has established a Clean Energy Compliance Fund to fund future clean energy projects or REC purchases through LIPA or NYSERDA procurements, in a manner consistent with the NYSERDA Alternative Compliance Payment fund. Additionally, LIPA is seeking to participate in future NYSERDA REC procurements to expand the base of projects available for REC compliance.
- In 2019, residential and commercial energy efficiency programs resulted in 63.9 MW of incremental demand savings and 328,811 MWh of energy savings.
- Long Island continues to have the most robust rooftop solar market with more than 51,000 residential systems. In 2019, customer-side installed capacity increased 52 MW (AC) with incremental annualized energy savings of 77 MWh.
- In 2018 and 2019, two 5 MW (40 MWh) utility-scale storage systems became operational.
- Value of Distributed Resources (“VDER”) was instituted for demand-metered customers.
- Home Energy Management Program continued serving 490,000 customers.
- Deployed Dynamic Load Management (“DLM”) and Edge load curtailment programs.
- Collaborative partnership for developing a microgrid project in Huntington.

**Wholesale Market Policy**

“Minimizing cost by representing the interests of Long Island electric customers in the New York and regional wholesale markets and their respective stakeholder processes, including direct engagement with Federal and State regulatory authorities.”

- LIPA has maintained ongoing opposition at the Federal Energy Regulatory Commission to significant increases in PJM rates for transmission service associated with LIPA’s power purchases via the Neptune cable.
- LIPA has encouraged NYISO to begin assessment of long-term market structure issues associated with CLCPA implementation, including renewable curtailment, transmission buildout, need for flexible generation capacity, increased reserve and regulation requirements.
- LIPA worked cooperatively with other transmission owners on market rules for local transmission and distribution, that is built to support CLCPA implementation.
**Annual Review of the Policy**

Staff proposes the following revisions to the Policy:

- Changing the name of the Policy to the Board Policy on Resource Planning and Clean Energy.
- Other minor, nonmaterial revisions.

The proposed changes are more specifically shown on **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.

**Attachments**

<table>
<thead>
<tr>
<th>Exhibit</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibit “A”</td>
<td>Resolution</td>
</tr>
</tbody>
</table>
RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE BOARD POLICY ON RESOURCE PLANNING, ENERGY EFFICIENCY AND RENEWABLE ENERGY

WHEREAS, the Resource Planning, Energy Efficiency and Renewable Energy Policy (the “Policy”) was originally approved by Resolution No. 1372, dated July 26, 2017; and

WHEREAS, the Policy was last amended by Resolution No. 1487, dated July 25, 2019; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with and the changes to the Policy recommended herein are due and proper.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board hereby finds that LIPA has complied with the Resource Planning, Energy Efficiency and Renewable Energy Policy for the period since the last annual review and approves the annual report to the Board; and

BE IT FURTHER RESOLVED, that consistent with the accompanying memorandum, the changes to the Policy that are reflected in attachment Exhibit “B” are hereby approved.

Dated: July 22, 2020

Policy Type: Mission

Monitored by: Oversight and REV-Clean Energy Committee

Board Resolution: #1372, approved July 26, 2017
#1421, amended July 25, 2018
#1487, amended July 24, 2019
[#xxxx], amended July 22, 2020

Board Policy on Resource Planning, Energy Efficiency and Renewable Clean Energy

It is the policy of the Long Island Power Authority to supply the energy needs of its customers in a clean, reliable, and affordable manner by:

- **Planning.** Planning for a power supply portfolio that meets applicable New York State Independent System Operator and New York State Reliability Council requirements, environmental standards, and the State’s clean energy goals, as set forth in the Climate Leadership and Community Protection Act (“CLCPA”); and updating the Integrated Resource Plan to reassess system needs, as necessary, but no less than every five years.

- **Managing the Portfolio.** Managing the power supply portfolio to minimize cost and maximize performance, including the economic scheduling of assets, power plant availability and thermal efficiency, within contractual constraints.

- **Competitive Procurement.** Minimizing cost by competitively procuring generation and distributed energy resources through wholesale market purchases, bilateral contracts, and if appropriate, after balancing cost and risk, ownership or pre-payments for energy,

- **Clean Energy.** Procuring cost-effective renewable and energy storage resources, renewable energy certificates, offshore wind renewable energy certificates (“RECs” and “ORECs”, respectively), and behind-the-meter resources—such as—energy efficiency, and demand response, as well as supporting beneficial electrification of transportation and buildings, to meet LIPA’s share of the State’s clean energy goals as set forth in the CLCPA, including: acting in coordination with other State energy authorities, if advantageous to our customers; integrating cost-effective distributed energy production and storage technologies; and enabling the economic and secure dispatch of resources deployed within the distribution system and on customer premises.

- **Wholesale Market Policy.** Minimizing cost by representing the interests of Long Island electric customers in the New York and regional wholesale markets and their respective stakeholder processes, including direct engagement with Federal and State regulatory agencies.

---

1 The Authority LIPA owns an 18% share of Nine Mile Point Unit 2 and has certain options to buy generation assets, typically at the expiration of a power purchase agreement, or to prepay for energy in exchange for a discount. The Authority LIPA will not take construction or development-related risks on new generation projects.

2 In selecting among alternatives, the Authority LIPA will take into consideration the operational, environmental and economic benefits to the Authority’s service territory, including their impact on long-term local employment.

3 In selecting among reasonably comparable alternatives, the Authority LIPA will opt for lower carbon-emitting resources.
authorities.

The Chief Executive Officer, or his or her designee, will report annually to the Board on the key provisions of this Policy.
Board Policy on Resource Planning and Clean Energy

It is the policy of the Long Island Power Authority to supply the energy needs of its customers in a clean, reliable, and affordable manner by:

- **Planning.** Planning for a power supply portfolio that meets applicable New York State Independent System Operator and New York State Reliability Council requirements, environmental standards, and the State’s clean energy goals, as set forth in the Climate Leadership and Community Protection Act (“CLCPA”); and updating the Integrated Resource Plan to reassess system needs, as necessary, but no less than every five years.

- **Managing the Portfolio.** Managing the power supply portfolio to minimize cost and maximize performance, including the economic scheduling of assets, power plant availability and thermal efficiency, within contractual constraints.

- **Competitive Procurement.** Minimizing cost by competitively procuring generation and distributed energy resources through wholesale market purchases, bilateral contracts, and if appropriate, after balancing cost and risk, ownership or pre-payments for energy\(^1\), utilizing to the extent feasible and cost-effective, LIPA-owned land and rights to acquire generating sites.\(^2\)

- **Clean Energy.** Procuring cost-effective renewable and energy storage resources, renewable energy certificates, offshore wind renewable energy certificates (“RECs” and “ORECs”, respectively), behind-the-meter resources, energy efficiency, and demand response, as well as supporting beneficial electrification of transportation and buildings, to meet LIPA’s share of the State’s clean energy goals as set forth in the CLCPA, including: acting in coordination with other State energy authorities, if advantageous to our customers; and enabling the economic and secure dispatch of resources deployed within the distribution system and on customer premises.

- **Wholesale Market Policy.** Minimizing cost by representing the interests of Long Island electric customers in the New York and regional wholesale markets and their respective stakeholder processes, including direct engagement with Federal and State regulatory authorities.

The Chief Executive Officer, or his or her designee, will report annually to the Board on the key provisions of this Policy.

---

1. LIPA owns an 18% share of Nine Mile Point Unit 2 and has certain options to buy generation assets, typically at the expiration of a power purchase agreement, or to prepay for energy in exchange for a discount. LIPA will not take construction or development-related risks on new generation projects.

2. In selecting among alternatives, LIPA will take into consideration the operational, environmental and economic benefits to the Authority’s service territory, including their impact on long-term local employment.
FOR CONSIDERATION
May 22, 2019

TO: The Board of Trustees

FROM: Thomas Falcone

REQUEST: Approval of the Annual Report and Amendments to the Board’s Policy on Customer Service

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 Customer Service (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

By Resolution No. 1370, dated July 26, 2017, the Board adopted the Policy with the purpose of providing a framework to achieve a high level of customer service and satisfaction. The Policy was last amended by the Board by Resolution No. 1430 on September 27, 2018.

The Policy provides that the “Chief Executive Officer will report annually to the Board on compliance with the key provisions of the Customer Service Policy”.

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 review of the policy last year.

Compliance with each element of the Policy is discussed in detail below.

“Funding cost-effective initiatives and ongoing operations: (i) to provide customers with a level of service, as measured by industry standard customer service metrics, within the first quartile of peer utilities; and (ii) so that customers report a level of satisfaction, as measured by third-party and internally-generated customer satisfaction surveys, within the first quartile of peer utilities by 2022.”

- Since 2014 PSEG Long Island is ranked as the most improved utility by J.D. Power with an increase of 179 points; however, the score remains below average for a Large East Utility
• PSEG Long Island met its customer satisfaction target for 2018, and LIPA and PSEG Long Island have established targets to achieve first quartile by 2022 with annual improvement each year.

• PSEG Long Island Residential and Business After-Call and Personal Contact Surveys demonstrate continued improvement, with 94.5%, 94.2% and 95.9% of respondents, respectively, indicating satisfaction with PSEG Long Island service.

• First Call Resolution in the call center finished 2018 at 61.1%. First call resolution was added as a Tier 1 metric in 2019 and is targeted for further improvement.

• PSEG Long Island achieved their 5-year goal for improving Average Speed of Answer. PSEG Long Island improved from a 2013 baseline of 93 seconds to a 2018 result of 15 seconds, which met first quartile performance and far exceeded the 5-year goal of 26 seconds.

• Customer complaints improved to 4.6 complaints per 100,000 customers and are within first quartile line performance among New York State utilities.

“Supporting programs so that customers have information, education, and tools to manage their energy use according to their needs, including innovative billing options and emerging technologies and communications tools that enable multi-directional customer relationships for distributed resources and electric vehicles.”

• The 2018 Utility 2.0 Plan builds off prior filings with a four-year deployment of smart meters to all customers to provide each customer with real-time information and services.

• Some tools enabled by the 2018 Utility 2.0 plan include:
  - New customer rate options;
  - A rate comparison tool;
  - Real time usage data and alerts; and
  - Faster outage detection and restoration times;
  - Remote connect/disconnect for move in/out

• Expanded incentives for electric vehicles include:
  - Residential charger rebates;
  - Smart charging discount; and
  - Fast charging stations

• A SuperSaver pilot program in North Bellmore has saturated the town with smart meters, and is proactively communicating cost savings using smart meter technology and promoting a new time-of-use rate option.

• During 2018, 35,621 customers participated in a home energy efficiency audit on the web. 430,000 customers have received Home Energy Reports which disaggregate the total bill into the individual appliances and major energy using equipment. The reports also compare individual homes to others in the neighborhood to encourage best practices and reduced usage.

“Protecting customer information from unauthorized access, use, disclosure, modification or destruction through the adoption of appropriate policies and procedures.”
Through press releases, television ads and bill inserts, PSEG Long Island provides customers with proactive reminders to be aware of and how to protect themselves from unscrupulous scam calls, scam emails and unannounced visits.

- PSEG Long Island has assessed its data privacy framework, practices, and procedures as recommended by the National Institute of Standards (“NIST”) and has put in place:
  - Notifications to customers of data being collected, reasons for collection, and intended use, retention and sharing of data; and
  - Safeguards that protect customer information from unauthorized access or improper use.
- The Meter Data Management System has been implemented using configurations to support industry standard data rules to protect information collected from loss, theft, unauthorized access, disclosure, copying, use or modification, and to maintain integrity across the systems and to improve data privacy standards.

“Providing utility communications that are: accurate and easily accessible; understandable, including accurate billing that can be easily interpreted and conveniently paid; proactive regarding potential weather-related and/or emergency situations, including information on the restoration of electric outages.”

- Paperless billing increased to 26.4% and has been targeted for further improvement as a Tier 1 metric to 35.0% over the next three years.
- Revenue collected via text payments continues to increase as the number of payments received electronically continues to steadily grow reaching 63.3%.
- Actual meter read rate improved as smart meters are being deployed.
- Rendering of timely and accurate bills improved in 2018 achieving almost 95%.
- PSEG Long Island provides proactive, timely and factual information and outreach to customers for storm and weather-related events through press releases, text messages, email and radio.

**Annual Review of the Policy**

As shown on Exhibit “B”, Staff proposes non-substantive revisions to the Policy for clarification.

**Recommendation**

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

**Attachments**

- **Exhibit “A”**  Resolution
- **Exhibit “B”**  Board Policy on Customer Service (redline)
- **Exhibit “C”**  Board Policy on Customer Service (clean)
RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE BOARD POLICY ON CUSTOMER SERVICE

WHEREAS, the Board Policy on Customer Service (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1370, dated July 26, 2017; 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.

Dated: May 22, 2019
Board Policy on Customer Service

It is the policy of the Long Island Power Authority to achieve a high level of customer service and satisfaction by:

- Funding cost-effective initiatives and ongoing operations: (i) to provide customers with a level of service, as measured by industry standard customer service metrics, within the first quartile of peer utilities; and (ii) so that customers report a level of satisfaction, as measured by third-party and internally-generated customer satisfaction surveys, within, where applicable, the first quartile of peer utilities by 2022;

- Supporting programs so that customers have information, education, and tools to manage their energy use according to their needs, including innovative billing options and emerging technologies and communications tools that enable multi-directional customer relationships for distributed resources and electric vehicles;

- Protecting customer information from unauthorized access, use, disclosure, modification or destruction through the adoption of appropriate policies and procedures; and

- Providing utility communications that are:
  - accurate and easily accessible;
  - understandable, including accurate billing that can be easily interpreted and conveniently paid;
  - proactive regarding potential weather-related and/or emergency situations, including information on the restoration of electric outages.

The Chief Executive Officer will report annually to the Board on compliance with the key provisions of the Customer Service Policy.
Board Policy on Customer Service

It is the policy of the Long Island Power Authority to achieve a high level of customer service and satisfaction by:

- Funding cost-effective initiatives and ongoing operations: (i) to provide customers with a level of service, as measured by industry standard customer service metrics, within the first quartile of peer utilities; and (ii) so that customers report a level of satisfaction, as measured by third-party and internally-generated customer satisfaction surveys, within, where applicable, the first quartile of peer utilities by 2022;
- Supporting programs so that customers have information, education, and tools to manage their energy use according to their needs, including innovative billing options and emerging technologies and communications tools that enable multi-directional customer relationships for distributed resources and electric vehicles;
- Protecting customer information from unauthorized access, use, disclosure, modification or destruction through the adoption of appropriate policies and procedures; and
- Providing utility communications that are:
  - accurate and easily accessible;
  - understandable, including accurate billing that can be easily interpreted and conveniently paid;
  - proactive regarding potential weather-related and/or emergency situations, including information on the restoration of electric outages.

The Chief Executive Officer will report annually to the Board on compliance with the key provisions of the Customer Service Policy.
Annual Report to the Board of Trustees on Customer Service

RICHARD WALDEN
VP OF CUSTOMER OPERATIONS
MAY 22, 2019
Agenda

- Customer Services Metrics
- Financial Stewardship
- Community Service
- Continuous Improvement
Customer Services Metrics
Call Center: Average Speed of Answer and Abandonment Rate

Average Speed of Answer (Seconds)

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Q1 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speed</td>
<td>93</td>
<td>54</td>
<td>35</td>
<td>24</td>
<td>19</td>
<td>15</td>
<td>15/2019</td>
</tr>
</tbody>
</table>

% Abandoned Calls

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Q1 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>4.2%</td>
<td>2.6%</td>
<td>1.4%</td>
<td>1.1%</td>
<td>0.8%</td>
<td>0.7%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>
Customer Services Metrics

After Call and Personal Contact Surveys

### After Call Survey Participation Rates

- **Residential**
  - 2013: 63.7%
  - 2014: 5.4%
  - 2015: 9.8%
  - 2016: 13.1%
  - 2017: 15.8%
  - 2018: 18.4%
  - Q1 2019: 20.1%
- **Business**
  - 2013: 43.7%
  - 2014: 4.3%
  - 2015: 9.0%
  - 2016: 12.7%
  - 2017: 16.4%
  - 2018: 19.1%
  - Q1 2019: 21.8%

### Personal Contact Survey Participation Rates

- 2013: 81.9%
- 2014: 90.7%
- 2015: 92.9%
- 2016: 94.6%
- 2017: 95.8%
- 2018: 95.9%
- Q1 2019: 96.6%

**Survey Participation Rates**
Customer Services Metrics
Customer Complaints

Number of Complaints

Rolling 12 Month DPS Data – March 2019

- PSEG Long Island: 4.4
- National Grid - L I: 5.9
- National Fuel Gas Distribution: 8.6
- National Grid Metro NY: 8.3
- Central Hudson Gas & Electric Corp.: 8.6
- National Grid Upstate: 10.7
- Con Edision of New York: 11.1
- New York State Electric & Gas Corp.: 11.4
- Rochester Gas & Electric Corp.: 14.9
- Orange & Rockland: 21.4
Customer Services Metrics
Customer Satisfaction - J.D. Power Residential

PSEG Long Island
- Most improved utility nationally over the past 5+ years
  - 175 point increase
- In third Quartile through last three waves
- Over 32% highly satisfied customers with scores between 800 and 1,000
Customer Services Metrics
Customer Satisfaction - J.D. Power Business

PSEG Long Island
- Second most improved utility nationally over the past 5+ years
  - 185 point increase
- Has improved 1 position in rank
- Over 36% highly satisfied customers with scores between 800 and 1,000
Financial Stewardship
Credit and Collection Metrics

Net Write-Offs per $100 Billed Revenue*

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Q1 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>$0.93</td>
<td>$0.84</td>
<td>$0.81</td>
<td>$0.73</td>
<td>$0.53</td>
<td>$0.57</td>
</tr>
</tbody>
</table>

AR > 90 (No Exclusions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Q1 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>20.9%</td>
<td>20.7%</td>
<td>19.9%</td>
<td>18.5%</td>
<td>17.9%</td>
</tr>
</tbody>
</table>

Days Sales Outstanding

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Q1 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>43.8</td>
<td>40.0</td>
<td>39.2</td>
<td>37.0</td>
<td>36.9</td>
<td>34.9</td>
<td>34.7</td>
</tr>
</tbody>
</table>

* Results reflect write-off procedural changes and 2017 metric target methodology change. Prior year results reflect new target calculation.
Community Service
2019 YTD Activities (January – April)

Introduced New “Show of Force” Initiative
Earth Week – Five Towns on Five Separate Days
• Beautification projects, LED Bulb and reusable bag giveaways and small/medium business energy assessments
• EE awareness campaign and more...

March of Dimes – March for Babies
• More than 600 participants and
• $30K of employee donations

2019 Community Volunteering Milestones

<table>
<thead>
<tr>
<th>Outreach Events</th>
<th>Volunteer Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>361</td>
<td>9,356</td>
</tr>
</tbody>
</table>
Continuous Improvement
Customer Technology Innovations

- **Alexa Pay My Bill** – PSEG Long Island is one of the first utilities in New York state to offer payment via the Alexa voice assistant channel.

- **Salesforce Integration - Web Chat** functionality added to PSEG Long Island website, providing an additional customer service channel. Upcoming Salesforce releases to provide 360 degree view of customer, enhancing overall customer service in all channels.

- **New AMI Portal and Usage Alerts** – Enhanced tools for customers to track their interval usage data online, plus the option to receive Weekly Summary and Threshold usage alerts by text or email.

- **New Business Renovation Services Portal** – Self-service options for new business customers

- **Big Data Analytics** – New capabilities to support Electric Vehicle penetration and reducing theft of service

- **Customer Facing Technologies** – Enhancements to My Account, IVR, MyAlerts, and Outage Maps
Continuous Improvement

J.D. Power Digital Intelligence Results

PSEG Long Island Achieves 1st Quartile and Ranks 10th In Nation in J.D. Power Digital Intelligence Benchmark

As part of the J.D. Power 2019 Utility Digital Experience Study (UDES), J.D. Power has partnered with Centric Digital to leverage best practices and to provide an industry agnostic review of companies digital proficiency.
Continuous Improvement
Select 2018 and 2019 Strategic Initiatives

2018 Initiatives
✓ 2018 Utility 2.0 Filing
✓ New Business Improvements
✓ Credit and Collections Initiatives
✓ Digital Customer Innovations

2019 Initiatives
• 2018 Utility 2.0 Implementation
  – Smart Meter Deployment
  – AMI - Enabled Capabilities
  – Battery Storage
  – Electric Vehicles
  – Super Savers

• 2019 Utility 2.0 Filing

• Customer Processes and Culture
  – Customer One J.D. Power Teams
  – Grass Roots Customer Culture Effort

• Customer Facing Technologies
  – Webchat
  – Mobile App
  – Energy Alerts
  – My Power Map
## Continuous Improvement

### J.D. Power Customer Portfolio of Initiatives

#### Power Quality & Reliability
- Strive For Perfect Power
- Improve ETR Accuracy
- Proactive Communication for Planned Outages
- Improve First-call Resolution for Power Quality Calls
- Storm Map Upgrade to Include FEMA and Reliability Reinforcements
- Improve New Business Process

#### Price
- Price/Value Communication Strategy
- Enhanced Promotion of Energy Efficiency, Promote Earth Week Events
- Increase Home Energy Assessments, Expand Home Energy Reports
- Obtain Software to Support More Flexible Rates
- Offer TOU Rates In Bellmore Super Savers Program

#### Billing and Payment
- Create Mechanism for Recurring Credit Card Payments
- Increase Paperless Billing Enrollment
- Create Alexa Functionality For Billing
- Feasibility Studies: “Choose Your Own Due Date” And “Customer Office Transformation”

#### Corporate Citizenship
- Coordinate Strategic Marketing Efforts to Increase Customer Awareness and Use of EE Programs
- Increase Participation/Promotion of Economic Development Programs
- Increase Customer Awareness of All Corporate Citizenship Efforts: Increase Media Coverage, Develop Social Media Strategy
- Add Earth Week As A Show Of Force Event

#### Communications
- 2019 Campaign Centered on Innovation
- Expand Social Media Presence
- Tactical Support of JDP Index Teams
- Develop and Publicize Sponsored Content

#### Customer Service
- New Technologies: Salesforce Implementation, Alexa, Webchat
- OMS Integration with AMI
- Remote Disconnect Using AMI
- Enhanced Outage Map
Continuous Improvement
Grass Roots Customer Culture Effort

Team
• Cross-functional, Representing All Areas of the Company
• 36 Employees
• Union and Non-union

Goals
• Acts as the Voice of the Customer
• Drives Transactional Customer Improvements
• Identify Gaps In Employee Customer-Centric Culture
• Improves Communication Between Front Line Employees and Management
• Breaks Down Silos for Cross-functional Process Improvement
• Provides Ideas to Customer One Teams
Focusing on What Matters Most to Customers

Stable Prices and Providing Great Customer Service

Customer Bills Forecast to Decline in 2019

- 2008: $154.26
- 2018 Budget: $158.61
- 2019 Budget: $154.94

PSEG Long Island Ranked as Most Improved Utility in the Nation

J.D. Power Customer Satisfaction – New York State and Large East Utilities
Annual Report to the LIPA Board of Trustees on T&D Reliability

July 22, 2020

PSEG Long Island
Agenda

• Reliability Metrics

• Reliability Improvement Programs

• Power Quality and Reliability

• NERC Compliance
Reliability Improvements
2016 to 2020 YE Forecasted

**SAIFI**
- 2016: 1.11
- 2017: 0.95
- 2018: 0.86
- 2019: 0.67
- 2020 YE Projection: 0.68

**SAIDI**
- 2016: 75.5
- 2017: 65.8
- 2018: 65.2
- 2019: 51.4
- 2020 YE Projection: 49.8

**MAIFI**
- 2016: 3.92
- 2017: 3.52
- 2018: 3.44
- 2019: 2.41
- 2020 YE Projection: 1.76

**Sustained Multiple Customer Outages**
- 2016: 65,916
- 2017: 41,730
- 2018: 38,239
- 2019: 14,477
- 2020 YE Projection: 14,094
### Improvements to Reliability Since 2016

<table>
<thead>
<tr>
<th>Performance Metric</th>
<th>Improvement Since 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAIFI</td>
<td>↑ 39%</td>
</tr>
<tr>
<td>SAIDI</td>
<td>↑ 34%</td>
</tr>
<tr>
<td>MAIFI</td>
<td>↑ 55%</td>
</tr>
<tr>
<td>MCO</td>
<td>↑ 79%</td>
</tr>
</tbody>
</table>

- 2016 Year End versus 2020 Year End Projections
## Reliability Improvement Programs

<table>
<thead>
<tr>
<th>Reliability Programs</th>
<th>Program Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>FEMA Hardening</td>
<td>33% reduction in number of customer outages 1 year before versus 1 year after work completion</td>
</tr>
<tr>
<td>Power On!</td>
<td>Continuation of FEMA mainline hardening on targeted circuits 2020 program to directly benefit 57,000 customers</td>
</tr>
<tr>
<td>Less Than 500 Customers (LT5H)</td>
<td>3% Annual SAIFI Improvement through 2023. 15% total program benefit.</td>
</tr>
<tr>
<td>CIP/NOP</td>
<td>30% reduction in the number of preventable customer outages (overhead equipment and tree) 1 year before versus 1 year after work completion</td>
</tr>
<tr>
<td>Smart Grid Initiatives</td>
<td>AMI meter integration with GIS/OMS to proactively identify overloaded fuses and transformers Machine learning (AI) to identify vine conditions</td>
</tr>
<tr>
<td>Non Reclose Assurance (NRA) Automation</td>
<td>44% decrease in NRA outages versus 2016</td>
</tr>
<tr>
<td>Vegetation Management Program</td>
<td>44% reduction in the number of vegetation related customer outages 1 year before versus 1 year after trim</td>
</tr>
<tr>
<td>MAIFI Improvement Program</td>
<td>78% reduction in the number of momentary customer interruptions 1 year before versus 1 year after work completion</td>
</tr>
</tbody>
</table>
Power Quality and Reliability

J.D. Power - Residential and Business Results

**J.D. Power Residential**
Power Quality and Reliability Results

**J.D. Power Business**
Power Quality and Reliability Results
## Power Quality and Reliability

**J.D. Power – 2020 W1 Business Results**

### Power Quality and Reliability Satisfaction

**J.D. Power Business - 2020 W1 Results (February-May)**

<table>
<thead>
<tr>
<th>Utility</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility #1</td>
<td>853</td>
</tr>
<tr>
<td>PSEG Long Island</td>
<td>836</td>
</tr>
<tr>
<td>Utility #3</td>
<td>834</td>
</tr>
<tr>
<td>Utility #4</td>
<td>831</td>
</tr>
<tr>
<td>Utility #5</td>
<td>816</td>
</tr>
<tr>
<td>Utility #6</td>
<td>813</td>
</tr>
<tr>
<td>Utility #7</td>
<td>811</td>
</tr>
<tr>
<td>PSE&amp;G</td>
<td>807</td>
</tr>
<tr>
<td>East Large Average</td>
<td>804</td>
</tr>
<tr>
<td>Utility #9</td>
<td>794</td>
</tr>
<tr>
<td>Utility #10</td>
<td>786</td>
</tr>
<tr>
<td>Utility #11</td>
<td>774</td>
</tr>
<tr>
<td>Utility #12</td>
<td>770</td>
</tr>
</tbody>
</table>

### Power Quality & Reliability Trend

- East Large
- PSEG Long Island

### Power Quality & Reliability Attributes

<table>
<thead>
<tr>
<th>Attribute</th>
<th>2017 - Feb/May</th>
<th>2018 - Feb/May</th>
<th>2019 - Feb/May</th>
<th>2020 - Feb/May</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide quality electric power</td>
<td>8.09</td>
<td>8.35</td>
<td>8.50</td>
<td>8.45</td>
</tr>
<tr>
<td>Avoid brief interruptions</td>
<td>7.98</td>
<td>8.50</td>
<td>8.29</td>
<td>8.30</td>
</tr>
<tr>
<td>Avoid lengthy outages</td>
<td>7.97</td>
<td>8.29</td>
<td>7.99</td>
<td>8.23</td>
</tr>
<tr>
<td>Promptly restore power after an outage</td>
<td>7.94</td>
<td>8.30</td>
<td>8.23</td>
<td>8.23</td>
</tr>
<tr>
<td>Provide accurate information about an outage</td>
<td>7.94</td>
<td>8.30</td>
<td>8.23</td>
<td>8.23</td>
</tr>
<tr>
<td>Supply electricity during extreme temperatures</td>
<td>8.23</td>
<td>8.45</td>
<td>8.23</td>
<td>8.45</td>
</tr>
</tbody>
</table>
T&D System Reliability – Compliance

• NERC Compliance
  – Successfully closed out all 2018 NERC Critical Infrastructure Protection Audit observations
  – Submitted three NERC Internal Control Evaluations (ICE) in 2019.
  – The modified ACC was tested successfully for an extended period of 48hrs to allow operators to experience the changes.

• Completed annual transmission system operating studies including: Summer and Winter Studies, Loss of Gas Study and Transient Voltage Recovery Guideline.

• Environmental
  – No major incidents recorded
**BOAARD AGENDA SUMMARY SHEET**

<table>
<thead>
<tr>
<th>Committee or Board:</th>
<th>Date:</th>
<th>Board Meeting Date:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>July 15, 2020</td>
<td>July 22, 2020</td>
</tr>
</tbody>
</table>

**For All Board Voting Items:**

**Title of Agenda Item:** Approval of the Annual Report and Amendments to the Board Policy on Transmission and Distribution System Reliability

**Consent Agenda:** ☐ Yes ☒ No  
**Accompanying Presentation:** ☒ Yes ☐ No

**Recommendation from Committee:** ☒ N/A ☐ F&A; ☐ GP&P; ☐ Oversight & Clean Energy

**LIPA Presenter:** Rick Shansky  
**PSEG Long Island Presenter:** John O’Connell

**Enterprise Risk Management Discussion:** ☐ Yes ☒ No

**For Policy Reports Only:**

**Type of Policy / Report:** ☐ Operating; ☐ Governance; ☐ Compliance; ☒ Mission

**Date of Last Report:** May 22, 2019  
**Compliance Since Last Report:** ☒ Yes ☐ No

**Proposed Changes to Policy:** ☒ Yes ☐ No

**Requested Action:** The Board is requested to adopt a resolution: (i) approving the annual report on the Policy; (ii) finding that LIPA has complied with the Policy; and (iii) approving certain amendments to the Policy.

**Summary:**

By Resolution No. 1371, dated July 26, 2017, the Board adopted the Policy with the purpose of maintaining a reliable and resilient T&D system at an affordable cost. The Policy was last reviewed and amended by the Board pursuant to Resolution No. 1479, dated May 22, 2019. The Policy provides that the “Chief Executive Officer will report annually to the Board on the key provisions of the Policy.”

Staff proposes the following revisions to the Policy: (i) updated description of the goal associated with momentary outages; and (ii) other minor editorial changes. The proposed changes are more specifically shown on **Exhibit “B”**.
TO: The Board of Trustees
FROM: Thomas Falcone
REQUEST: Approval of the Annual Report and Amendments to the Board’s Policy on Transmission and Distribution System Reliability

Requested Action

The Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to adopt a resolution: (i) approving the annual report on the Board Policy on Transmission and Distribution (“T&D”) System Reliability (the “Policy”); (ii) finding that LIPA has complied with the Policy; and (iii) approving certain amendments to the Policy; which resolution is attached hereto as Exhibit “A”.

Background

By Resolution No. 1371, dated July 26, 2017, the Board adopted the Policy with the purpose of maintaining a reliable and resilient T&D system at an affordable cost. The Policy was last reviewed and amended by the Board pursuant to Resolution No. 1479, dated May 22, 2019.

The Policy provides that the “Chief Executive Officer will report annually to the Board on the key provisions of the Policy.”

Compliance with the Policy

Staff recommends that, for the reasons set forth below, the Board find that LIPA has complied with the Policy since the review of the Policy last year. Compliance with each element of the Policy is discussed in detail below.

As set forth in the Policy, LIPA shall:

“comply with the applicable standards of the North American Electric Reliability Corporation, the Northeast Power Coordinating Council, the New York State Reliability Council, the New York Independent System Operator, and environmental regulations.”

- Successfully completed 2018 NERC Critical Infrastructure Protection (CIP) Audit
- Submitted three NERC Internal Control Evaluations (ICE) to aid in the upcoming 2020 NERC Operational Audit
“fund cost-effective programs to provide a level of reliability, as measured by system average outage duration (known as System Average Interruption Duration Index or SAIDI), within the first quartile as compared to peer utilities, excluding major events.”

- For 2019, the System Average Interruption Duration Index (SAIDI) was 51.4 minutes, which continues to rank within the first quartile of peer utilities.
- Vegetation Management – Reportable customer outages due to vegetation were 5.85% lower than 2019 and 22.1% lower than the previous 5-year average.

“fund cost-effective programs to provide a level of reliability for each customer that is within a reasonable variance from system average conditions (excluding major events) including: programs to track and improve circuit conditions that cause a customer to experience four or more sustained outages (i.e., greater than 5 minutes in duration) in any 12-month period; and establishing comparable processes for momentary outages (i.e., outages less than 5 minutes in duration).”

- Multiple Sustained Customer Outages – PSEG Long Island targeted areas with higher level of sustained (i.e. greater than 5 minute) customer outages. The number of customers with four or more sustained outages in any 12-month period was 14,477 in 2019 compared to 38,239 in 2018, for a 62% decline.
- Multiple Momentary Outages – established a Tier 2 metric with PSEG Long Island to track the number of customers with multiple momentary outages. PSEG Long Island reported a 33% improvement between May 2019 and May 2020, due to relay setting changes.

“fund cost-effective approaches for resiliency, thereby enhancing the safe and timely restoration of electrical service after severe weather or adverse events.”

- Completed storm hardening, funded by FEMA, of approximately 960 miles out of a program total of 1,025 miles.
- Approved a Phase II storm hardening program to begin in 2020 (the “Power On” program) to continue cost effective hardening efforts over the next four years.
- Continued with the development of a dynamic model for the prediction of storm intensity and impact. Model to be used for predicting customer outages, number of crews needed and deployment.

“use smart grid technologies to minimize outages, monitor system conditions, and facilitate the interconnection of renewable and distributed resources.”

- Installation of automated distribution switches -- as part of the FEMA storm-hardening program all 894 smart switches have been installed to reduce the number of customers impacted by disruption on a circuit. Switches are also being installed as part of the Circuit Improvement Program, and 135 are scheduled for completion in 2020.
- Installation of Smart Meters -- approximately 305,000 meters were installed in 2019 with a year-end cumulative total of approximately 434,000 since the program began. For 2020, the goal is to install an additional 250,000 of which 62,500 have been installed in the first
quarter. Smart meters help detect power outages and monitor power quality.

**Annual Review of the Policy**

Staff proposes the following revisions to the Policy:

- Updated description of the goal associated with momentary outages; and
- Other minor editorial changes.

The proposed changes are more specifically shown on 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.

**Attachments**

- **Exhibit “A”** Resolution
- **Exhibit “B”** Board Policy on Transmission & Distribution System Reliability (redline)
- **Exhibit “C”** Board Policy on Transmission & Distribution System Reliability (clean)
RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON, AND
AMENDMENTS TO, THE BOARD POLICY ON TRANSMISSION & DISTRIBUTION
SYSTEM RELIABILITY

WHEREAS, the Board Policy on Transmission and Distribution System Reliability (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1371, dated July 26, 2017; and

WHEREAS, the Policy was last reviewed and amended by the Board pursuant to Resolution No. 1479, dated May 22, 2019; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with and the changes to the Policy recommended herein are due and proper.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board hereby finds that the Long Island Power Authority has complied with the Transmission and Distribution System Reliability Policy for the period since the last annual review and approves the annual report to the Board; and

BE IT FURTHER RESOLVED, that consistent with the accompanying memorandum, the changes to the Policy that are reflected in attachment Exhibit “B” are hereby approved.

Dated: July 22, 2020
Board Policy on Transmission & Distribution System Reliability

It is the policy of the Long Island Power Authority ("LIPA") to maintain a safe, reliable and resilient Transmission and Distribution ("T&D") system at an affordable cost. The Authority LIPA shall:

- comply with the applicable standards of the North American Electric Reliability Corporation, the Northeast Power Coordinating Council, the New York State Reliability Council, the New York Independent System Operator, and environmental regulations;

- fund cost-effective programs to provide a level of reliability, as measured by system average outage duration (known as System Average Interruption Duration Index or SAIDI), within the first quartile as compared to peer utilities, excluding major events1;

- fund cost-effective programs to provide a level of reliability for each customer that is within a reasonable variance from system average conditions (excluding major events) including:
  - programs to track and improve circuit conditions that cause a customer to experience four or more sustained outages (i.e., greater than 5 minutes in duration) in any 12-month period; and
  - establishing comparable processes for programs to track and improve circuit conditions that cause a customer to experience multiple momentary outages (i.e., outages less than 5 minutes in duration);2

- fund cost-effective approaches for resiliency, thereby enhancing the safe and timely restoration of electrical service after severe weather or adverse events; and

- use smart grid technologies to minimize outages, monitor system conditions, and facilitate the interconnection of renewable and distributed resources.

The Chief Executive Officer, or his or her designee, will report annually to the Board on the key provisions of the T&D System Reliability Policy.

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1 NYCRR 97.1 defines a “major” storm as one resulting in at least one customer outage lasting at least 24 hours or outages affecting at least 10% of the customers in a utility division. In applying the 24-hour exclusion, the Authority LIPA shall consider whether such outages are consistent with the pattern of restoration or otherwise anomalous in terms of duration or barriers to restoration.
**Board Policy on Transmission & Distribution System Reliability**

It is the policy of the Long Island Power Authority (“LIPA”) to maintain a safe, reliable and resilient Transmission and Distribution (“T&D”) system at an affordable cost. LIPA shall:

- comply with the applicable standards of the North American Electric Reliability Corporation, the Northeast Power Coordinating Council, the New York State Reliability Council, the New York Independent System Operator, and environmental regulations;

- fund cost-effective programs to provide a level of reliability, as measured by system average outage duration (known as System Average Interruption Duration Index or SAIDI), within the first quartile as compared to peer utilities, excluding major events¹;

- fund cost-effective programs to provide a level of reliability for each customer that is within a reasonable variance from system average conditions (excluding major events) including:
  - programs to track and improve circuit conditions that cause a customer to experience four or more sustained outages (i.e., greater than 5 minutes in duration) in any 12-month period; and
  - programs to track and improve circuit conditions that cause a customer to experience multiple momentary outages (i.e., outages less than 5 minutes in duration);

- fund cost-effective approaches for resiliency, thereby enhancing the safe and timely restoration of electrical service after severe weather or adverse events; and

- use smart grid technologies to minimize outages, monitor system conditions, and facilitate the interconnection of renewable and distributed resources.

The Chief Executive Officer, or his or her designee, will report annually to the Board on the key provisions of this Policy.

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¹ NYCRR 97.1 defines a “major” storm as one resulting in at least one customer outage lasting at least 24 hours or outages affecting at least 10% of the customers in a utility division. In applying the 24-hour exclusion, LIPA shall consider whether such outages are consistent with the pattern of restoration or otherwise anomalous in terms of duration or barriers to restoration.
Annual Report on Customer Value and Affordability Policy

June 24, 2020
MEETING THE POLICY PRIORITIES OF THE LIPA BOARD

- Lowest fiscally sound electric rates
- Regionally comparable electric rates
- Balance between cost & service
- Prudent rate design
- Consistent with New York State Policy
REGIONALLY COMPARABLE RATES

2019 System Average Rates

- United Illuminating: 23.4
- Consolidated Edison: 22.0
- Eversource (CL&P): 20.3
- Long Island Power Authority: 19.3
- Orange & Rockland: 16.9
- PSE&G New Jersey: 14.5

2019 Residential Average Rates

- Consolidated Edison: 25.3
- United Illuminating: 25.2
- Eversource (CL&P): 21.2
- Long Island Power Authority: 20.4
- Orange & Rockland: 19.4
- PSE&G New Jersey: 16.7
Long-Term Increase in System Average Rates
(1997-2019)

- UIL: 102%
- Eversource: 94%
- O&R: 72%
- Inflation: 61%
- Con Edison: 57%
- PSE&G NJ: 45%
- LIPA: 26%
SHORT TERM: LIPA’S RATES FLAT

5-Year Change in System Average Rates
(2014-2019)

- UIL: 17%
- Eversource: 16%
- Inflation: 12%
- LIPA: -1%
- PSE&G NJ: -3%
- Con Edison: -14%
- O&R: -18%
$631 Million Customer Savings in 2020 from Being Lean

<table>
<thead>
<tr>
<th>Action</th>
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<tbody>
<tr>
<td>Discontinuing investment in combined cycle plants</td>
<td>$348</td>
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<td>LIPA Reform Act 2% Tax Cap</td>
<td>$141</td>
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<tr>
<td>Refinancing existing debt</td>
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<td>Renegotiating expiring power purchase agreements</td>
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<td>Investing in cost-effective energy efficiency</td>
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<td>PSA pension and retirement savings</td>
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<td>Smart Meter savings</td>
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<tr>
<td>Reduction to gas transportation costs</td>
<td>$6</td>
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<tr>
<td>Power plant property tax savings</td>
<td>$6</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$631</strong></td>
</tr>
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</table>

Average Residential Customer Monthly Bill

- **2008 Electric bill**: $154.26
- **2020 Electric bill**: $155.07

$0.5% increase
# HIGHLIGHTS FROM PENDING RATE ACTIONS

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<tr>
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<th>RG&amp;E</th>
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<td>May 2019 (amended filing)</td>
<td>May 2019 (amended filing)</td>
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<tr>
<td><strong>Requested Increase</strong></td>
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<td>$37.2 million 8%</td>
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<td>• Advanced metering (AMI)</td>
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<td>• Advanced metering (AMI)</td>
<td>• Electric vehicles programs</td>
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<td>• Electric vehicle programs</td>
<td>• Energy storage investments</td>
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<td>• Energy storage investments</td>
<td>• Other increases in operating expenses, depreciation, and infrastructure investments</td>
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<td><strong>Latest Status</strong></td>
<td><em>Proceeding suspended until September 13th due to COVID-19</em></td>
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Questions?
**BOARD AGENDA SUMMARY SHEET**

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*For All Board Voting Items:*

**Title of Agenda Item:** Approval of the Annual Report on the Board Policy on Customer Value and Affordability

Consent Agenda: ☐ Yes ☒ No  
Accompanying Presentation: ☐ Yes ☒ No

**Recommendation from Committee:** ☒ N/A ☐ F&A; ☐ GP&P; ☐ Oversight & Clean Energy

**LIPA Presenter:** Justin Bell  
**PSEG Long Island Presenter:** N/A

**Enterprise Risk Management Discussion:** ☒ Yes ☐ No

*For Policy Reports Only:*

**Type of Policy / Report:** ☐ Operating; ☐ Governance; ☐ Compliance; ☒ Mission

**Date of Last Report:** July 24, 2019  
**Compliance Since Last Report:** ☒ Yes ☐ No

**Proposed Changes to Policy:** ☐ Yes ☒ No

**Requested Action:**  
The Board is requested to adopt a resolution: (i) finding that LIPA has complied with the Policy for the period since the last annual review of the Policy; and (ii) approving the annual report for the Policy.

**Summary: (include proposed amendments to Board Policies, if applicable)**  
By Resolution No. 1318, dated September 21, 2016, the Board adopted the Policy. The purpose of the Policy is to set reasonable objectives for LIPA’s electric rates and rate design and to review LIPA’s electric rates relative to other similar regional utilities each year. The Board conducts an annual review of the Policy and considers as part of its review whether LIPA has remained in compliance with the Policy and whether any updates or revisions should be made to the Policy. The Policy was last reviewed and updated by the Board on July 24, 2019.

Staff has determined, for the reasons set forth in the accompanying memorandum, that LIPA has remained in compliance with the objectives of the Policy for the period since the last annual review.
FOR CONSIDERATION
June 24, 2020

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Approval of the Annual Report on the Board Policy on Customer Value and Affordability

Requested Action

The Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to adopt a resolution: (i) approving the annual report on the Board Policy on Customer Value and Affordability (the “Policy”) for the period since the last annual review; and (ii) finding that LIPA has complied with the Policy, which resolution is attached hereto as Exhibit “A”.

Background

By Resolution No. 1318, dated September 21, 2016, the Board adopted the Policy. The purpose of the Policy is to set reasonable objectives for LIPA’s electric rates and rate design and to review LIPA’s electric rates relative to other similar regional utilities each year. The Board conducts an annual review of the Policy and considers as part of its review whether LIPA has remained in compliance with the Policy and whether any updates or revisions should be made to the Policy. The Policy was last reviewed and updated by the Board on July 24, 2019.

Compliance with the Policy

Staff has determined, for the reasons set forth below, that LIPA has remained in compliance with the objectives of the Policy for the period since the last annual review.

Lowest Fiscally Sound Electric Rates. The Policy states “Electric rates should be set at the lowest level consistent with sound fiscal and operating practices and applicable law and regulation, ensuring that quality service is efficiently rendered.”

- In December 2019, the Board of Trustees adopted the 2020 Budget and Rate Update, which implemented an annual budget and rate update at the lowest level consistent with sound fiscal and operating practices, as those practices are defined by Board Policy, and within the statutory threshold provided in the Public Authorities Law.

Regionally Comparable Electric Rates: The Policy states “Electric rates should be comparable to the published rates on a system average basis of other regional utilities that surround the Authority’s service territory, which most closely resemble the costs and electric/gas supply options of the Authority, including: Consolidated Edison, Orange & Rockland, United Illuminating, Eversource (formerly Connecticut Light and Power), and PSE&G.”
• LIPA’s system average electric rate was 19.3 cents in 2019.
• Compared to the other five major regional utilities that surround LIPA’s service territory, listed in the Policy, LIPA’s system average rate is roughly average for the region.
• LIPA’s system average rate is 18% below the highest priced regional utility.
• The system average electric rates of the regional utilities ranged from 14.5 cents (PSE&G) to 23.4 cents (United Illuminating), as shown in the following figure:

![2019 System Average Rates](chart)

• Although the policy is focused on system average rates, it is worth noting that LIPA’s residential average rate in 2019 of 20.4 cents was also competitive with the rates of our regional peer utilities, as shown in the following figure:

![2019 Residential Average Rates](chart)

• If LIPA’s taxes, which comprise 18% of the bill, were equivalent to the national average of 6% of the bill, LIPA’s 2019 system average rate would have been 17 cents rather than 19.3 cents.
• The New York City metro area has above average labor, land, tax, and commodity costs and highly seasonal weather patterns (i.e. electricity is used for cooling in the summer while other fuels are used for heating in the winter). This causes the New York metro area to have per kilowatt hour electric rates that are above the national average. For example, the national system average retail electric rate in 2018, according to the U.S. Energy Information Agency, was 10.5 cents per kilowatt-hour. State-by-state averages include 18.4 cents for Connecticut, 18.5 cents for Massachusetts, 14.8 cents for New York, 15.1 cents for Vermont, 13.2 cents for New Jersey, and 10.1 cents for Pennsylvania.

• Even within New York, there is a significant difference in prevailing power prices between upstate and downstate. The upstate grid is primarily fueled by lower-cost hydro and nuclear power while downstate is primarily fossil-fuel fired generation. The Board’s policy recognizes these significant regional differences by benchmarking to five utilities that surround the LIPA service territory rather than utilities in other regions of the country or state.

Changes in Electric Rates to Support Investments in Customer Value: The Policy states “Changes in the Authority’s electric rates and bills should be similar to other regional utilities on a system average basis. Over time, we expect an appropriate balance between cost and service to result in increases to electric rates similar to the rate of inflation. In any given year, changes in electric rates may not reflect broader economic price indices due to external factors such as changes in commodity prices, law or regulation.”

• LIPA’s system average rates have been competitive on a long-term basis, having risen more slowly than any of the other regional utilities during LIPA’s stewardship of the Long Island grid (see chart below).

• LIPA’s rates increased 26% since LIPA took over the Long Island grid in 1998, compared to a range of 45% to 102% for the other utilities, as shown in the following figure. The consumer price index, a standard measure of inflation, increased 61%.

![Long-Term Increase in System Average Rates (1997-2019)](image)
Over the past 5 years, LIPA’s system average electric rates have decreased 1% while other regional utilities have ranged from an 18% decrease to a 17% increase, as shown in the following figure.

Prudent Rate Design: The Policy states “Electric rates should: be simple and easy to understand; equitably allocate costs across and within customer classes by taking into consideration the cost to provide service; be affordable to people with low incomes and severe medical conditions; and encourage the most efficient use of utility plant by reflecting the cost of energy at the time it is used, reducing on-peak use, and supporting energy efficiency and conservation.”

During 2019, LIPA made the following changes to its rates and tariffs in furtherance of this Policy:

- LIPA introduced new incentives for behind-the-meter batteries to participate in our dynamic load management tariffs, helping the utility manage load and reduce peaks. LIPA also expanded eligibility for participation in the dynamic load management tariffs to customers with eligible generating equipment, such as rooftop solar.
- LIPA completed the phase-in of increased discounts for low-and-moderate income customers.
- LIPA made simplifying changes and other improvements to the Value of Distributed Energy Resources tariff, including by expanding eligibility to new technologies including hybrid solar and energy storage projects.
- LIPA completed an update to the Authority’s rate modernization roadmap, which is a multi-year plan to modernize electric rates for customers.
- LIPA increased funding for heat pump incentives to support beneficial electrification of heating and greenhouse gas reductions.

Consistent with New York Policy: The Policy states: “the Authority’s electric rate design and tariffs should be as consistent as possible with statewide principles. When statewide proceedings produce policies of general applicability, the Authority will adopt conforming changes to its Electric Tariff, unless there are compelling considerations that are unique to the Authority and its public power
business model. Prior to adopting such changes, the Authority will hold public comment sessions and evaluate such unique considerations.”

During 2019, LIPA made changes to the following sections of its rates and tariffs in support of greater consistency with New York policy:
- Standard rates for wireless and wireline pole attachments.
- Conforming changes to the Value of Distributed Energy Resources tariff.
- Conforming changes to the Smart Grid Small Generator Interconnection Procedures.

**Annual Review of the Policy**

The Policy was last amended by the Board pursuant to Resolution No. 1488, dated July 24, 2019, at which time the Policy was significantly updated. Staff has completed its annual review of the Policy and has no suggested amendments at this time.

**Enterprise Risk Management Discussion**

The Board has adopted a Policy on Enterprise Risk Management (“ERM”). Enterprise risks are brought to the Board’s attention throughout the year. LIPA’s ERM program has identified two such risks related to the adequacy of rates and their related rate designs (tariffs). The two specific risks are: “Insufficient rates may lead to inadequate system investments which compromises LIPA’s ability to achieve strategic objectives” and “Existing rate design may not reflect changing customer usage patterns/expectations or provide accurate pricing signals (i.e. time of use rates, demand charges) resulting in customer cross-subsidies and economic inefficiencies.”

These risks are both rated as medium level risks. LIPA mitigates the risk of insufficient rates through an extensive analysis of its cost structure each year and by maintaining numerous specific performance metrics to monitor electric system performance relative to budgets on an ongoing basis. LIPA also utilizes a decoupling mechanism, which helps to stabilize revenues with changing weather patterns, and a delivery service adjustment to recover or refund to customers variances in unpredictable costs, such as storm costs.

Regarding the risk related to rate design, LIPA implements tariffs that reflect, to the best of our ability, customer end usage patterns. Outreach is conducted with LIPA customers to better understand their needs and concerns. Additionally, LIPA monitors industry best practices and utilizes appropriate technological advancements to ensure the reasonableness of our rate designs. Based on the mitigations actions that are currently in place, staff believe both of these risks are being adequately managed.

**Recommendation**

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

Exhibit “A”  Resolution
Exhibit “B”  Policy
RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE
BOARD POLICY ON CUSTOMER VALUE AND AFFORDABILITY

WHEREAS, the Customer Value and Affordability Policy (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1318, dated September 21, 2016; and

WHEREAS, the Policy was last amended by the Board pursuant to Resolution No. 1488, dated July 24, 2019; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board hereby finds that the Authority has complied with the Customer Value and Affordability Policy for the period since the last annual review and approves the annual report to the Board.

Dated: June 24, 2020
Customer Value and Affordability Policy

It is the policy of the Long Island Power Authority to maximize the value provided for our customers’ dollars and maintain electric rates that are comparable to other regional utilities in terms of both affordability and rate design. We will carry out this Policy by balancing cost and service, investing in areas that customers value, and minimizing cost in areas with more limited customer benefit. This Policy is comprised of the following objectives:

- **Lowest Fiscally Sound Electric Rates.** Electric rates should be set at the lowest level consistent with sound fiscal and operating practices and applicable law and regulation, ensuring that quality service is efficiently rendered.

- **Regionally Comparable Electric Rates.** Electric rates should be comparable to the published rates on a system average basis of other regional utilities that surround the Authority’s service territory, which most closely resemble the costs and electric/gas supply options of the Authority, including: Consolidated Edison, Orange & Rockland, United Illuminating, Eversource (formerly Connecticut Light and Power), and PSE&G.¹

- **Changes in Electric Rates to Support Investments in Customer Value.** Changes in the Authority’s electric rates and bills should be similar to other regional utilities on a system average basis.² Over time, we expect an appropriate balance between cost and service to result in increases to electric rates similar to the rate of inflation. In any given year, changes in electric rates may not reflect broader economic price indices due to external factors such as changes in commodity prices, law or regulation.

- **Prudent Rate Design.** Electric rates should:
  - be simple and easy to understand;
  - equitably allocate costs across and within customer classes by taking into consideration the cost to provide service;
  - be affordable to people with low incomes and severe medical conditions; and
  - encourage the most efficient use of utility plant by reflecting the cost of energy at the time it is used, reducing on-peak use, and supporting energy efficiency and conservation.

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¹ This objective should consider the significant differences in the taxing and regulatory regimes in which the utilities operate. The Board of Trustees will also be provided with rate comparisons from other regions upon request.

² In any period, there may be variations due to the timing of fuel and purchased power costs, resource additions, changes to delivery rates, or other needs that cause fluctuations in the Authority’s system average cost relative to other regional utilities but that are not indicative of the Authority’s long-term rate comparability.
• **Consistent with New York Policy.** The Authority’s electric rate design and tariffs should be as consistent as possible with statewide principles. When statewide proceedings produce policies of general applicability, the Authority will adopt conforming changes to its Electric Tariff, unless there are compelling considerations that are unique to the Authority and its public power business model. Prior to adopting such changes, the Authority will hold public comment sessions and evaluate such unique considerations.³

The Chief Executive Officer will report annually to the Board on the key provisions of this Policy.

³ The Department of Public Service holds proceedings and working groups that are open to all interested stakeholders to craft and implement policies that enable New York’s transition to a modern, clean, distributed, and transactional electric grid. The Authority and its Service Provider participate in these statewide proceedings and encourage the participation of Long Island stakeholders.
Annual Report on Strategy and Oversight Policy

July 22, 2020
As reported to the Board in February 2020:

- For 2019, 32 of the 49 projects identified in the 2019 Work Plan were completed and substantial progress was made on the remaining 17\(^1\)
- The 2020 Work Plan includes 37 projects designed to advance LIPA’s Mission, Vision, and Board Policies\(^2\)
OVERSIGHT BACKGROUND

• LIPA’s business model involves significant outsourcing to Service Providers, which places heightened importance on LIPA’s oversight in the achievement of its Mission and Vision and the Board’s Policies

• As part of our continuous improvement activities, staff has completed a project to develop an Oversight Framework, to help strengthen and formalize our oversight activities

• This effort has included drafting of internal policies for strategic planning and oversight, which among other things, established an Oversight and Metrics Committee and Budget and Rates Committee to coordinate such activities

• Oversight helps LIPA to ensure, among other things that:
  • The Board’s Policies and LIPA’s Strategy are implemented as intended
  • LIPA and its Service Providers advance the Mission and Vision adopted by the Board of Trustees
  • LIPA’s Service Providers achieve reasonable results
  • LIPA’s Budgets, including those of the Service Providers, provide value for money to our customer-owners
To achieve LIPA’s Oversight Objectives, the Oversight and Metrics Committee and the Budget and Rates Committee have developed:

- an Oversight Framework to provide Subject Matter Experts (SMEs) the structure and processes to ensure effective Oversight
- an Oversight Universe, made up of Elements which are defined as the departments, functions and systems contracted to a Service Provider that are subject to Oversight
- Each element has an SME assigned to it

These Committees will:

- Work with SMEs to prioritize oversight activities, including the frequency and degree of oversight, by risk, materiality, and other measures of importance
- Refer Oversight findings, if any, to Service Providers to promptly resolve issues
- Refer Oversight findings to Internal Audit and/or Enterprise Risk Management, if such issues require further attention or monitoring
- Review proposed plans and programs to ensure sufficient benefits for the cost
- Review the practices of Service Providers to foster continuous improvement, innovation, benchmarking, and industry best practice, to minimize cost and improve service quality
OVERSIGHT FRAMEWORK

- Report to the Board an annual Work Plan for staff that advances LIPA’s oversight and its mission and values, as defined by the Board’s policies.

- Utilize the projects in the annual Work Plan to set performance goals for LIPA staff.

- Report to the Board on the activities accomplished under the Work Plan each year.

- Report annually to the Board on compliance with the provisions of the Policy.

The Committees will also provide training to ensure all LIPA SMEs (25) and project owners (7) are aware of the expectations in carrying out effective oversight activities, including how to communicate effectively with service providers when seeking information.
### BOARD AGENDA SUMMARY SHEET

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<td>July 22, 2020</td>
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**For All Board Voting Items:**

**Title of Agenda Item:** Approval of the Annual Report and Amendments on the Board Policy on Oversight and LIPA Operations

**Consent Agenda:** ☒ Yes ☐ No  
**Accompanying Presentation:** ☐ Yes ☒ No

**Recommendation from Committee:** ☐ N/A ☒ F&A; ☐ GP&P; ☒ Oversight & Clean Energy

**LIPA Presenter:** Bobbi O’Connor / Rick Shansky /Kenneth Kane  
**PSEG Long Island Presenter:** N/A

**Enterprise Risk Management Discussion:** ☐ Yes ☒ No

**For Policy Reports Only:**

**Type of Policy / Report:** ☒ Operating; ☐ Governance; ☐ Compliance; ☐ Mission

**Date of Last Report:** January 23, 2019  
**Compliance Since Last Report:** ☒ Yes ☐ No

**Proposed Changes to Policy:** ☒ Yes ☐ No

**Requested Action:**
The Board is requested to adopt a resolution: (i) approving the annual report on the Policy; (ii) finding that LIPA has complied with the Policy; and (iii) approving certain amendments to the Policy.

**Summary:**

LIPA 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”), LIPA 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 LIPA of the “service providers in a systematic manner that meets the needs and protects the interests of LIPA’s customers”. By Resolution No. 1461, dated January 23, 2019, the Board approved amendments to the Policy related to LIPA’s direct operations.
FOR CONSIDERATION
July 22, 2020

TO: The Board of Trustees

FROM: Thomas Falcone

REQUEST: Approval of the Annual Report and Amendments on the Board’s Policy on Oversight and LIPA Operations

Requested Action

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

Background

LIPA 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”), LIPA 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 LIPA of the “service providers in a systematic manner that meets the needs and protects the interests of LIPA’s customers”. By Resolution No. 1461, dated January 23, 2019, the Board approved amendments to the Policy related to LIPA’s direct operations.

Compliance with the Policy

Staff recommends that, for the reasons set forth below, the Board find that LIPA complied with the Policy over the last year.

The Policy requires that the Chief Executive Officer annually report to the Board on the Policy, including: (i) work plans for LIPA 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 LIPA or its customers; (iv) activities that foster continuous improvement; and (v) sufficiency of LIPA Staff and resources to achieve oversight goals.

2020 Work Plan:

- Attached as Exhibit “C” is the 2020 Work Plan. The 2020 Work Plan describes the
activities that LIPA Staff intends to undertake to further LIPA’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 2020 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 2020 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.

2019 Work Plan Accomplishments:

- Attached as **Exhibit “D”** is the 2019 Accomplishments Report (the “2019 Accomplishments Report”). The 2019 Accomplishments Report provides a summary of LIPA Staff’s 2019 accomplishments toward meeting the expectations of the LIPA Trustees and serving the needs of LIPA’s customer-owners.

- The 2019 Accomplishments Report documents Staff’s progress on the 49 initiatives identified in the 2019 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 2019 Accomplishments Report, Staff completed 32 of the 49 goals and made significant progress on the remaining 17, with additional work to be completed during 2020.

Oversight observations that involve material deviations from contract standards or that represent a significant risk to LIPA or its customers:

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

Activities that foster continuous improvement:

- As discussed with specificity in the 2019 Work Plan Accomplishments Report, many of the accomplishments Staff achieved during 2019, and the new plans and initiatives Staff will develop in response to its experiences with the 2019 Work Plan, will foster continuous improvement.

- Specifically, Staff (i) worked with the other stakeholders in New York State to begin to implement and advance the clean energy and renewables policies included in the Climate Leadership and Community Protection Act adopted in July 2019; (ii) explored additional avenues for reducing costs through financial tools; (iii) implemented the Board’s Policy on
Debt and Access to Credit Markets, which resulted in ratings upgrades from all three rating agencies; and (iv) improved LIPA’s employee engagement scores and employee assistance programs to maintain a healthy and productive workforce. PSEG Long Island also undertook several initiatives, and the Report describes Staff’s oversight of those projects.

**Sufficiency of LIPA Staff and resources to achieve oversight goals:**

- As shown in the 2019 Accomplishments Report, Staff completed 32 of the 49 goals it set in the 2019 Work Plan and made significant progress on the remaining 17. Staff believes that current staffing levels and resources are adequate to achieve LIPA’s oversight goals with hiring for vacant positions.

**Annual Review of the Policy**

Staff proposes changes to the Policy, as detailed below and reflected in the revised Policy in Exhibit “B”.

As part of LIPA’s efforts towards continuous improvement, Staff has completed a project to better define its strategic planning process and the concept of oversight. This effort has included drafting of internal policies for strategic planning and oversight, which among other things, established certain management committees to coordinate such activities.

Staff recommends amending the Policy to contemplate the work to be done by these committees, as well as to better define the roles of the Board and management around these activities. The roles defined in the Policy for the Board and management are consistent with the Board’s Policy Governance model.

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.

**Attachments**

<table>
<thead>
<tr>
<th>Exhibit</th>
<th>Description</th>
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<tbody>
<tr>
<td>“A”</td>
<td>Resolution</td>
</tr>
<tr>
<td>“B”</td>
<td>Policy on Oversight and LIPA Operations</td>
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<tr>
<td>“C”</td>
<td>2020 Work Plan</td>
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<tr>
<td>“D”</td>
<td>2019 Accomplishments Report</td>
</tr>
</tbody>
</table>
RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE 
BOARD POLICY ON OVERSIGHT AND LIPA OPERATIONS

WHEREAS, the Board Policy on Oversight and LIPA Operations (the “Policy”) was most 
recently reviewed and approved by the Board of Trustees by Resolution No. 1461, dated 
January 23, 2019; 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 LIPA 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.

Dated: July 22, 2020
Board Policy: **Strategic Planning and Oversight**

Policy Type: **Operating**

Monitored by: **Board of Trustees**

Board Resolution: Resolution #1409, approved March 29, 2018, 
# 1461, amended January 23, 2019, 
#______, amended July 22, 2020

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**Board Policy on Strategic Planning and Oversight**

It is the policy of the Long Island Power Authority (“LIPA”) to conduct its affairs and oversee its Service Providers in a manner that meets the needs and protects the interests of LIPA’s customer-owners.

Key definitions for the purposes of this Policy are:

- **Mission** is a concise statement of why LIPA exists, sometimes also referred to as Purpose.
- **Vision** is a realistic and attainable idea of what LIPA seeks to become within a defined period of time (e.g. in 5 years).
- **Board Policies** are the Policies related to key areas of LIPA’s business, adopted by the Board of Trustees, that provide additional guidance to LIPA’s management related to LIPA’s Mission and Vision. The current versions of the Board Policies can be found on LIPA’s website.
- **Strategy** is a multi-year view of the key themes or categories of initiatives (e.g. Clean, Lean, and Customer-First) that management must execute to further the Mission, Vision, and Board Policies adopted by LIPA’s Board.
- **Work Plan** is the annual translation of LIPA’s Mission, Vision, Board Policies, and Strategy into budgets, projects, Oversight activities, and performance metrics for a twelve-month period.
- **Oversight** refers to the actions LIPA takes to monitor and review the budgets, plans, processes, systems, programs, projects and services of its Service Providers.
- **Oversight Framework** refers to the structures and processes used by LIPA to ensure effective Oversight.

**Strategic Plan and the Work Plan**

LIPA’s Strategic Plan involves several activities, including:

- Defining LIPA’s Mission and Vision;
- Development and periodic review of Board Policies to provide additional guidance to LIPA management in key areas related to LIPA’s Mission and Vision;
- Identification of a multi-year Strategy for management to achieve LIPA’s Mission, Vision, and Board Policies;
• Creation and execution of an annual Work Plan that translates LIPA’s Strategy into budgets, projects, Oversight activities and performance metrics for a twelve-month period; and
• Reporting to LIPA’s Board by management on each Board Policy and on Strategy and the annual Work Plan.

The Board of Trustees is responsible for:

• defining LIPA’s Mission and Vision, along with its expectations in key operational areas in the form of Board Policy;
• reviewing Board Policy reports, which are provided to the Board on a regular basis in accordance with the manner prescribed in each Board Policy; and
• communicating its expectations to LIPA management in the form of Board Policy.

LIPA’s Chief Executive Officer (“CEO”) is responsible for achieving the expectations communicated by the Board in its Policies. Specifically, LIPA’s CEO is responsible for:

• **Supporting the Board in Establishing LIPA’s Mission, Vision, and Board Policies** – LIPA’s CEO works with the Board to provide the support and analysis necessary for the Board to make informed choices about LIPA’s Mission and Vision, as communicated through Board Policies. The Board’s Policies are necessarily constrained by LIPA’s current state, resources, industry trends, laws, regulations, and other factors. The CEO supports the Board by providing management’s assessment of these factors and the tradeoffs between competing objectives in the Board’s Policies (e.g. customer enhancements versus affordability).

• **Reviewing and Modifying LIPA’s Strategy** – LIPA’s CEO works with the management team and Service Providers to review LIPA’s Strategy not less than every three years. LIPA’s Strategy, while periodically reviewed, will change infrequently and only with significant changes to LIPA’s operating environment, legal and regulatory changes, and the Board’s expectations, as communicated in the form of Board Policy.

• **Creating and Executing Annual Work Plans** – LIPA’s CEO translates LIPA’s Mission, Vision, Board Policies, and Strategy into annual budgets, projects, Oversight activities, and performance metrics, which together constitute the annual Work Plan. The CEO is responsible both for creating the Work Plan and ensuring it is executed in a manner that delivers the intended results.

LIPA’s CEO will consult with and report to the Board on:

• The outcome of its Strategy reviews not less than every three years;
• The objectives of LIPA’s annual Work Plans for the coming year and the accomplishments of LIPA’s Work Plan for the prior year; and
• Any current or projected staffing and resource constraints that may limit LIPA’s ability to achieve the Mission, Vision, and Board Policies adopted by the Board.

**Oversight Objectives**
LIPA’s business model involves significant outsourcing to Service Providers, which places
heightened importance on LIPA’s Oversight in the achievement of its Mission and Vision and the Board’s Policies. The Objectives of LIPA’s Oversight (“Oversight Objectives”) are to ensure that:

- The Board’s Policies and LIPA’s Strategy are implemented as intended, in accordance with the terms of LIPA’s contractual relationships, and that LIPA and its Service Providers advance the Mission and Vision adopted by the Board of Trustees;
- LIPA’s Service Providers achieve reasonable results in accordance with expectations in exchange for the management fees and consideration paid for their services;
- LIPA’s budgets, including those of the Service Providers, provide value for money to our customer-owners;
- The business processes and systems outsourced or provided to Service Providers operate to industry standards and best practices;
- Service Providers implement continuous improvement initiatives;
- Enterprise risks, including those managed by Service Providers, are identified, monitored, managed, and mitigated; and
- Service Providers comply with applicable policies, laws, regulations, contract standards, and ethical standards.

The Board of Trustees is responsible for periodically reviewing the Oversight Framework implemented by LIPA’s CEO and the Oversight activities included in LIPA’s annual Work Plan. LIPA’s CEO is responsible for implementing an Oversight Framework consistent with the Oversight Objectives articulated by the Board in this Policy.

**Oversight Activities**

LIPA’s CEO will achieve the Board’s Oversight Objectives through an Oversight Framework that:

- Prioritizes Oversight activities, including the frequency and appropriate level of Oversight, by risk, materiality, and other measures of importance;
- Maintains appropriate documentation of Oversight activities;
- Incorporates insights from LIPA’s Oversight activities into annual budgets, projects, performance metrics, audits, and enterprise risk management activities;
- Balances the benefits and costs of proposed plans and programs;
- Fosters continuous improvement, innovation, benchmarking, and industry best practice, with a view to minimize cost and improve service quality; and
- Refers Oversight observations to Service Providers for resolution.

Related to Oversight, LIPA’s CEO will consult with and report to the Board on:

- The Oversight Framework implemented by LIPA’s management team; and
- The objectives of LIPA’s annual Work Plans for the coming year and the accomplishments of LIPA’s Work Plan for the prior year related to Oversight.

The CEO or his or her designee will report annually to the Board of Trustees on compliance with the key provisions of the Policy.
LIPA Mission and Values

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.

In achieving our mission, LIPA values:

Responsiveness: being attentive to the needs and expectations of our community and stakeholders

Excellence: continually innovating and improving upon our performance

Integrity: conducting our affairs in an ethical and transparent manner

Stewardship: ensuring our assets are utilized efficiently and in accordance with sound fiscal and operating practices

Sustainability: minimizing our impact on our natural environment

Teamwork: respecting diverse viewpoints and attracting and retaining talented employees
Overview

The LIPA Board utilizes a policy governance model, whereby it identifies the Board’s priorities as Board policies, which staff executes and reports back on each year.¹ The activities in the 2020 Work Plan advance the Board’s policies in the areas of Reliability, Customer Service, LIPA Operations and Oversight, Resource Planning, Energy Efficiency, Renewables, Customer Value and Affordability, and Taxes.

The 2020 Work Plan includes activities for which LIPA has direct responsibility, such as finance, wholesale market policy, tariffs, and legal, as well as oversight of activities for which LIPA’s service providers, including PSEG Long Island and National Grid, are responsible. The 2020 Work Plan builds upon the accomplishments of the 2019 Work Plan.²

LIPA’s staff believes the activities in the 2020 Work Plan are the best use of time and resources over the next twelve months to advance LIPA’s mission and the Board’s vision for a “Clean, Lean, and Customer First” utility for Long Island and the Rockaways.

¹ A complete list of the Board’s Policies and related annual reports can be found on LIPA’s website at www.lipower.org/mission.
² For more information on the accomplishments of the 2019 Work Plan, see LIPA’s 2019 Accomplishments Report, available on LIPA’s website under Contracts and Reports.
2020 Work Plan


Activities are organized by project, with each project addressing a specific, strategically important issue that warrants regular monitoring by senior management.

Significant activities identified in the 2019 Work Plan that will continue in 2020 are listed as carryover activities.

Progress on the 2020 Work Plan is tracked by management during the year. Staff expects to make changes to the Work Plan to meet evolving needs and priorities. Pursuant to the Board’s Policy on Oversight and LIPA Operations, LIPA staff will report on the accomplishments of the annual Work Plan in early 2021.
Operations Oversight

PROJECTS:

- Develop a battery storage roadmap for LIPA’s share of New York State’s energy storage goals (1,500 megawatts (MW) statewide by 2025 and 3,000 MW by 2030) and oversee establishment and implementation of plans for meeting LIPA’s resulting 2025 goal (approx. 200 MW by 2025).

- Oversee PSEG Long Island’s completion of the mandated Northport repowering study by April 1, 2020.

- Oversee development of PSEG Long Island’s plan to implement recommendations from the 2019 third-party evaluation of best practices in asset management.

CARRYOVER ACTIVITIES:

- Oversee Nitrogen Oxide (NOx) pollution compliance plan filing to meet DEC requirement for legacy peaking generating units owned by National Grid.

- Oversee completion of the offshore wind (OSW) transmission study in order to, (i) understand OSW interconnection costs by landfall location, (ii) understand optimum mix of OSW landfall on Long Island versus New York City (iii) advocate for an OSW Public Policy Transmission Need and (iv) inform plans for generation sites under the Power Supply Agreement.

- Represent LIPA customer interests in the Public Service Commission’s Resource Adequacy Proceeding, including advocating for appropriate allocation of costs for clean, dispatchable resources needed for the integration of renewables.
Finance and Financial Oversight

PROJECTS:

- Research experiences in other service territories with “all electric homes” and consider applicability in LIPA’s service territory.

- Develop a Federal Emergency Management Agency (FEMA) process for close-out of the 428 grant that streamlines consultant review of documentation and most efficiently provides for the collection of the remaining funds under the letter of understanding.

- Conduct a periodic review of LIPA’s Debt and Access to the Credit Markets Policy to ensure LIPA is meeting its stated fiscal goals.

- Implement a comprehensive review of treasury operations to facilitate a new Enterprise Resource Planning (ERP) system process.

- Update the post-debt-issuance record retention policy associated with Authority bond issuances.

- Oversee implementation of the 2020 portion of the rate modernization roadmap.

- Review PSEG Long Island staffing and overtime plans (resource loading plans) for planned and unplanned workload.

- Review the long-term impact of electrification on the sales forecast.

- Oversee PSEG Long Island’s development of new on-bill financing programs and a new FlexPay (prepay) pilot.

CARRYOVER ACTIVITIES:

- Execute a prepay transaction to reduce commodity costs.

- Evaluate revenue optimization opportunities for LIPA’s telecommunication assets.

- Implement a new long-term financial model for budgeting and planning.
Communications and External Affairs

PROJECTS:

- Review LIPA’s mission, vision, and values to incorporate themes identified in the 2019 strategic planning process along with customer and employee feedback.

CARRYOVER ACTIVITIES:

- Create LIPA issue-specific fact sheets to provide concise information and data on major policy issues to educate our customer base.
Policy and Strategy

PROJECTS:

- Benchmark status of strategic planning process against peers or established maturity model to identify strengths and weaknesses and implement changes as appropriate.

- Incorporate results from enterprise risk management activities into processes for prioritizing operational and oversight activities to maximize efficient use of limited LIPA and PSEG Long Island resources.

- Create a communications plan to engage employees in the importance of the 2020 projects, strategic planning initiatives, Board Policies, and related governance matters.

- Create a multi-year oversight roadmap across LIPA and implement strategies in 2020 that advance that roadmap.
Human Resources

PROJECTS:

■ Enhance LIPA’s interview process by focusing on competencies that have been identified as key to success for the position.

■ Revise the 360-degree review process to provide useful assessments in a shorter, simpler format.

■ Create an 18-month human resources roadmap outlining all inflight and contemplated human resource programs.

CARRYOVER ACTIVITIES:

■ Complete a new process for succession planning to implement industry best practices.
Information Technology

PROJECTS:

■ Create a roadmap to enhance LIPA's cybersecurity maturity score based on a third-party assessment.
■ Create a multi-year LIPA data analytics roadmap and set up data analytics as a service within IT to help departments implement data analytics projects.
■ Create a multi-year roadmap for IT investments.

CARRYOVER ACTIVITIES:

■ Implement Phase I of LIPA's Enterprise Resource Planning (ERP).
■ Develop an information technology asset management program for LIPA systems, including updated policies and procedures for inventory management throughout the asset life-cycle.
Legal

PROJECTS:
- Procure and customize a new document management system.
- Inventory written policies and procedures for all material functions across the organization and set up a periodic review process.
- Coordinate preparation for the 2021 rate filing.

Internal Audit

PROJECTS:
- Coordinate with PSEG Long Island to develop Purchase Card (P-Card) exception reporting to analyze 100 percent of the P-Card transactions monthly.
February 6, 2020

Members of the Board of Trustees
Long Island Power Authority
333 Earle Ovington Blvd.
Uniondale, NY 11553

Dear Trustees:

I have enclosed a report summarizing the accomplishment of LIPA’s staff towards the objectives presented to the Board in the 2019 Work Plan.

The annual Work Plan summarizes the projects that LIPA’s staff undertakes to further the Authority’s mission and Board Policies, including (1) those related to the Authority’s direct responsibilities, such as financing, wholesale markets policy, or rates and tariffs; and (2) the staff’s oversight of the services provided to LIPA contractually by PSEG Long Island, National Grid, and other service providers.

The Work Plan for the coming twelve months and the accomplishments of the prior twelve months are reported to the Board at the first meeting of the year. The projects in the Work Plan go beyond the day-to-day responsibilities of LIPA’s staff. During the year, LIPA’s senior staff reviews the Work Plan, and sometimes projects are added, delayed, or cancelled due to changing priorities, and those are reported to the Board in this report.

In January 2019, the 2019 Work Plan identified 49 projects or activities to further the LIPA’s mission and the Board’s policies in such key areas as customer service, reliability, clean energy, and affordability.

Through the end of 2019, staff has completed 32 of the 49 initiatives. Substantial progress has been made on the remaining 17 initiatives. For initiatives where work remains, these projects have been carried-over and are now reflected in the 2020 Work Plan. The enclosed report describes the objectives and accomplishments of the 2019 Work Plan in greater detail.

Highlights from the 2019 Work Plan include:

- Obtaining ratings upgrades from all three credit rating agencies to achieve the highest credit ratings in LIPA’s history
- Negotiating an agreement with Nassau County to resolve tax litigation at the E.F. Barrett and Glenwood Landing power plants, reducing our payments by 50% over a seven-year term
- Commencing studies to identify the least cost approaches to interconnecting up to 9,000 MW of offshore wind to the electric grid in Long Island and New York City
• Maintaining electric rate adjustments below 2.5%, with delivery increases nearly entirely offset with other cost reductions for 2020
• Reviewing and approving Phase II of the storm hardening program, with an additional 240 circuit miles to be hardened over four years
• Establishing a new 30,000 heat pump by 2025 target and associated programs
• Overseeing PSEG Long Island’s design and implementation of New York’s first behind-the-meter energy storage incentives and the expansion of LIPA’s dynamic load management programs to extend eligibility to customers with rooftop solar
• Overseeing and contributing to PSEG Long Island’s 2019 Utility 2.0 filing, which includes pilot programs sought by LIPA, such as on-bill financing for energy efficiency and beneficial electrification, prepaid billing options, electric school buses, and fuel-source switching for heat pumps
• Overseeing and contributing to PSEG Long Island’s 2019 Energy Efficiency filing, including an $8 million increase in the annual budget for heat pump incentives
• Collaborating with State agencies and stakeholders on new nitrogen oxide emission limits for combustion turbines that protect the environment, while maintaining system reliability and facilitating compliance at a reasonable cost to customers
• Improving the process for reporting funds expended for capital assets financed by LIPA with tax-exempt debt, thereby improving the pace of the drawdown of funds and reducing cash flow borrowing needs, which minimizes customer rates
• Overseeing PSEG Long Island’s receipt of State regulatory approval of the Western Nassau Transmission Project that reflected an agreement with affected communities
• Overseeing PSEG Long Island programs and operations related to FEMA grant compliance, billing and collections, tariffs and rates, employee benefit programs, emergency communication policies and procedures to confirm their effectiveness
• Developing an information technology asset management program to ensure accurate and efficient inventory management of LIPA systems throughout the asset life-cycle. This program aligns with best practices to manage and protect our systems
• Establishing a new multi-year process between LIPA and PSEG Long Island to identify strategic initiatives, like project prioritization and policy advocacy, that will advance the Authority’s mission, vision and Board Policies; and
• Implementing improvements to LIPA’s employee assistance programs to maintain a healthy and productive workforce.

Staff has provided to the Trustees a Work Plan for 2020 that builds on 2019’s accomplishments and advances the Board’s vision to be **Clean, Lean, and Customer First**. We welcome your review and feedback on the accomplishments of the 2019 Work Plan.

With sincere regards,

/s/ Thomas Falcone

Encl. 2019 Work Plan Accomplishments
Board Policy on Construction of Transmission and Distribution Projects

Annual Report

Report to the Board of Trustees

September 23, 2020
2020-2021 Article VII Projects:

Western Nassau Transmission Project

Project Description: $162M project to install a new underground 138kV transmission circuit from East Garden City Substation to Valley Stream substation to comply with NERC revised definition of bulk power facilities and meet N-1-1 reliability requirements for the Western Nassau load pocket.

- Article VII updated approval: – 9/19/19
  – EMCP Phase 1 approval 11/19/19
  – EMCP Phase 2 approval 3/20/20
- Project Status: On Schedule
- 22 of 23 new manholes installed and tied in
- 21,287 of 39,840 feet of cable installed
- 18 of 69 splices complete
- December 2020 in service date
2020-2021 Article VII Projects:

Riverhead to Canal New 138kV Transmission Circuit

Description: $99M project installs a new 138 kV cable between Riverhead and Canal substation with 38 new manholes utilizing existing spare conduit, a 2nd 138/69 kV transformer at Canal substation, and 3-138kV reactors at Riverhead substation. This project supports the South Fork Load growth needs.

- Article VII approval – 12/21/2009
  - EMCP approval 4/24/20
- Project Status: On Schedule
- 11 of 39 manholes installed and tied in
- Cable installation began 9/9/2020
- June 2021 in service date
Wildwood to Riverhead Upgrade 69kV Transmission Project to 138kV

Description: $9.9M project to upgrade the existing 10.6 mile Wildwood to Riverhead 69 kV circuit to 138 kV. Existing overhead line constructed at 138 kV and currently operated at 69 kV, upgrades will include new insulators, termination structures at the Riverhead and Wildwood substations and a 900-foot 138 kV UG cable at Wildwood substation. This project supports the South Fork Load growth needs.

- Article VII updated approval – 7/12/12
  - EMCP approval: 7/3/14
- Project Status – In progress. All overhead work completed. Substation terminations and cable dip to be coordinated with the in service date for new Riverhead to Canal circuit
**Board Policy on Construction of Transmission and Distribution Projects**

**Ruland-Plainview New 69kV Transmission Line:**
Description: $60M project to install a new 69kV transmission line from the Ruland Road to Plainview substations to resolve a transmission overload. The route selected for the new 69 kV line will allow this line to directly supply the new Round Swamp substation.

**Configuration Analysis Selected Underground Construction:**
- Advantage/disadvantage analysis, including costs of OH/UG alternatives
- Regulatory factors – environmental, legal and regulatory conditions impacting design, such as preliminary SEQRA assessment, Americans with Disabilities Act compliance etc.
- Technical limitations – engineering and technical considerations impacting design of the facility, including storm-hardening standards, availability of space, number of dips, etc.
**BOARD AGENDA SUMMARY SHEET**

<table>
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<tr>
<th>Committee or Board:</th>
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<tr>
<td>Board</td>
<td>September 14, 2020</td>
<td>September 23, 2020</td>
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**For All Board Voting Items:**

**Title of Agenda Item:** Approval of the Annual Report to the Board Policy on Construction of T&D Projects

**Consent Agenda:** ☐ Yes ☒ No  
**Accompanying Presentation:** ☒ Yes ☐ No

**Recommendation from Committee:** ☒ N/A ☐ F&A; ☐ GP&P; ☐ Oversight & Clean Energy

**LIPA Presenter:** Rick Shansky  
**PSEG Long Island Presenter:** N/A

**Enterprise Risk Management Discussion:** ☒ Yes ☐ No

**For Policy Reports Only:**

**Type of Policy / Report:** ☐ Operating; ☐ Governance; ☐ Compliance; ☒ Mission

**Date of Last Report:** September 25, 2019  
**Compliance Since Last Report:** ☒ Yes ☐ No

**Proposed Changes to Policy:** ☐ Yes ☒ No

<table>
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<tr>
<th>Requested Action:</th>
<th>The Board is requested to adopt a resolution: (i) approving the annual report on the Policy; and (ii) finding that LIPA has complied with the Policy.</th>
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**Summary:**  
**include proposed amendments to Board Policies, if applicable**  
By Resolution No. 1383, dated September 27, 2017, the Board adopted the Policy with the purpose of supplementing existing requirements and practices and to guide consistent decision-making related to: (i) the evaluation of system-wide benefits and costs for underground construction of projects where such benefits may exceed their costs; and (ii) public outreach prior to construction of major projects. The Policy was last reviewed, and amendments approved by Resolution No. 1491, dated September 25, 2019.

Staff has completed its annual review of the Policy and has no suggested amendments at this time.
FOR CONSIDERATION  
September 23, 2020

TO:                  The Board of Trustees 
FROM:                Thomas Falcone

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 the Construction of Transmission and Distribution Projects (the “Policy”); and (ii) finding that LIPA has complied with the Policy, which resolution is attached hereto as Exhibit “A”.  

Background

By Resolution No. 1383, dated September 27, 2017, the Board adopted the Policy with the purpose of supplementing existing requirements and practices and to guide consistent decision-making related to: (i) the evaluation of system-wide benefits and costs for underground construction of projects where such benefits may exceed their costs; and (ii) public outreach prior to construction of major projects. The Policy was last reviewed, and amendments approved by Resolution No. 1491, dated September 25, 2019.

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 review of the Policy last year.

The Policy requires that the Chief Executive Officer annually report to the Board on compliance with the key provisions of the Policy. The key provisions of the Policy require that LIPA and PSEG Long Island:

“For transmission projects designed for voltages 65 kV and above that are not subject to Article VII, prepare a pre-construction report containing an advantage-disadvantage analysis using standardized criteria for evaluating the system-wide benefits and costs to the public of construction of overhead versus underground transmission projects similar to the criteria used by New York utilities subject to Title 16 of the New York Codes, Rules and Regulations (“NYCRR”) Part 1024, such report to be done sufficiently far in advance of construction to inform the public outreach and project planning process”:

- PSEG Long Island proposed the construction of a new 69kV transmission line from the Ruland Road substation to the Plainview substation, mainly located in the Town of Oyster Bay and partly located in the Town of Huntington. The project involves the construction
of a new electric substation, identified as the Round Swamp Road Substation, and installation of two underground (“UG”) 69kV transmission circuits and two UG 13kV distribution exit feeders. In compliance with the Policy, PSEG Long Island prepared the required analysis that evaluated the system-wide benefits and costs to the public of construction of overhead versus underground transmission projects similar to the criteria used by other New York utilities.

- The analysis led to the conclusion that substantial portions of the line had to be underground for technical reasons. On Round Swamp Road, the lower cost of an overhead line was balanced against numerous considerations, including high residential density, numerous inventoried areas, and tree impacts, among other things, and that portion of the line was determined to be best built as an underground facility consistent with the Policy. With respect to the portion of the line along Old Country Road, similar considerations as well as the risk of additional costs should the environmental review process be protracted (e.g., the cost of repaving should PSEG Long Island be unable to coordinate its construction schedule with the County’s scheduled repaving of the road), led to the decision in favor of underground construction.

- With respect to outreach for the Plainview to Ruland project, PSEG Long Island External Affairs conducted a series of meetings beginning in April 2018 through June 2020 with representatives from the local municipalities. Additionally, on July 8, 2020, a Transmission Notification letter was mailed to customers located within 500 feet of the Proposed Action to notify them of the upcoming activities. In accordance with the Policy, PSEG Long Island External Affairs also consulted with the Department of Public Service (“DPS”) on outreach for the Proposed Action.

“Maintain a special tariff for undergrounding to provide a financing mechanism that allows local communities to pay for the additional cost of undergrounding all or a portion of a transmission or distribution project where insufficient systemwide benefits exist to justify allocation of the incremental expense throughout the Service Area”

- As previously reported to the Board, in December 2017, the Board adopted changes to LIPA’s Tariff for Electrical Service (the “Tariff”) to create a financing program that allows a local community to request an overhead line be undergrounded.

- The Tariff provisions allow the requesting municipality the option of paying either the full incremental cost of undergrounding in advance of construction or paying the cost in the form of an incremental consumption charge for a period of 20 years.

- Pursuant to these Tariff provisions, PSEG Long Island has begun discussions with the Village of Farmingdale and the Village of Westhampton Beach to underground certain distribution facilities in commercial areas. The final details of these projects remain pending. The status of those projects will be reported to the Board as part of the next annual review.

- Earlier this year, LIPA and PSEG Long Island prepared a brochure on the undergrounding program, which was electronically distributed to local elected officials and is available on both the LIPA and PSEG Long Island websites.
“LIPA and its Service Provider will conduct outreach to affected public officials, civic leaders, and communities in advance of the construction of transmission and distribution projects in a manner appropriate to each project, including visual representations of the proposed project as built, if appropriate, consistent with industry best practices, as mutually agreed upon by LIPA and its Service Provider, and in consultation with the Department of Public Service”:

- PSEG Long Island outreach is integrated into capital project planning, design and construction and both LIPA and DPS review project scoring and outreach plans.

- PSEG Long Island scores each project scoring using outreach tiers based on various factors, including, project need, community impact, governmental impact, media landscape, permitting and regulatory requirements, aesthetic impacts, and environmental, historical, cultural and construction considerations. An outreach plan is developed for each specific project. The outreach tiers are used as a guideline, and outreach tools are then tailored to each project’s specific circumstances.

- Tier 1 project activities may include: (i) developing collateral materials; (ii) conducting media and regulatory audits to determine the outreach landscape and identification of stakeholders; (iii) briefing impacted officials; and (iv) notifying impacted customers.

- Tier 2 project activities may include: (i) all Tier 1 activities; (ii) mailings or door hangers to impacted customers; (iii) follow-up with impacted officials; and (iv) sharing project information on the PSEG Long Island’s website and social media accounts.

- Tier 3 project activities may include: (i) all Tier 1 and 2 activities; (ii) engaging in early design discussions; (iii) conducting early outreach and partnering with elected officials; (iv) hosting open houses; (v) collaborating with third-party experts; (vi) implementing a print and/or broadcast media communications plan; and (vii) email updates to impacted customers.

- Since the last annual report to the Board, the Round Swamp Road Substation and Ruland Road Substation to Plainview Substation New 69kV Transmission Circuit project was designated as a Tier 3 project, as was the Roslyn Substation Expansion project. Tier 2 projects included several distribution reconductoring project in areas across the service territory (Lake Success, North Hills, West Amityville, Massapequa, Rockaway Beach, Breezy Point) and the installation of voltage regulation equipment at the Whiteside substation.

**Enterprise Risk Management Discussion**

The Board has adopted a Policy on Enterprise Risk Management (“ERM”). Enterprise risks are brought to the Board’s attention throughout the year. There is one risk related to the Policy. That risk is: “Transmission and Distribution and generation capital projects could lead to controversy with stakeholders, negative public perception, and SEQRA and other litigation.”

This risk is rated as a medium level risk. LIPA mitigates this risk with concurrent oversight of PSEG Long Island’s project identification, planning and development process for significant projects and through its legal and external affairs teams working closely with PSEG Long Island’s External Affairs to monitor compliance with the Policy of the communication with towns and the
public for significant projects. Based on the mitigation actions in place, Staff believes this risk is adequately managed.

**Annual Review of the Policy**

Staff has completed its annual review of the Policy and has no suggested amendments at this time.

**Recommendation**

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

**Attachments**

**Exhibit “A”**  Resolution
RESOLUTION APPROVING THE ANNUAL REPORT ON THE BOARD POLICY ON THE CONSTRUCTION OF TRANSMISSION AND DISTRIBUTION PROJECTS

WHEREAS, the Board Policy on the Construction of Transmission and Distribution Projects (the “Policy”) was originally approved by the Board of Trustees Resolution No. 1383, dated September 27, 2017; and

WHEREAS, the Policy was last amended by the Board pursuant to Resolution No. 1491, dated September 25, 2019; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with.

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

Dated: September 23, 2020
DEBT AND ACCESS TO CREDIT MARKETS

May 20, 2020
Achieved Debt and Access to the Credit Markets Policy Metrics

LIPA received upgrades from all three rating agencies: A2 by Moody’s Investors Service (Moody’s), A by Standard and Poor Global Ratings (S&P), and A by Fitch Ratings (Fitch).

Issued $502 million New Money Series 2019 Bonds; ~$218 million fixed-rate bonds at lowest spreads to MMD in LIPA history, and ~$284 million mandatory tender bonds

Executed two forward starting swaps with September 1, 2022 effective dates expected to generate $102 million of NPV savings

---

<table>
<thead>
<tr>
<th>FitchRatings</th>
<th>Moody’s</th>
<th>STANDARD &amp;POOR’S</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>A</td>
<td>A2</td>
</tr>
<tr>
<td>Outlook</td>
<td>Stable</td>
<td>Stable</td>
</tr>
</tbody>
</table>

The rating affirmation considers LIPA’s strong suite of cost recovery mechanisms that support a more resilient and predictable cash flow stream, improved financial, operating and customer satisfaction measures, LIPA’s continued investment in operational and systems improvements and the strong economic profile of LIPA’s service territory.
The Board Policy on Debt and Access to Capital provides guidance for LIPA’s path to a stronger financial position, with the goal of reducing long-term cost for customers.

LIPA met or exceeded all the Board Policy goals in 2019.

Five key financial planning metrics include:

- Implementing financial plans that lead to bond ratings of at least A2/A/A from Moody’s, S&P, and Fitch over five years;
- Achieving Debt-Service Coverage Ratio (measure of cash flow available to pay current debt obligations) of 1.45x in 2019 and 1.35x in 2020 and beyond (lower due to new lease accounting rules, which generate the same cash flow with a lower coverage ratio);
- Generating sufficient cash flow to fund no more than 64% of capital expenditures with debt;
- Maintaining cash on hand of at least $100 million in the Operating Fund, $150 million in the Rate Stabilization Fund, and available cash and available credit of at least 120 days of operating expenses; and
- Pre-funding of Pension Fund Obligations, Other Post Employment Benefits and Nuclear Decommissioning Trust Fund obligations in a fiscally sound manner, as measured by an actuary.
Board financial policies require LIPA to budget for certain levels of Fixed Obligation Coverage.

LIPA has exceeded the coverage requirement in 2016, 2017, 2018 and 2019 and has budgeted to achieve the required level in 2020.

LIPA’s Board policy reduced the percentage of capital expenditures funded by debt to 64% or less on a three-year rolling average.

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<tr>
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</thead>
<tbody>
<tr>
<td>Capital Expenditures:</td>
<td>746,277</td>
<td>636,571</td>
<td>706,862</td>
<td>531,774</td>
</tr>
</tbody>
</table>

Sources of Funds:

<table>
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<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Financing</td>
<td>462,044</td>
<td>394,396</td>
<td>389,080</td>
<td>282,317</td>
</tr>
<tr>
<td>FEMA Grants*</td>
<td>104,727</td>
<td>136,246</td>
<td>177,898</td>
<td>139,789</td>
</tr>
<tr>
<td>PAYGO</td>
<td>179,506</td>
<td>105,929</td>
<td>139,885</td>
<td>109,668</td>
</tr>
<tr>
<td>Total Sources</td>
<td>746,277</td>
<td>636,571</td>
<td>706,863</td>
<td>531,774</td>
</tr>
</tbody>
</table>

* LIPA advances funding for FEMA projects, which are reimbursed at 90%.

- 3-year rolling average for the period ending 2019 was 62%
- Gradually improve LIPA’s debt-to-asset ratio, consistent with other “A” rated major public power utilities
- Continued FEMA funding for storm hardening
LIPA annually funds the PSEG and LIPA Pension and OPEB obligations and maintains required funding levels of the Nuclear Decommissioning Trust Fund in a fiscally sound manner, as measured, no less than every three years by an actuarial services firm.

- **PSEG Long Island pension plan trust:**
  - Assets: $282 million
  - Obligation: $453 million

- **PSEG Long Island OPEB account:**
  - Assets: $386 million
  - Obligations: $626 million

- **Funded $570,000 for LIPA to the NYS Employee Retirement System**

- **OPEB Trust for LIPA employees:**
  - Assets: $23 million
  - Obligations: $22 million

- **NMP2 Nuclear Decommissioning Trust Funds:**
  - Assets: $144 million
  - Obligation: $64 million

*The pension and OPEB obligations increase approx. $130 and $126 million, respectively, due predominantly to the change in discount rate. Funding ratio (assets-to-obligations) continues to improve YoY.*
### LIPA Liquidity Position

**LIPA LIQUIDITY POSITION**  
**DECEMBER 31, 2019 AND 2018**

LIPA exceeded its minimum required 120 days cash and available credit for 2019 and strengthened and extended its access to short term liquidity.

#### Liquidity Position

<table>
<thead>
<tr>
<th>($ in thousands)</th>
<th>December 31, 2019</th>
<th>Days Cash</th>
<th>December 31, 2018</th>
<th>Days Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating liquidity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted cash and cash equivalents</td>
<td>$742,945</td>
<td></td>
<td>$679,953</td>
<td></td>
</tr>
<tr>
<td>OPEB account cash, cash equivalents &amp; investments</td>
<td>386,262</td>
<td></td>
<td>271,879</td>
<td></td>
</tr>
<tr>
<td>PSEG Long Island Working Capital requirements</td>
<td>248,499</td>
<td></td>
<td>198,611</td>
<td></td>
</tr>
<tr>
<td><strong>Total operating liquidity</strong></td>
<td>$1,377,706</td>
<td>173</td>
<td>$1,150,443</td>
<td>143</td>
</tr>
<tr>
<td><strong>Available credit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Revenue Notes - Revolving Credit Facility</td>
<td>198,000</td>
<td></td>
<td>345,000</td>
<td></td>
</tr>
<tr>
<td>General Revenue Commercial Paper</td>
<td>510,000</td>
<td></td>
<td>570,500</td>
<td></td>
</tr>
<tr>
<td><strong>Total available credit</strong></td>
<td>708,000</td>
<td></td>
<td>915,500</td>
<td></td>
</tr>
<tr>
<td><strong>Total cash, cash equivalents, investments &amp; available credit</strong></td>
<td>$2,085,706</td>
<td>262</td>
<td>$2,065,943</td>
<td>258</td>
</tr>
<tr>
<td><strong>Restricted cash</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FEMA - restricted</td>
<td>1,732</td>
<td></td>
<td>103,820</td>
<td></td>
</tr>
<tr>
<td>USDA</td>
<td>109,049</td>
<td></td>
<td>124,597</td>
<td></td>
</tr>
<tr>
<td><strong>Total restricted cash</strong></td>
<td>$110,781</td>
<td></td>
<td>$228,417</td>
<td></td>
</tr>
</tbody>
</table>

CFO Report – May 2020
LIPA’s consolidated debt at December 31, 2019 (unaudited), 2018, 2017 and 2016, including current maturities, is comprised of the following:

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Long-term debt:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subordinated Revenue Bonds</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>USDA Restructuring Bonds</td>
<td>4,008,832</td>
<td>4,139,593</td>
<td>4,262,396</td>
<td>3,965,529</td>
</tr>
<tr>
<td><strong>Total Long-term debt</strong></td>
<td>$8,055,128</td>
<td>7,737,058</td>
<td>7,476,610</td>
<td>7,322,501</td>
</tr>
<tr>
<td><strong>Short-term debt:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revolving Credit Agreement</td>
<td>2,000</td>
<td>5,000</td>
<td>12,820</td>
<td>—</td>
</tr>
<tr>
<td>General Revenue Commercial Paper Notes</td>
<td>290,000</td>
<td>229,500</td>
<td>97,500</td>
<td>155,625</td>
</tr>
<tr>
<td>Subordinated Commercial Paper Notes</td>
<td>—</td>
<td>—</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td><strong>Total short-term debt</strong></td>
<td>$292,000</td>
<td>234,500</td>
<td>360,320</td>
<td>405,625</td>
</tr>
<tr>
<td><strong>Total debt</strong></td>
<td>$8,347,128</td>
<td>7,971,558</td>
<td>7,836,930</td>
<td>7,728,126</td>
</tr>
</tbody>
</table>

- LIPA’s debt has increased approximately $600 million over the past four years, while LIPA has funded over $2.6 billion of capital investment to improve the reliability and resiliency of the electric grid.

- LIPA has taken advantage of market opportunities by achieving a lower cost of funds through USDA’s “AAA” credit ratings, which generated present value savings for customers of $492 million.
### LIPA’s Total Debt-to-Asset ratio is steadily improving

#### Long-term debt (including Capital Leases):

<table>
<thead>
<tr>
<th></th>
<th>Projected</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Debt</td>
<td>9,108,068</td>
<td>8,968,347</td>
</tr>
<tr>
<td>Generation and Transmission assets under lease</td>
<td>2,138,356</td>
<td>2,480,397</td>
</tr>
<tr>
<td>Restricted Cash</td>
<td>(109,049)</td>
<td>(109,049)</td>
</tr>
<tr>
<td>Total Long-term debt</td>
<td>$11,137,375</td>
<td>11,339,695</td>
</tr>
</tbody>
</table>

#### Assets plus Working Capital:

<table>
<thead>
<tr>
<th></th>
<th>Projected</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Plant</td>
<td>$10,669,082</td>
<td>10,618,395</td>
</tr>
<tr>
<td>Net Working Capital</td>
<td>1,579,595</td>
<td>1,579,595</td>
</tr>
<tr>
<td>Net Assets</td>
<td>$12,248,677</td>
<td>12,197,990</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Debt to Asset Ratio (%)</th>
<th>Projected</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>90.9%</td>
<td>93.0%</td>
<td>94.2%</td>
</tr>
<tr>
<td>93.7%</td>
<td>96.8%</td>
<td>100.9%</td>
</tr>
</tbody>
</table>
FOR CONSIDERATION
May 20, 2020

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Approval of the Annual Report on the Board on the Board Policy on Debt and Access to the Credit Markets

Requested Action

The Board of Trustees (the “Board”) of the Long Island Power Authority is requested to adopt a resolution: (i) finding that LIPA has complied with the Board Policy on Debt and Access to Credit Markets (the “Policy”); and (ii) approving the annual report for the Policy.

Background

By Resolution No. 1319, dated September 21, 2016, the Board adopted the Policy with the purpose of serving the long-term interests of LIPA’s customers by adopting sound financial plans in each year. Sound financial plans ensure the ready access to borrowing on reasonable terms necessary to fund the infrastructure investments that maintain the reliability and resiliency of the Long Island electric system. Such financial plans contemplate prudent levels of borrowing that will accommodate efficient access to the capital markets and thereby minimize the long-term cost of providing electric service to our customer-owners. The Policy was last amended by the Board by Resolution No. 1498, dated December 18, 2019.

Compliance with the Policy

Staff recommends that, for the reasons set forth below, the Board find that LIPA has complied with the Policy for the period since the last annual review. The Policy requires that LIPA achieve the lowest long-term cost to our customer-owners by adopting budgets and financial plans that meet the following objective:

“Support credit ratings of at least A2/A”

- LIPA met this goal in 2019 as all three rating agencies upgraded the Authority to A2, A, A, from Moody’s, S&P Global, and Fitch Ratings.

“Achieve fixed-obligation coverage ratios of no less than (i) 1.45x on the combination of LIPA-issued debt and lease payments; and (ii) 1.25x on the combination of LIPA-issued debt, Utility Debt Securitization Authority-issued debt, and lease payments”

1 The coverage ratio in effect for 2019 was 1.45x coverage on LIPA-issued debt and lease payments and 1.25x coverage on LIPA and UDSA-issued debt and lease payments. In December 2019, the Board amendment the ratios to
• LIPA achieved coverage ratios of 1.49x for LIPA-issued debt and lease payments and 1.30x for LIPA and UDSA-issued debt and lease payments.

“Generate sufficient cash flow from revenues to maintain the issuance of new debt as a percentage of capital spending at 64 percent or less as measured on a three-year rolling average.”

• New debt as a percentage of capital spending for the three-year rolling average for the period ended December 31, 2019 was approximately 62% and is projected to remain at or below 64% for the three-year period ending 2020.

“Maintain (i) cash on hand at each month end of at least $100 million in the Operating Fund and $150 million in the Rate Stabilization Fund and (ii) cash on hand and available credit of at least 120 days of operating expenses.”

• Cash on hand at the end of each month exceeded the target. As of December 31, 2019 cash balances for the Operating Fund and the Rate Stabilization fund were $169 million and $157 million, respectively.

• Overall cash on hand and available credit exceeded the target at the end of each month and was 262 days of operating expenses as of December 31, 2019.

“Pre-fund obligations to LIPA’s Service Provider for pension costs each year in a fiscally sound manner, as measured by an actuarial services firm no less than every other year.” As of December 31, 2019:

• The PSEG Long Island pension plan trust account had assets valued at $282 million and benefit obligations of $453 million resulting in an unfunded contractual liability for LIPA of $171 million. LIPA funded a $28 million contribution to this plan during 2019\(^2\).

• The funding level has been reviewed by an actuarial services firm within the last two years and LIPA made an actuarially sound contribution for 2019 to fully fund the obligations over time.

“Pre-fund obligations to LIPA’s Service Provider for Other Post-Employment Benefits (OPEBs) to a dedicated OPEB Account in a fiscally sound manner, as measured by an actuarial services firm no less than every other year”

• LIPA’s OPEB Account to prefund the OPEB benefits of PSEG Long Island employees had assets valued at $386 million compared to a benefit obligation of $626 million resulting in an unfunded contractual liability of $240 million. LIPA funded $56 million to this Account.

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1.35x and 1.15x, effective for the 2020 budget year as a result of changes to Lease Accounting standards. Cash flow from coverage remains unchanged.

\(^2\) The PSEG Long Island employee pension and OPEB obligations are legal obligations of PSEG Long Island, and the employees covered by these plans are PSEG Long Island employees. The cost to employ the workforce of PSEG Long Island is a pass-through expenditure and a contractual liability of LIPA.
in 2019.

- The OPEB Trust for LIPA employees had assets valued at $23 million and benefit obligations of $22 million resulting in a net asset of $1 million. LIPA funded approximately $0.4 million to this Trust in 2019.
- The funding levels have been reviewed by an actuarial services firm within the last two years and LIPA made actuarially sound contributions in 2019 to fully fund the obligations over time.

“Pre-fund LIPA’s Nuclear Decommissioning Trust Fund in a fiscally sound manner, as measured by an actuarial services firm no less than every other year”

- The NMP2 Nuclear Decommissioning Trust Funds had assets of $144 million. The Trust is sufficiently funded to meet the decommissioning obligations and requirements as they come due, with modest additional contributions averaging approximately $1 million per year. LIPA funded $2 million to this Trust in 2019.
- The funding levels have been reviewed by an actuarial services firm within the last two years and LIPA made an actuarially sound contribution to fully fund the obligation over time.

**Enterprise Risk Management Discussion**

The Board has adopted a Policy on Enterprise Risk Management (“ERM”). Enterprise Risks are brought to the Board’s attention throughout the year. One such Enterprise Risk is related to liquidity. Specifically, the risk identified is, “Insufficient liquidity to cover obligations greater than 60 days (i.e., loss of revenue stream) results in the inability to make debt service payments, pay USDA Bondholders, and cover operating expenses.”

Historically, this risk was rated as a medium level risk and was mitigated by LIPA’s ability to access capital markets, borrow from rate stabilization funds, and borrow from a revolving line of credit or in the commercial paper market. The upgrades to LIPA’s credit ratings during 2019 further reduced this risk by providing marginally higher confidence in LIPA’s ability to access capital during challenging market conditions.

Due to the pandemic related to COVID-19, there was a disruption in the commercial paper market. To mitigate this disruption, LIPA drew on an existing revolving credit line to ensure readily available cash to meet business needs. LIPA’s liquidity remains strong, above the 120-day minimum required by the Policy.

**Annual Review of the Policy**

Staff has reviewed the Policy and suggests no amendments at this time.
**Recommendation**

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

**Attachments**

**Exhibit “A”** Resolution
RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE BOARD POLICY ON DEBT AND ACCESS TO THE CREDIT MARKETS

WHEREAS, the Board Policy on Debt and Access to the Credit Markets (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1319, dated September 21, 2016; and

WHEREAS, the Policy was last amended by the Board pursuant to Resolution No. 1498, dated December 18, 2019; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with and the changes to the Policy recommended herein are due and proper.

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

Dated: May 20, 2020
TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Approval of the Annual Report and Amendments on the Board’s Policy on Enterprise Risk Management

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 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) approving the annual report for the Policy; and (iii) approving 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.

**Attachments**

- **Exhibit “A”** Resolution
- **Exhibit “B”** Policy (redline)
- **Exhibit “C”** Policy (clean)
RESOLUTION APPROVING 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 of the Board of Trustees has conducted an annual review of the Policy and has recommended that the Policy has been complied with and the changes to the Policy recommended herein are due and proper.

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

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

Dated: September 25, 2019
Board Policy on Enterprise Risk Management

It is the policy of the Board of Trustees for the Long Island Power Authority (“LIPA”) to maintain an Enterprise Risk Management Program to monitor, identify, assess, mitigate, monitor, and report on LIPA’s most significant risks to achieving its mission and delivering value to its customer-owners.

Under the direction of LIPA—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 three LIPA—two other Authority staff appointed by the Chief Executive Officer, two of whom must be drawn from LIPA’s senior management, to oversee the processes and procedures of the Program;
- An evaluation of the most significant risks facing LIPA—the Authority and its Service Provider, and corresponding mitigation activities, reported to senior management of LIPA—the Authority and its Service Provider for review and evaluation on an annual basis, with ongoing monitoring activity between reviews;
- A review of LIPA—the Authority’s insurance and other forms of coverage against insurable risks, including the availability and economics of such coverage, performed each year;
- Business continuity plans for LIPA and its Service Provider that are reviewed each year; and
- 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 Chief Executive Officer or his or her designee will report annually to the F&A Committee of the Board on the Policy, including:

- A review of the significant risks to LIPA’s mission; and
- Compliance with the key provisions of the Policy.
Board Policy on Enterprise Risk Management

It is the policy of the Board of Trustees for the Long Island Power Authority (“LIPA”) to maintain an Enterprise Risk Management Program to monitor, mitigate and report on LIPA’s most significant risks to achieving its mission and delivering value to its customer-owners.

Under the direction of LIPA’s Chief Executive Officer, LIPA and its Service Provider shall maintain an Enterprise Risk Management Program with the following key provisions:

- An Enterprise Risk Management Committee consisting of at least three LIPA staff appointed by the Chief Executive Officer, two of whom must be drawn from LIPA’s senior management, to oversee the processes and procedures of the Program;

- An evaluation of the most significant risks facing LIPA and its Service Provider, and corresponding mitigation activities, reported to senior management of LIPA and its Service Provider for review and evaluation on an annual basis, with ongoing monitoring activity between reviews;

- A review of LIPA’s insurance and other forms of coverage against insurable risks, including the availability and economics of such coverage, performed each year;

- Business continuity plans for LIPA and its Service Provider that are reviewed each year; and

- 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 Chief Executive Officer or his or her designee will report annually to the F&A Committee of the Board on the Policy, including:

- A review of the significant risks to LIPA’s mission; and

- Compliance with the key provisions of the Policy.
AGENDA

ERM Process and Program Timeline

Enterprise Risk Profile

DPS Audit ERM Recommendation & Maturity Assessment

Next Steps – ERM

Insurance Update
A risk is defined as any issue or event that would prevent the achievement of an objective.

The enterprise risk management process includes actions the organization takes to identify, assess, monitor, respond and mitigate, and report on risks:

- **Risk Reporting**
  Communication of risk information that enables management to make risk-informed decisions

- **Risk Monitoring**
  Process for monitoring changes in the probability and/or impact of a risk

- **Risk Identification**
  Process to identify risks affecting the organization

- **Risk Assessment**
  Quantitative and qualitative methods utilized to assess the magnitude of risk exposures

- **Risk Response & Mitigation**
  Process and documentation of identifying and implementing actions to minimize the probability and/or impact of a risk

ERM Team facilitates the process
LIPA ERM PROGRAM PROGRESS

2017
- Completed LIPA Risk Portfolio
- Initiated PSEG Long Island Risk Assessments

2018
- Completed PSEG Long Island Risk Portfolio
- Updated LIPA Risk Portfolio
- Performed deep dive analysis on high-priority enterprise risks

2019
- Increase risk monitoring and measurement of mitigation effectiveness
- Continue integration of ERM into Strategy

2020

Initiated LIPA Department Risk Assessments
Combined enterprise risks can significantly impede both LIPA and PSEG Long Island’s ability to achieve their respective goals.

To qualify as a combined enterprise risk, it must be considered high-priority and meet one or more of the following criteria:

- Collaborative effort between LIPA and PSEG Long Island (e.g., regulation)
- Vested interest between LIPA and PSEG Long Island (e.g., cyber)
- Requires a major capital or O&M investment (e.g., reliability)
<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Description</th>
<th>Mitigation Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reputation</strong></td>
<td>Reputation is impacted by a customer/stakeholder’s perception of financial and/or operating performance and results in negative media coverage.</td>
<td>• Employ clear and timely communication through all channels with customers, stakeholders and public officials on issues to ensure information is disseminated early and accurately &lt;br&gt;• Increase customer awareness, through the facilitation of public presentations, stakeholder meetings, quarterly advisory meetings, board meetings and hearings. Additionally, informational outreach materials are provided</td>
</tr>
<tr>
<td><em>(Board Policy on Customer Service)</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Reliability</strong></td>
<td>Catastrophic event (e.g., major storm) and/or operational issues result in long-duration outages, and negative public perception.</td>
<td>• Prioritize capital and O&amp;M expenditures to maintain the T&amp;D system &lt;br&gt;• Facilitate annual drills, exercises and training, including after action and best practice reviews with annual plan refinement and update &lt;br&gt;• Monitor performance through the use of metrics, which are measured against goals and identify areas for improvement, when necessary</td>
</tr>
<tr>
<td><em>(Board Policy on Reliability)</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cyber &amp; Physical Security</strong></td>
<td>Cyber or physical security breach to a critical operating system results in the inability to operate the system safely and effectively.</td>
<td>• Implement and maintain intrusion detection system and/or data loss protection, utilizing industry best practices &lt;br&gt;• Conduct security vulnerability inspections, physical security inspections, and physical penetration tests at critical sites &lt;br&gt;• All employees and contractors are trained on the importance of protecting PII and data is only shared on an &quot;as needed&quot; basis; additionally, PSEG Long Island is working with a third party to mask all PII</td>
</tr>
<tr>
<td><em>(Proposed Board Policy on Cyber and Physical Security)</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Regulatory Risk</strong></td>
<td>Regulations are modified and result in potential changes to the business model, operational changes, and/or an increased cost of service.</td>
<td>• Translate existing subject matter expertise into synchronized and persuasive policy positions &lt;br&gt;• Identify opportunities to impact policy that align with customer needs</td>
</tr>
<tr>
<td><strong>Rates</strong></td>
<td>Insufficient rates/untimely rate relief leads to inadequate system investments which compromises LIPA’s ability to achieve strategic priorities.</td>
<td>• Balance system requirements with financial obligations and customer impacts &lt;br&gt;• Analyze costs, and identify ways to offset expenses to minimize rate impacts to our customers &lt;br&gt;• Maintain strong relationships with, and actively educate stakeholders</td>
</tr>
<tr>
<td><em>(Board Policies on Affordability and Debt)</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## RISKS ALIGN WITH OTHER UTILITIES

### Edison Electric Institute

<table>
<thead>
<tr>
<th></th>
<th>2019 Rank</th>
<th>2018 Rank</th>
<th>2017 Rank</th>
<th>2016 Rank</th>
<th>2015 Rank</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>Cybersecurity</td>
</tr>
<tr>
<td>2</td>
<td>3</td>
<td>8</td>
<td>2</td>
<td>6</td>
<td>6</td>
<td>Safety – Employee and Public</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>WI</td>
<td>WI</td>
<td>Pressure on Rates and Returns</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>Regulation/Legislation</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>Strategy and Execution (incl. Business Model)</td>
</tr>
<tr>
<td>6</td>
<td>10</td>
<td>9</td>
<td>WI</td>
<td>WI</td>
<td></td>
<td>Customer Expectations</td>
</tr>
<tr>
<td>7</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>2</td>
<td>2</td>
<td>Operational Performance (reliability)</td>
</tr>
<tr>
<td>8</td>
<td>7</td>
<td>10</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>Catastrophic Event Response (including storms)</td>
</tr>
<tr>
<td>9</td>
<td>9</td>
<td>7</td>
<td>8</td>
<td>13</td>
<td>12</td>
<td>Data Privacy / Sensitive Personal Info Release</td>
</tr>
<tr>
<td>10</td>
<td>12</td>
<td>5</td>
<td>13</td>
<td>12</td>
<td></td>
<td>Aging Infrastructure</td>
</tr>
</tbody>
</table>

WI – included as a write-in risk
**DPS Audit Recommendation** – LIPA and PSEG Long Island should continue to develop an effective and comprehensive ERM process.

<table>
<thead>
<tr>
<th>Goal</th>
<th>Status for Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop risk reporting framework for department, organization, and board reporting cadence and depth</td>
<td>Complete</td>
</tr>
<tr>
<td>Review each departments risk profile and obtain VP consensus</td>
<td>Complete</td>
</tr>
<tr>
<td>Develop prioritized portfolio of enterprise and utility risks</td>
<td>Complete</td>
</tr>
<tr>
<td>Establish a framework for emerging risks</td>
<td>Complete</td>
</tr>
<tr>
<td>Update/review ERM Procedures Manual</td>
<td>Complete</td>
</tr>
<tr>
<td>Perform second annual ERM Maturity Assessment</td>
<td>Complete</td>
</tr>
<tr>
<td>Introduce velocity as an additional component in assessing risk</td>
<td>Complete</td>
</tr>
<tr>
<td>Integrate updated and revised risk data into the business planning cycle to help prioritize O&amp;M, capital and resource allocations</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>
YEAR OVER YEAR ERM PROGRAM MATURITY

- ERM chose the Gartner Maturity Model to measure year over year progress and to benchmark our program against best practices
- Improvements were made to the maturity model in 2019 that increased baseline maturity standards to be more rigorous, making a year over year comparison difficult

2018 ERM Overall Maturity

2019 ERM Overall Maturity

Year Over Year Improvements:
- Alignment of Risk with Strategy
- Management of the ERM Process
- Enhancement of Risk Culture
- Comprehensive identification and assessment of risks across the Authority

2020 Program Focus Areas:
- Improve risk monitoring
- Enhance risk reporting
- Continue integration of ERM into business processes
- Foster Risk Awareness

*Average for companies surveyed: 3-

*Average not yet available due to changes from 2018 to 2019 maturity model
Next Steps

- Continue integration of ERM into business practices
- Perform deep dive analysis on significant enterprise risks
- Increase risk monitoring and mitigation effectiveness
- Continue industry benchmarking for the ERM Program
Mitigating Financial Risk Exposure

LIPA Insurance Program
Overview of LIPA’s Insurance Program

- Support the overall mission and key objectives of supplying clean, reliable, and affordable energy

- Mitigate a portion of LIPA’s financial risk on behalf of its customer-owners and bondholders

- Comply with LIPA’s Board Policy on Enterprise Risk Management

“Maintain prudent and appropriate levels of insurance or other coverages against insurable risks, if available and reasonably economic.”

- ERM Board Policy
PSEG Corporate insurance department manages the placement of the following policies on behalf of LIPA:

- Excess General Liability
- Property
- U.S. Property Terrorism
- Cyber Insurance
- Railroad Protective
- Nuclear Electric (replacement power)

* LIPA has received FEMA grants for storm restoration in the past
Insurance procured via LIPA's insurance broker Arthur J. Gallagher (AJG)

- LIPA and UDSA Directors & Officers Liability Insurance
- Employment Practices Liability Insurance

Insurance placed through NYS Office of General Services - BRIM

- Office 3rd Party Liability Insurance
- Office Property Liability Insurance

Insurance via APPA endorsed broker Marsh - Wortham

- LIPA Office Cyber Insurance
KEY TAKEAWAYS

01 LIPA & PSEG Long Island ERM program making significant progress year over year

02 Established first enterprise risk portfolio in company history

03 ERM process identified top LIPA and PSEG Long Island risks and appropriate mitigation strategies

04 Continue to mitigate financial risks through the purchase of insurance
Questions?
Objective: Mitigate a portion of Power Supply Charge (PSC) volatility

✓ Hedging activity has resulted in PSC volatility through July 2020 at 5.32%, while wholesale spot market is more than 3x that at 17.28%
Governance of the Power Supply Hedging Program

Power Supply Risk Management Committee (PRMC)

Must have at least 3 members, 2 from Senior Staff

- 9 LIPA Staff sit on the PRMC, chaired by CFO and is comprised of 5 Senior Staff
- PRMC meets monthly with PSEG ER&T to discuss:
  - Hedge position; market changes; counter party credit health, compliance to LIPA Hedge Plan, and quarterly benchmarking
  - Maintain Procedures Manual and LIPA Hedge Plan

Transparency of the Power Supply Hedging Program

- PSEG ER&T provides PRMC daily, weekly and monthly hedging activity reports
Maximum net hedge level 90% of projected fuel and power needs

- Current yearly and individual monthly hedge levels are below 90%

<table>
<thead>
<tr>
<th></th>
<th>Bal. Cal '20</th>
<th>Cal '21</th>
<th>Cal '22</th>
<th>Cal '23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedge Level</td>
<td>77%</td>
<td>73%</td>
<td>61%</td>
<td>49%</td>
</tr>
</tbody>
</table>

Maximum hedge term 72 months

- PRMC approved hedge term horizon in LIPA Hedge Plan currently extends out 40 months to December 2023; in January 2021 hedges will extend out 47 months

All hedges are for the purpose of appropriate risk mitigation

- Transactions are based on time or value triggers not market speculation

Counterparty Credit Review

- PSEG Credit Management reports credit exposure weekly and monthly and performs a LIPA counterparty credit health review
Questions?
**For All Board Voting Items:**

**Title of Agenda Item:** Approval of the Annual Report on the Board Policy on the Power Supply Hedging Program

**Consent Agenda:** ☒ Yes ☐ No  
**Accompanying Presentation:** ☒ Yes ☐ No

**Recommendation from Committee:** ☐ N/A ☒ F&A; ☐ GP&P; ☐ Oversight & Clean Energy

**LIPA Presenter:** Corey Horowitz  
**PSEG Long Island Presenter:** N/A

**Enterprise Risk Management Discussion:** ☐ Yes ☒ No

**For Policy Reports Only:**

**Type of Policy / Report:** ☒ Operating; ☐ Governance; ☐ Compliance; ☐ Mission

**Date of Last Report:** September 25, 2019  
**Compliance Since Last Report:** ☒ Yes ☐ No

**Proposed Changes to Policy:** ☐ Yes ☒ No

<table>
<thead>
<tr>
<th><strong>Requested Action:</strong></th>
<th>The Board is requested to adopt a resolution: (i) approving the annual report on the Policy; and (ii) finding that LIPA has complied with the Policy.</th>
</tr>
</thead>
</table>
| **Summary:**  
**(include proposed amendments to Board Policies, if applicable)** | By Resolution No.1352, dated March 29, 2017, the Board adopted the Policy to maintain an effective commodity hedging program (“Program”), focused on meeting the expectations of LIPA’s customers for reasonable stability and predictability in power supply costs. The Policy was last reviewed and amended by Resolution No. 1493, dated September 25, 2019.  

The F&A Committee, in its Charter, was delegated the responsibility of reviewing LIPA’s practices relating to commodity risk management. The F&A Committee considers as part of its review whether LIPA and its Service Provider PSEG ER&T has remained in compliance with the Policy. Certain responsibilities, as set forth in the Policy, were delegated by the Board to the Chief Executive Officer including maintaining a Power Supply Risk Management Committee to oversee the activities of PSEG ER&T.  

Staff recommends that, for the reasons set for in the accompanying memorandum, the Board find that LIPA has complied with the objectives of the Policy for the period since the last annual review. |
FOR CONSIDERATION
September 23, 2020

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Approval of the Annual Report on the Board’s Policy on the Power Supply Hedging Program

Requested Action

The Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to adopt a resolution: (i) approving the annual report on the Board Policy on the Power Supply Hedging Program (the “Policy”) for the period since the last annual review; and (ii) finding that LIPA has complied with the Policy, which resolution is attached hereto as Exhibit “A”.

Background

By Resolution No.1352, dated March 29, 2017, the Board adopted the Policy to maintain an effective commodity hedging program (“Program”), focused on meeting the expectations of LIPA’s customers for reasonable stability and predictability in power supply costs. The Policy was last reviewed and amended by Resolution No. 1493, dated September 25, 2019.

The Finance & Audit Committee (“F&A Committee”) of LIPA’s Board, in its Charter, was delegated the responsibility of reviewing LIPA’s practices relating to commodity risk management. The F&A Committee considers as part of its review whether LIPA and its Service Provider PSEG Energy Resources and Trade (“PSEG ER&T”) has remained in compliance with the Policy. Certain responsibilities, as set forth in the Policy, were delegated by the Board to the Chief Executive Officer including maintaining a Power Supply Risk Management Committee (“PRMC”) to oversee the activities of PSEG ER&T.

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 LIPA 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 LIPA’s customer-owners.”
• The PRMC approves the Program which identifies certain power supply cost components that can be fixed to create reasonable and stable rates. In general, hedging these cost components has proven to reduce the volatility of LIPA’s Power Supply Charge (“PSC”) for customers. As part of its biannual Program update, on June 24, 2020 PSEG ER&T presented to the F&A Committee a graph indicating the actual PSC volatility as compared to the volatility customers would be exposed to based upon unhedged market prices. The following graph reflects current data indicating the PSC volatility through July 2020 is 5.32% while market is more than three times that amount at 17.28%.

![Coefficient of Variation (12 Month Rolling) of LIPA Power Supply Charge vs. Market Prices](image)

The Policy shall be “executed using financial derivative and physical supply and delivery contracts for a portion of LIPA’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 executes both financial and physical hedge transactions on LIPA’s behalf for defined volumes that as of January 1, 2021 would be within a 59-month hedge horizon. All transactions are monitored by PSEG Enterprise Risk Management Back-Office operations (“PSEG Back-Office”) for compliance; PSEG Back-Office generates and distributes hedge ratio position reports daily, weekly, and monthly to LIPA’s PRMC 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 over time. Value-triggered transactions allow for the accumulation of additional hedge levels based on lower decile
pricing levels versus four-year historical pricing. In addition, volumes associated with Purchase Power Agreements (“PPAs”) having fixed prices and LIPA’s 18% ownership of Nine Mile Point 2 are included as part of the hedged volume. Currently, the PRMC 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 PRMC approved projected fuel and power requirements associated with LIPA’s annual sales forecast. Specific power supply component volumes are also validated against historical consumption data. Each hedge transaction is reviewed by PSEG Enterprise Risk Management’s Middle-Office group (“PSEG Middle-Office”) for compliance to PRMC approved Program and procedures.

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

- PSEG ER&T, PSEG Back-Office and PSEG Middle-Office provide to the PRMC 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 PRMC and to LIPA’s F&A Committee, their distribution and reporting frequency, and the originator of the reports.

<table>
<thead>
<tr>
<th>Report</th>
<th>Distribution</th>
<th>Normal Frequency</th>
<th>Originator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Activity Summary</td>
<td>PRMC Traders</td>
<td>Daily, Weekly</td>
<td>Front Office, Middle Office</td>
</tr>
<tr>
<td>Position Report</td>
<td>PRMC Traders</td>
<td>Weekly</td>
<td>Middle Office</td>
</tr>
<tr>
<td>Credit Risk Exposure Reports</td>
<td>PRMC Traders</td>
<td>Weekly</td>
<td>Middle Office</td>
</tr>
<tr>
<td>PRMC Meeting Minutes</td>
<td>PRMC</td>
<td>As Meetings are Held</td>
<td>PRMC Designated Secretary</td>
</tr>
<tr>
<td>Benchmarking</td>
<td>PRMC</td>
<td>Quarterly</td>
<td>Independent third-party hedge advisor</td>
</tr>
<tr>
<td>Power Supply Hedging Program</td>
<td>Board Finance &amp; Audit Committee</td>
<td>Bi-annually</td>
<td>PSEG ER&amp;T</td>
</tr>
<tr>
<td>Annual Compliance Report</td>
<td>Board Finance &amp; Audit Committee</td>
<td>Annually</td>
<td>CEO or Designee</td>
</tr>
</tbody>
</table>
The Policy requires that “LIPA’s Chief Executive Officer shall appoint a [PRMC] consisting of at least three LIPA staff, two of which must be drawn from LIPA senior management. The PRMC will establish, maintain, and monitor processes and controls, the conduct of LIPA’s Power Supply Hedging Program, and the activities of its Service Provider, PSEG ER&T. The key provisions of the PRMC’s activities shall include”:

“Oversight and ensuring that all Program activities conducted by LIPA and PSEG ER&T are in accordance with the Board Policy”.

- All active participants of the Program are required to read and comply with the PRMC 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 LIPA’s tolerance for exposure to fuel and purchased power price movements and power supply cost volatility considering the costs of limiting such exposure.”

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

- The cost of the 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 Manual specifically identifies authorized markets and delivery points, permissible hedge instruments and the terms and volumes available for hedging to reduce PSC volatility. It also addresses the PSC hedge components that are quantifiable, actionable, where sufficient market liquidity is 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 Program.”

- The Manual specifically identifies authorized markets, delivery points, permissible hedge instruments, terms and volumes associated with hedging to reduce PSC volatility. The Manual also 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 LIPA for managing and monitoring counterparty credit risk on an on-going basis. PSEG Credit Risk Management provides the PRMC 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 LIPA 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 LIPA’s internal and outside counsel monitor Commodity Futures Trading Commission regulatory rulemaking to determine what actions, if any, LIPA is required to undertake to assure continued compliance.

Annual Review of the Policy

The Policy was last amended by the Board pursuant to Resolution No. 1493, dated September 25, 2019, at which time the Policy was significantly updated. Staff has completed its annual review of the Policy and has no suggested amendments at this time.

Recommendation

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

Attachments

Exhibit “A” Resolution
RESOLUTION APPROVING THE ANNUAL REPORT 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. 1493, dated September
25, 2019; and

WHEREAS, the Finance and Audit Committee of the Board of Trustees has conducted an annual
review of the Policy and has recommended that the Policy has been complied with.

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

Dated: September 23, 2020
Agenda

• Northeast Natural Gas Supply Limits Supply Risk During A Hurricane

• LIPA Has A Defined Hedge Plan To Lock In Commodity Prices

• Power Supply Charge Volatility Continues To Be Below Wholesale Market Volatility
Northeast Natural Gas Supply Limits Supply Risk During A Hurricane

Appalachian shale gas represents about 1/3 of US natural gas production

Interstate natural gas pipelines serving the Northeast

Marcellus / Utica Shale
LIPA Has A Defined Hedge Plan To Lock In Commodity Prices, Ensuring Minimum Targets Are Met While Looking For Value Opportunities

Declining forward natural gas prices has allowed us to capture additional value opportunities.
Power Supply Charge Volatility Continues To Be Below Wholesale Market Volatility

Our hedging activity has led to a continuing decline in customer’s price volatility with current volatility levels substantially below wholesale spot market results.

PSC pre 1/1/2017 adjusted up by 2.5 cents/kwh associated with transfer of capacity costs
Board Policy on Taxes and PILOTs

May 20, 2020
In 2020, taxes, pilots and fees total 18% of customer bills, which includes $184 million in property tax payments for four legacy power plants.
BOARD POLICY ON TAXES AND PILOTS

• Pay only such taxes, payments in-lieu-of taxes (PILOTs), assessments, and fees as are required by law or by agreement to reduce excessive cost for customers;

• LIPA to 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 LIPA’s customer-owners in other jurisdictions; and

• Inform customers of the burden of taxes, PILOTs, assessments, and fees in their electric bills.
LONG ISLAND PEAK LOAD CONTINUES TO DECLINE

Graph showing the annual updates of Long Island Power Authority (LIPA) board policy on taxes from 2010 to 2038, with different forecasts for the years 2013, 2015, 2014, 2016, 2017, 2018, 2019, and 2020.
MEETING NEW YORK'S CLIMATE GOALS

- 6,000 MEGAWATTS Distributed Solar
- 70 PERCENT Renewable Energy
- 3,000 MEGAWATTS Energy Storage
- 9,000 MEGAWATTS Offshore Wind
- 100 PERCENT Carbon-Free Electric

2025 2030 2030 2035 2040
ENERGY PRODUCTION VS. TAXES

Since 1999, production on the Northport Power Station is down 72%, but taxes are up 49%
### Comparing New York State Power Plants

Comparing the Caithness plant, which ran at 77 percent of capacity in 2019 producing 2,186,100 megawatt-hours (MWh) of energy with an annual tax bill of $30 million, to the Northport plant, which is approximately four times larger but only ran at 15 percent of capacity in 2019, with 2,059,500 MWh of energy production, has a tax bill that is over eight times higher.

<table>
<thead>
<tr>
<th>Power Plant</th>
<th>Year Built</th>
<th>Homes Powered</th>
<th>Assessed at</th>
<th>2019 Run Time</th>
<th>2019 Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bowline</td>
<td>1972</td>
<td>31,867</td>
<td>$134 million</td>
<td>3%</td>
<td>$3 million</td>
</tr>
<tr>
<td>Indian Point</td>
<td>1973</td>
<td>1,864,944</td>
<td>$145 million</td>
<td>93%</td>
<td>$32 million</td>
</tr>
<tr>
<td>Glenwood Landing</td>
<td>1967</td>
<td>45</td>
<td>$500 million</td>
<td>0.1%</td>
<td>$24 million</td>
</tr>
<tr>
<td>E.F. Barrett</td>
<td>1956</td>
<td>148,578</td>
<td>$3.4 billion</td>
<td>25%</td>
<td>$43 million</td>
</tr>
<tr>
<td>Northport</td>
<td>1967</td>
<td>226,478</td>
<td>$1.3 billion</td>
<td>15%</td>
<td>$84 million</td>
</tr>
<tr>
<td>Port Jefferson</td>
<td>1958</td>
<td>30,433</td>
<td>Under fixed PILOT agreement</td>
<td>8%</td>
<td>$32 million</td>
</tr>
<tr>
<td>Caithness</td>
<td>2009</td>
<td>242,900</td>
<td>Under fixed PILOT agreement</td>
<td>77%</td>
<td>$10 million</td>
</tr>
</tbody>
</table>

Northport’s tax bill is **eight times** higher compared to Caithness’.
**REACHING A FAIR COMPROMISE**

**Milestone Agreement Reached on Port Jefferson Power Plant Taxes**

- 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.
- Tax payments remain in excess of that required by law, supporting host community.
Pending Settlement Agreement with Nassau County

- In November 2019, LIPA and Nassau County reached a tentative settlement on the E.F. Barrett and Glenwood Landing power plants
- Reduce total payments through a gradual PILOT phase-in of 50 percent through 2027
- Waive over $625 million in potential tax refunds for all Nassau County residents
- Contingent on approval of the PILOT payment by the Nassau County Legislature
In addition to taxes on power plants, LIPA also makes PILOT payments on its transmission and distribution (T&D) facilities:

- ~180 substations
- ~19,000 transmission poles and towers
- ~310,000 distribution poles
FOR CONSIDERATION
May 20, 2020

TO: The Board of Trustees
FROM: Thomas Falcone
SUBJECT: Approval of the Annual Report on the Board Policy on Taxes and PILOTs

Requested Action

The Board of Trustees (the “Board”) of the Long Island Power Authority is requested to adopt a resolution: (i) finding that the Long Island Power Authority and its subsidiary, the Long Island Lighting Company d/b/a LIPA (collectively “LIPA”) have complied with the Board Policy on Taxes and PILOTs (the “Policy”); and (ii) approving the annual report for the Policy.

Background

By Resolution No. 1320, dated September 21, 2016, the Board adopted the Policy. The Policy was last reviewed and amended by the Board by Resolution No. 1464, dated January 23, 2019. Additionally, 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 LIPA has complied with the Policy for the period since the last review.

The Policy provides that LIPA should “Pay only such taxes, PILOTs, assessments, and fees as are required by law or by agreement.”

- 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, LIPA has availed itself of the lawful right to challenge excessive payment obligations on four legacy power plants for each year beginning in 2010.

- As previously reported to the Board, LIPA entered into a settlement agreements with the Town of Brookhaven and the Village of Port Jefferson in 2018 to gradually reduce the taxes on the Port Jefferson power plant, which were approximately $33 million per year, by 50 percent through 2027. If the taxing jurisdictions fulfill the terms of the settlement, LIPA will waive a refund for back tax years estimated at over $225 million, plus interest.

- In November 2019, LIPA entered into a tentative settlement with the County of Nassau

1 The term “PILOT” is the abbreviation for Payment In Lieu of Taxes.
for the E.F. Barrett and Glenwood Landing power stations. The settlement is contingent on approval of a PILOT agreement by the Nassau County Legislature. If implemented, the settlement will reduce LIPA’s annual payments to 50% of current levels by 2027.

- LIPA and PSEG Long Island have implemented procedures to ensure that PILOTs on each annual bill related to transmission and distribution equipment owned by LIPA do not exceed 102% of the prior calendar year’s payment, consistent with the provisions of the LIPA Reform Act. LIPA has also taken action to defend itself in litigation challenging the 2% tax cap in certain jurisdictions on Long Island.

- As previously reported to the Board, LIPA undertook a review of selected substations across the service territory. The review found several substations that were assessed in excess of their value. Accordingly, LIPA filed challenges on several over-assessed substations, and will continue to monitor assessed valuations of substations.

The Policy provides that LIPA should “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.

- LIPA has sought to achieve this objective by the actions stated above.

The Policy provides that LIPA should “Inform customers of the burden of taxes, PILOTs, assessments, and fees in their electric bills”.

- LIPA issued a Property Tax Report during 2019, 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 LIPA’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 2020 Tax Report. The report provides additional detail on the tax burden in Long Island electric bills and LIPA’s tax reduction efforts.

**Annual Review of the Policy**

Staff proposes no amendments to the Policy at this time.

**Recommendation**

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

**Attachments**

- Exhibit “A” Resolution
- Exhibit “B” 2020 Tax Report
RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE BOARD POLICY ON TAXES AND PILOTs

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

WHEREAS, the Policy was last reviewed and amended by the Board pursuant to Resolution No. 1464, dated January 23, 2019; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with and the changes to the Policy recommended herein are due and proper.

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

Dated: May 20, 2020

Exhibit “A”
2020 PROPERTY TAX REPORT

Focused on the Future: Securing Fair Property Taxes for a Cleaner Energy Grid
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9  Taxes and Payments-In-Lieu-Of-Taxes
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   Glenwood Landing History
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21 Taxes on Transmission and Distribution Property
23 Conclusion

Mission Statement

LIPA is a not-for-profit public utility with a mission to enable clean, reliable, and affordable electric service for our 1.1 million customers on Long Island and the Rockaways.
Securing Fair Property Taxes for a Cleaner Energy Grid

Message from the CEO

LIPA’s mission is to deliver clean, reliable, and affordable electricity to our 1.1 million customers. In the wake of the COVID-19 pandemic, keeping electric bills affordable, while continuing to invest in the clean, reliable electric grid Long Island needs for its future remains as important as ever. This annual report is about treating our customers fairly by explaining in an open and transparent manner one of our largest costs: property taxes.

High Taxes On Vintage Power Plants
High property taxes are a significant contributor to energy costs on Long Island. Property taxes fund valuable public services, such as strong schools, public safety, and transportation. But the property taxes on our legacy power plants are disproportionately high and benefit very few of the electric customers of Long Island. They are the result of tax assessors significantly overvaluing a handful of electric sites to favor their local communities, raising the cost of power for all electric customers across Long Island. And that overvaluation is extreme — as high as 15-20 times what the properties are worth.

When it comes to improving affordability and fairness for our customers, LIPA has focused on the four highest taxed properties, which are the vintage fossil-fuel power plants located in Northport, Port Jefferson, Island Park, and Glenwood Landing. These plants are at an advanced age, and have dated technology, high operating costs, and dramatically declining usage. Combined, these plants provide just 21 percent of Long Island’s electric needs. The Northport Power Station, for example, is overvalued nearly 17 times by the tax assessor, making it the single highest taxed property in the United States. Its $86 million annual tax bill is higher than the Empire State Building and Disneyland combined. And while Northport’s tax bill is up 49 percent over the last 20 years, its energy production has fallen by nearly 72 percent.

Across these four legacy plants, our 1.1 million customers pay over $184 million in property taxes every year. That’s almost $2 billion over the next decade, of which approximately two-thirds will go to subsidizing just four of Long Island’s 124 school districts, benefiting less than two percent of our customers. LIPA’s responsibility to our customers requires us to seek tax bills that are equitable for the benefit of all Long Island homes and businesses.

1 Legacy power plants are the four steam plants formerly owned by the Long Island Lighting Company (LILCO) and acquired by KeySpan in 1998.
Transition to a Cleaner Electric Grid

New York State’s Climate Leadership and Community Protection Act (CLCPA), which was enacted in July 2019, mandates that 70 percent of the State’s electricity comes from renewable energy by 2030 and that the electric grid is entirely carbon-free by 2040. That means that all of the vintage fossil-fuel power plants will be fully retired no later than 2040, and most will be retired in phases long before that. This is consistent with the retirements of the Glenwood Landing and Far Rockaway steam power plants in 2012 and the retirement of peaking plants in West Babylon and Glenwood Landing announced earlier this year.

In the face of lower-cost alternatives, the disproportionately high taxes on vintage plants like Northport are not sustainable. Property taxes make up the majority of the costs of the plant. Without relief, the excessive tax burdens will cause the plants to be retired on an accelerated schedule, with the consequent and unfortunate loss of tax revenues to the local communities. LIPA estimates, for example, that the retirement today of even one of the four units at the Northport plant would save electric customers over $300 million without impacting the reliability of the electric grid. And the high taxes at these four sites make redeveloping with new, cleaner energy infrastructure cost-prohibitive.

The Solution

It has been over a decade since LIPA filed its first challenge to these excessive tax bills, and time is running out. LIPA has offered a solution — the gradual transition toward a more sustainable future for each of the communities that hosts these four plants. This transition ensures that there will be hundreds of millions in tax subsidies for years to come, even if the plants close, averting the immediate, drastic increase in residents’ tax rates that will result from a valuation of the plants reached by a court.

In December 2018, LIPA reached a settlement with the Town of Brookhaven and the Village of Port Jefferson for the Port Jefferson Power Station for such a gradual transition.

In November 2019, LIPA and Nassau County announced a tentative settlement for the E.F. Barrett Power Station and Glenwood Landing Generating Station, subject to the approval of a payment-in-lieu-of-tax (PILOT) agreement by the Nassau County Legislature. And in March 2020, after a decade of discussions, offers, and court proceedings, LIPA made its best offer to the Town of Huntington and settlement talks concluded on the Northport Power Station.

The Nassau County Legislature and Huntington Town Board have not accepted our offers. It is their right to decide that an independent third party, a court, should determine the fair level of taxes that Long Islanders should pay for these power plants. An adverse court outcome will be much less favorable than our settlement offers, which will no longer be available. However, in these unprecedented times, as communities across Long Island are facing hardships, we believe our settlement offers provide financial certainty for both the host communities and our 1.1 million customers.

Thomas Falcone
Chief Executive Officer
May 2020

2 A LIPA study to conclude later this year will determine the retirement of 400 to 600 megawatts of steam plants by 2022.
LIPA Tax Certiorari Timeline

This timeline is a guide for our customers and stakeholders to understand the key developments in the decades-long issue of the over-taxed Northport Power Station.

1967
The first unit of the Northport Power Station goes into commercial operation. Unit 4 was completed in 1977.

1967
The first unit of the Northport Power Station goes into commercial operation. Unit 4 was completed in 1977.

1977
Prior to LIPA acquiring the Long Island Lighting Company (LILCO), the Northport East-Northport School District’s counsel advises its Superintendent there was nothing in the acquisition documents to prevent LIPA from filing tax certiorari proceedings after the deal closed.

1997
May 1997: In response to requests for additional legal protections, former LIPA Chairman pens a letter stating LIPA will “immediately drop all tax certiorari cases against all municipalities and school districts” if LIPA buys LILCO.

May 1997: In response to requests for additional legal protections, former LIPA Chairman pens a letter stating LIPA will “immediately drop all tax certiorari cases against all municipalities and school districts” if LIPA buys LILCO.

1998
LIPA acquires LILCO’s electric transmission and distribution (T&D) system. Savings from public ownership cuts electric rates by 20 percent.
LIPA enters into a Power Supply Agreement (PSA) with KeySpan to secure availability of power from the former LILCO power plants.
Operating costs, including property taxes, remain in electric bills.

1998
LIPA acquires LILCO’s electric transmission and distribution (T&D) system. Savings from public ownership cuts electric rates by 20 percent.
LIPA enters into a Power Supply Agreement (PSA) with KeySpan to secure availability of power from the former LILCO power plants.
Operating costs, including property taxes, remain in electric bills.

1999
Northport Power Station operates at 54 percent of its capacity with a $58 million property tax bill.

1999
Northport Power Station operates at 54 percent of its capacity with a $58 million property tax bill.

2007
KeySpan announces a merger with National Grid.
Huntington Town Attorney advises School District that National Grid could initiate future tax certiorari actions with LIPA’s approval.

2007
KeySpan announces a merger with National Grid.
Huntington Town Attorney advises School District that National Grid could initiate future tax certiorari actions with LIPA’s approval.
2013
LIPA makes a settlement offer for the Northport Power Station to waive all refunds owed in exchange for annual reductions in taxes from the then $74 million to $30 million by 2025. That offer was not accepted and the Town made no counter offer.

2018
Northport Power Station operates at **20 percent of capacity** with an **$82 million property tax bill**.

**August:** The New York State Supreme Court rules that the PSA with National Grid places no limits on LIPA’s right to file property tax challenges, and that the former Chairman’s “promises” from 1997 “do not contractually bind LIPA.”

**December:** LIPA reaches a settlement agreement with the Town of Brookhaven and the Village of Port Jefferson for the Port Jefferson Power Station.

2019
Northport Power Station operates at **15 percent of capacity** with an **$84 million property tax bill**.

2020
Northport Power Station has an **$86 million property tax bill**.
PSEG Long Island releases a study forecasting that the Northport Power Station will operate at only 3 percent of capacity by 2035.

2010
LIPA and National Grid begin filing yearly suits challenging the assessment of the Northport Power Station and the three other legacy plants.

**Northport’s annual property taxes, paid by LIPA, total over $70 million.**

2017
PSEG Long Island releases a long-term energy study stating that renewables and other forecasted changes to the electric grid will reduce reliance on the Northport Power Station to only 11 percent of capacity by 2030.

**July:** Closing arguments are made in the Northport Power Station tax challenge case.

Governor Cuomo signs the New York State Climate Leadership and Community Protection Act, the most ambitious and comprehensive climate and clean energy legislation in the country, into law.

**November:** LIPA reaches a tentative settlement agreement with Nassau County, pending approval of a PILOT agreement by the Nassau County Legislature, for the E.F. Barrett Power Station and Glenwood Landing Generating Station.
New York State Climate Leadership and Community Protection Act

In 2019, Governor Andrew M. Cuomo signed the New York State Climate Leadership and Community Protection Act (CLCPA) into law, adopting the most ambitious and comprehensive climate and clean energy legislation in the country. Highlights of the law include:

**85 Percent Reduction In Greenhouse Gas Emissions by 2050**, with an interim mandate of 40 percent reduction in emissions by 2030.

**70 Percent Renewable Energy by 2030 and Zero-Carbon Emission Electric Sector by 2040.** The CLCPA codifies Governor Cuomo’s nation-leading goals as called for under his Green New Deal. By 2030, 70 percent of New York’s electricity will come from renewable energy sources such as wind and solar, and the State’s power system will be 100 percent carbon-free by 2040.

**Nation-Leading Clean Energy Investments.** The CLCPA also codifies Governor Cuomo’s nation-leading commitments to install 9,000 megawatts (MW) of offshore wind by 2035; 6,000 MW of distributed solar by 2025; and 3,000 MW of energy storage by 2030, as shown in Figure 1.
Peak Load Forecast

Electric demand continues to decline as consumers use more energy efficient appliances and self-generate electricity from rooftop solar. The forecasted need for power at peak load in 2030 on Long Island has declined by approximately 2,500 MW since 2013, which is the equivalent of 5-8 large baseload central station power plants, as shown in Figure 2.

This, combined with the addition of renewable energy sources to the electric grid such as utility-scale solar and offshore wind, is transitioning utilities away from legacy power plants.

FIGURE 2
Long Island’s Peak Load Forecast Continues to Decline
Taxes and Payments-In-Lieu-Of-Taxes

Property taxes\(^3\) are a major component of your electric utility bill and a driver of rate increases. Taxes are LIPA’s second largest expense at over $687 million or approximately 18 percent of customers’ bills.

In New York State, there’s 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.\(^4\) And the property tax burden embedded into Long Island electric rates is among the highest in the nation — roughly three times the national average.\(^5\)

A common misperception is that the taxes LIPA pays result in lower property taxes for all of Long Island’s residents and businesses.

When some local tax assessors inflate the value of utility property, the burden of taxes is shifted from local residents to utility customers in other parts of Long Island. Not every tax assessor does this, but some do. There are 13 property tax assessors\(^6\) in LIPA’s service territory, with some assessors valuing utility property at excessively high valuations.

In particular, there are four aging power plants, Northport, Port Jefferson, E.F. Barrett, and Glenwood Landing, under contract to LIPA that are appraised by the local tax assessors at 15 or more times their fair value. Local tax collectors within communities hosting the four legacy power plants ask LIPA to pay about $184 million each year.

This is a significant redistribution of the tax burden from those four communities to the rest of Long Island — benefiting less than two percent of LIPA’s customers in communities that host the power plants.

LIPA has been, and will continue to be, transparent about this excessive taxation. In trying to obtain a fair tax bill for everyone, LIPA will pay its fair share but not unjustifiably inflated bills.

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\(^3\) The term "taxes" in this report refers to property taxes, payments-in-lieu-of-taxes (PILOTs), and other assessments and fees.

\(^4\) LIPA pays gross receipts and property taxes on utility property. 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 Replacement Cost New Less Depreciation (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.


\(^6\) 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’s Annual Tax Payments

In 2020, LIPA is expected to pay over $687 million in taxes, approximately 18 percent of customer bills, as shown in Figure 3.

As shown in Figure 4, LIPA’s payments include:

- $232 million of local property taxes on power plants owned or under contract to LIPA — 28 power plants total $48 million, while four power plants total $184 million
- $298 million of local PILOTs on transmission and distribution (T&D) property
- $46 million of state and gross revenue taxes and assessments
- $113 million of sales tax

LIPA Board Policy on Taxes

LIPA’s Board of Trustees adopted a Policy on Taxes and PILOTs in 2016 to pay only the reasonable and economically justified level of taxes required by law.

The Policy states that LIPA should:

- Pay only such taxes, payments in-lieu-of taxes, 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 LIPA’s customer-owners in other jurisdictions
- Inform customers of the burden of taxes, PILOTs, assessments, and fees in their electric bills

As a publicly owned authority, 100 percent of any tax reductions are directly returned to customers.
Securing Fair Property Taxes for a Cleaner Energy Grid

To meet the energy needs of Long Island, LIPA maintains 5,762 MW of generation under contract. The property taxes on the 32 power plants across Long Island are $232 million. Four of these fossil-fueled baseload power plants were constructed between 1956 and 1977.

The four legacy 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 and Combustion Turbines Units 1-6 and 8-12
- Glenwood Landing Combustion Turbine, Units 1, 2 and 3

While well-maintained and reliable, these four legacy power plants are fossil-fueled, outdated, and costly. They supply just 21 percent of Long Island’s electricity needs, but account for $184 million or 80 percent of all power plant taxes that LIPA customers pay in their electric bills.

The output of the legacy power plants is sold into the competitive wholesale market operated by the New York Independent System Operator (NYISO). The excessive tax burden on the four legacy plants results in costs that are not competitive with power prices in the electric market. Figure 5 shows the taxes, run time, and capacity factors on the four legacy plants compared to other plants across the State.

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6 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.

7 Glenwood Landing is the site of a former 224 MW steam plant that was decommissioned in 2013. Most of the tax burden for this former steam plant has now been assigned to the remaining combustion turbines.
FIGURE 5
Comparing New York State Power Plants

Compare the Caithness plant, which produced 2,186,100 megawatt-hours (MWh) of energy in 2019 with an annual tax bill of $10 million, to the Northport plant, which is approximately four times larger, but only produced 2,029,300 MWh of energy and has a tax bill that is over eight times higher.
Securing Fair Property Taxes for a Cleaner Energy Grid

The Glenwood Landing Generating Station was decommissioned in 2013, leaving only three 1960’s vintage gas turbines totaling 119 MW, for which LIPA paid approximately $24 million in taxes in 2019.

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 only 19 percent.

In effect, the tax rate per megawatt of the remaining generating facilities more than doubled, from approximately $64,000 per megawatt to $134,000 per megawatt, for gas turbines with little functional remaining life.

In March 2020, LIPA announced the retirement of one of the three remaining gas turbines in 2021. LIPA is also studying the retirement of the other two remaining gas turbines due to their excessive tax bills.

Power plants, like cars, are worth less over time as newer, more fuel-efficient models come to market and major components wear out. The costs to run the plants increase, runtime decreases, and eventually older power plants are retired and worth nothing at all. This trend is evident among all four of the legacy power plants.

Since the late 1990s, energy production at the Northport Power Station has fallen nearly 72 percent, as the power plant’s 53-year-old technology requires more fuel, more staff, and more maintenance to operate than modern power plants. However, even though the output of the power plant is anticipated to further decline over the next decade, as shown in Figure 6, the taxes have increased by 49 percent and will continue to rise.

FIGURE 6
Northport Power Station Energy Production and Taxes

Northport Power Station

Glenwood Landing History

The Glenwood Landing Generating Station was decommissioned in 2013, leaving only three 1960’s vintage gas turbines totaling 119 MW, for which LIPA paid approximately $24 million in taxes in 2019.

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 only 19 percent.

In effect, the tax rate per megawatt of the remaining generating facilities more than doubled, from approximately $64,000 per megawatt to $134,000 per megawatt, for gas turbines with little functional remaining life.

In March 2020, LIPA announced the retirement of one of the three remaining gas turbines in 2021. LIPA is also studying the retirement of the other two remaining gas turbines due to their excessive tax bills.

FIGURE 6
Northport Power Station

Glenwood Landing History

Glenwood Landing Plant Before Decommissioning

Glenwood Landing Generating Station Today
Northport Power Station Assessment

Utility property is assessed differently for tax purposes than most real estate because it is unique. Power plants are valued using a formula reflected below in Figure 7, which calculates the cost to build a brand new state-of-the-art plant and then adjusts for depreciation and other factors.

The Town of Huntington estimated the cost to build an entirely new Northport Power Station to replace the out-of-date Northport Power Station at $2.53 billion. But the town has valued the plant at $3.4 billion for tax purposes, which means the town assessor values the 53-year-old plant at $870 million more than their own estimate for a brand new plant.

The trial conducted in 2019 at the Suffolk County Supreme Court will value the plant as of July 1, 2013.

Starting with the assumption that the Northport Power Station would last 60 years; the Town of Huntington’s estimate to build a brand-new plant of $2.53 billion; subtracting $2.04 billion for depreciation and excess operating costs; and then adding back $48 million for the value of the land; we’re left with an estimated total of $506 million, as shown below.

That’s how much the power plant would be worth for tax purposes when using the Town of Huntington’s number as a starting point. LIPA has its own estimate, which calculates the value closer to $220 million. Either way, the application of the formula shows how overvalued the Northport Power Station is by the Town of Huntington’s assessor.

*The Town of Huntington and LIPA agreed RCNLD is the appropriate formula to value the Northport Power Station.
The Northport plant consists of four separate steam units, each of which can function independently from the other three. The four units, which are fossil-fueled, run less and less each year as they are 30 percent less fuel-efficient than modern power plants. At the end of LIPA’s contract with National Grid to buy power from the plant in April 2028, the units will range in age from 51 to 61 years old. By comparison, 95 percent of steam units nationally have ceased operations by the age of 62, as shown in Figure 8. Those steam plants have significantly lower fixed costs than the Northport plant. The high tax bill on the Northport Power Station threatens the ability to keep the units in service.

A new study\(^8\) demonstrates that repowering the Northport Power Station is not a viable option and recommends that the most cost-effective approach would be the retirement of the plant in phases. The capacity factor of the plant is forecasted to fall to just three percent by 2035. Retiring even one of the plant’s four existing steam units today would save customers more than $300 million, without jeopardizing the reliability of the electric grid.

As LIPA continues to invest in a modern grid, the excessive taxes on legacy plants will be a major consideration for their continued viability.

\(^8\) “Repowering Feasibility Study Northport Power Station,” May 2020.
The Solution – Settlement Agreements

Town of Brookhaven and the Village of Port Jefferson

In December 2018, 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 Station each year through 2027. The settlement allows the Port Jefferson community to retain among the lowest school tax rates compared to towns in the surrounding area, waives over $225 million in tax refund liability owed by the town and village, and reduces taxes by 50 percent. The settlement will save LIPA customers $109 million in tax payments over the term of the agreement, as shown in Figure 9.

FIGURE 9
Port Jefferson Power Station Settlement Savings

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.”

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.”
Case Study: Port Jefferson

Figure 10 shows the Port Jefferson School District's estimate that taxes will remain more than 20 percent lower than its neighboring districts (Comsewogue, Three Village, and Mount Sinai) by the end of the agreement in the 2026-27 school year.10

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Figure 10
Port Jefferson School District Retains Lowest Tax Rates with Settlement

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10Port Jefferson School District calculations assumes an annual levy increase of two percent with peaker plants and no program reductions.
In November 2019, LIPA and Nassau County reached a tentative settlement on the E.F. Barrett and Glenwood Landing power plants to reduce total payments through a gradual PILOT phase-in of 50 percent through 2027. The gradual reduction in payments allows the community to adjust to a sustainable level of taxes over time, keeps Island Park and North Shore district taxes among the lowest in Nassau County, and waives over $625 million in potential tax refunds for all Nassau County residents. As part of the agreement, a community advisory board will be created to seek and provide input on the highest and best use of the properties. The settlement is contingent on approval of the PILOT agreement by the Nassau County Legislature.

In March 2020, LIPA announced the retirement of one of the three Glenwood Landing peaking units. However, if the settlement is implemented, it will provide time for the community to adjust by maintaining payments over the next seven years despite the retirement.

If the Nassau County Legislature does not approve the PILOT agreement, an independent third party, a court, will determine the fair level of taxes for these two peaking units.

Nassau County Executive Laura Curran

“This settlement is in the best interest of Nassau County residents. It safeguards us from paying hundreds of millions of dollars of tax refunds. The facts support the claim that these plants have been overassessed. This common-sense agreement protects our taxpayers from costly litigation, which would have resulted not only in substantial refund payments, but also devastating tax hikes to the affected school districts. Finally, I want to see utility rates go down for all of Long Island when these tax cases are resolved.”
Trial Decision Nears for the Northport Power Station

LIPA presented a settlement proposal to the Northport community, similar to the one accepted by the Town of Brookhaven and the Village of Port Jefferson, that would reduce taxes on the plant by 50 percent over seven years, keep school tax rates low, and waive over $650 million in tax liability from Town of Huntington residents.

As the Huntington Town Board has not yet accepted LIPA's settlement offer, the final option is to have an independent third party, a court, determine the fair level of taxes that Long Islanders should pay for this power plant. The outcome will likely be less favorable than LIPA's settlement offers, which will no longer be available after a court decision.

A court decision could result in an immediate property tax increase, costing about 30 times more than a settlement, 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 a potential court action.

In 2019, a trial to determine the assessed value of the plant for the 2014 tax year was completed in Supreme Court, Suffolk County, and is awaiting a decision.

FIGURE 11
Settlement vs. Court Action

For a typical Northport-East Northport home valued at $565,000, a likely court action could result in an immediate monthly increase of $575 (including refund liability), while LIPA's settlement plan would phase-in increases in school taxes by approximately $19 per month (annually), reaching $133 per month by 2028.
Power Plant Taxes Support Four Local School Districts

The property tax burden embedded in customers’ electric bills subsidizes four of the 124 school districts on Long Island. As a result, the communities that host the legacy power plants have tax rates that are significantly below those in the neighboring school districts. Out of LIPA’s 1.1 million customers, an estimated 25,000 customers in these communities benefit.

LIPA’s settlement offers a phase down of the taxes by 50 percent over the remaining term of LIPA’s contract to purchase power from the power plants, which expires in April 2028. While total taxes are being reduced over time, the host communities and school districts will continue to benefit from substantial tax payments, as shown in Figure 12.

FIGURE 12
Tax Payments to School Districts Continue with LIPA’s Settlement Offers
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) facilities. 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, overassessed T&D property contributes to higher Long Island energy costs. LIPA has over 180 substations, and approximately 19,000 transmission poles and towers and 310,000 distribution poles.

PILOTs on LIPA-owned T&D Property

As illustrated in Figure 12, in the years following the acquisition of the Long Island Lighting Company (LILCO), 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 $293 million in 2019. This high tax burden was partially addressed with the LIPA Reform Act of 2013 (LRA), which effectively capped annual future increases of 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.

**FIGURE 12**
Transmission & Distribution Property Taxes (millions)
As noted in Figure 13, 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.

**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 cap of the LRA. LIPA reviews the PILOT payments sent by local tax jurisdictions to ensure compliance with the two percent cap. All taxing jurisdictions in Nassau County and the City of New York follow the two percent cap. However, many municipalities 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 it is authorized to pay and informs the taxing authorities. A lawsuit filed in January 2016 by 45 Nassau County school districts reached a settlement that affirms LIPA’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. LIPA has now sued the Suffolk towns to enforce the LRA two percent PILOT cap. LIPA continues to meet and work with municipalities across the service territory to ensure proper implementation of the two percent cap.

**FIGURE 13**

Transmission & Distribution Taxes with and without the LIPA Reform Act
Conclusion

LIPA’s mission is a Long Island electric grid that is clean, reliable, and affordable. As electric demand continues to decline, and as we implement our long-term strategies to increase energy efficiency and clean energy, older, fossil-fueled power plants will retire.

To date, the legacy power plants located in Northport, Island Park, and Glenwood Landing continue to decrease in value and operate less, but the taxes continue to rise. This extreme tax burden is placed on LIPA’s 1.1 million customers who pay these taxes through their electric bills and the situation is no longer sustainable. LIPA will continue to pursue a fair solution for all its customers.

This strategy is defined in the Policy on Taxes and PILOTs that LIPA’s Board of Trustees approved in 2016, which acts in the interest of LIPA’s 1.1 million customers and represents the only path for these legacy generation sites to remain a viable component of Long Island’s energy future.
FOR CONSIDERATION
December 18, 2019

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Approval of the Annual Report to the Board Policy on Safety

Requested Action

The Board of Trustees of the Long Island Power Authority (the “Board”) is requested to adopt a resolution finding that the Long Island Power Authority and its subsidiary, LIPA (collectively the “Authority”), have complied with the Board Policy on Safety (the “Policy”) for the period since the last annual review, and approving the annual report for the Policy, which resolution is attached hereto as Exhibit “A”.

Background

By Resolution No. 1379, dated September 27, 2017, the Board adopted the Policy. The Policy sets objectives to ensure a safe environment for the dedicated workforce of its service provider and the public. The Policy also establishes regular performance reporting by Staff to enable the Board to assess the adequacy of the service provider’s policies, procedures, and practices for safety; compliance with applicable health and safety laws and regulations; safety performance, including comparisons to peer electric utilities; and initiatives to improve safety of the service provider’s operations. The Policy was last reviewed by the Board in November 2018.

Compliance with the Policy

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

The Policy provides the following:

“Reviewing on a periodic basis no less than every three years the policies, procedures, and practices of the Authority’s service provider.”

- In 2017, the Authority hired Schumaker & Company (“Schumaker”) to complete a Safety Assessment of PSEG Long Island. Schumaker’s report concluded that PSEG Long Island “has an effective safety organization” and a “positive safety culture” in which safety is a top priority. The Schumaker report also contained nine recommendations aimed at improving safety performance in such areas as staffing, training, performance metrics, material storage racks, and disposal of obsolete tools and equipment. Since 2017, PSEG Long Island has made substantial progress toward implementing these recommendations.
- The next in-depth assessment and review of the policies, procedures and practices of the Authority’s service provider is scheduled for 2020, in compliance with the Board’s Policy of a review “no less than every three years.”
“Benchmarking the safety performance of the service provider to the top 25 percent of peer utilities, as measured by OSHA Recordable Incidence Rate and OSHA Days Away Rate.”

- PSEG Long Island benchmarks its safety performance against a nationwide panel of electric utilities. That benchmarking is used by LIPA and PSEG Long Island to set Safety Targets for the Operations Services Agreement and results are reported to the Board as part of PSEG Long Island’s Scorecard at each Board meeting.

“Assessing the operational factors that contribute to injuries, motor vehicle accidents and red-light violations and the efforts to improve performance, where necessary.”

- PSEG Long Island has an ongoing process for assessing the factors that drive safety performance. PSEG Long Island has identified several areas that merit close tracking and has established programs to reduce safety risks, including: removal of work hazards, and reducing musculoskeletal injuries through improved work techniques.

- Motor vehicle safety is an area of focus and was added as a Tier 1 performance metric in 2019. The addition of the automated vehicle location system, which monitors factors such as speeding, rapid acceleration and hard breaking, along with culture change, has been credited with reducing both motor vehicle accidents and red-light violations.

Further details on PSEG Long Island’s Safety Program are contained in the attached presentation as Exhibit “B”.

**Annual Review of the Policy**

Staff recommends no changes to the Policy.

**Recommendation**

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

**Attachments**

- Exhibit “A” Resolution
- Exhibit “B” Presentation Report to the Board of Trustees
RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE BOARD POLICY ON SAFETY

WHEREAS, the Board Policy on Safety (the “Policy”) was originally approved by the Board of Trustees Resolution No. 1739, dated September 27, 2017;

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with.

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 and approves the annual report to the Board.

Dated: December 18, 2019
Annual Report on the Board’s Policy on Safety

December 18, 2019
Topics For Discussion

- Compliance with Applicable Health and Safety Laws and Regulations
- Benchmarking, Measuring and Verifying Safety Performance
- Key 2019 PSEG Long Island Safety Initiatives
- Schumaker & Company Safety Assessment Management Actions
- Continuous Improvement Initiatives
Annual Assessment of PSEG EH&S Program Guide

- The **PSEG Environment, Health and Safety (EHS) Policy** and **PSEG Practice 575-1, EHS Program Guide** are the high level EHS governance documents for PSEG Long Island.

  - The PSEG annual assessment of the implementation of the EHS Program Guide found that systems, procedures and practices in place satisfactorily address the objectives contained in the PSEG EHS Program Guide.

  - There is a consistent understanding of acceptable actions and behaviors to responsibly conduct business in a manner that protects the environment, and the health of employees, contractors, customers, and the public.

  - Adequate controls are in place and functioning as intended.

- PSEG Long Island conducts its operations pursuant to the **PSEG Business Conduct Compliance Program**.
PSEG Long Island participates in an OSHA benchmarking process with utilities in the United States that is used by LIPA and PSEG Long Island to set Safety Targets for the OSA (Operations Services Agreement).

**OSHA Incidence Rate**

- 2014: 2.80
- 2015: 2.33
- 2016: 1.47
- 2017: 1.12
- 2018: 1.58
- Oct 2019 YTD: 1.15

- 2nd Quartile = 1.54
- 1st Quartile = 1.08
- Top Decile = 1.00

**OSHA Days Away Rate**

- 2014: 29.16
- 2015: 61.11
- 2016: 26.02
- 2017: 30.59
- 2018: 27.79
- Oct 2019 YTD: 30.21

- 2nd Quartile = 16.73
- 1st Quartile = 14.20
- Top Decile = 12.03
The addition of automated vehicle location system (AVLS) technology reinforced by a culture of accountability mindset is delivering desired results.

**Motor Vehicle Safety Performance**

**Percentage Improvement in Driving Performance**

October 2019 YTD

- Speeding > 65 mph: -90%
- Speeding > 10 mph over PSL: -88%
- MVAs in Yards / Substations YTD: -65%
- Rapid Acceleration: -63%
- Hard Braking: -63%
- Speeding > 2 mph over PSL: -31%
- Red Light Violation YTD: -30%
- Speeding > 55 mph: -24%
- Motor Vehicle Accidents YTD: -15%
2019 Key Safety Performance Initiatives

**Building a Culture of Accountability** using The Results Pyramid model by Partners in Leadership, a simple, memorable methodology for efficiently and effectively changing the way people think and act throughout the organization to ensure desired results are achieved.

**Embedding health and wellbeing into the DNA of the organization** through PSEG Be Well partners and programs designed to boost employee engagement in their overall well-being. Briotix Health provides ergonomic, injury prevention and physical therapy services to help employees to Be Well at Work.

**Managing, Monitoring, and Coaching Employees to be Professional Drivers** with GPS technology that provides a seamless connection with drivers to help ensure best practices in safety are put in place. A Professional Driver scorecard provides real time employee feedback to specific safety goals, i.e. amount of engine idling, high limit speeding (over a set MPH threshold), exceeding posted speed limits, hard braking, rapid acceleration.

**Expanding the use of Safety Leading Indicators and a Tier II Dashboard** as recommended in the 2017 Schumaker & Company Safety Assessment in addition to addressing all other recommendations in the report.
Schumaker & Company Safety Assessment in Action

The 2017 Assessment revealed:
“PSEG LI has an effective safety organization...that has created an open safety culture within the company.”

“Employees believe PSEG LI demonstrated a commitment to safety and its improvement from the first day it assumed responsibility for the operation and maintenance of LIPA’s transmission and distribution assets.”

Significant Progress made in 2019 addressing Schumaker recommendations:
- Continuously repairing and/or replacing damaged material storage racks in all operating yards.
- Improved securing and tagging of equipment removed from operations until disposal.
- Continuously improving the investment recovery practice to assure disposal of obsolete tools and equipment in a timely manner.
- Added one (1) FTE to the Health and Safety Compliance organization in addition to the use of internships for special projects.
- Increased use of the PSEG Long Island Learning Management System for tracking technical training.
- Increased training and safety support staffing to strengthen technical skills and safety based employee training.
Continuous Improvement Initiatives

• **Partners in Leadership – The Power of More** taking our culture of accountability to new heights

• **Enhanced self-assessments** focused on regular in-depth risk analysis and hazard prevention actions that improve cross collaboration and solve accountability gaps

• **Enhanced Incident Analysis** resulting in better recommendations and implementation of recommendations at the root cause

• **Employee Stretching** 100% prior to performing physical work

• **Cell Phone Disabling Technology** to protect employees against distracted mobile device use habits

• **Investing in Employee Development** with more frequent and tailored skills based training for craft workers and safety professionals to reduce the risk of OSHA violations and non-compliance with company practices
Economic Development Update

JUNE 2020
Agenda

• 2019 Year-End Snapshot

• Program Growth through 1st Quarter 2020
  – Vacant Space Revival
  – Main Street Revitalization

• New Offerings
2019 Program Results

- Large Business rate programs have provided over 1200 jobs
  - Business Development Rate (Attraction/Expansion): 27 customers with $1.89M in incentives
  - Empire Zone (grandfathered): 15 customers with $407K in incentives
  - Excelsior Jobs Program: 18 customers with $421K in incentives
  - Recharge New York (hydro and market commodity):
    - 262 customers with 64.2 MW delivered, providing over 2,600 jobs

- Small Business programs continued to ramp up:
  - Vacant Space Revival:
    - Assisted 36 customers in 2019
  - Main Street Revitalization:
    - 14 projects approved during 2019 for $273K in incentives
Program growth through 1Q2020
Increasing participation and community impact

- Vacant Space:
  - Assisting 75 customers since inception in 2018

- Main Street Revitalization:
  - $891K in grants approved since inception in 2018
  - Average capital investment $4.5M
  - Includes 5 projects in early 2020 for a total of $90K

"PSEG Long Island is proud to provide Noble Savage Brewing Company with a $25,000 'Main Street Revitalization' grant for improving the economic stability and growth of Glen Cove’s business district," said John Keating, manager of economic development for PSEG Long Island. "We created this grant program to support Long Island’s small businesses because our economy thrives on them. In addition to the grant, we also gave Noble Savage rebates totaling nearly $600 for installing energy efficient lighting fixtures and bulbs."
New program offerings targeted to specific needs

- **New program: Small Business First:**
  - Enhanced energy efficiency program targeted to small businesses, jointly funded by EE and Eco Dev
  - No-cost / low-cost upgrades of lighting through network of Prime Efficiency Partner (PEP) contractors
  - Lower operating costs going forward with minimal investment
  - Stimulate work for contractors

- **Promote Air Source Heat Pump Program**
  - Up to $1000/ton
  - May help businesses that need to change airflow due to social distancing

- **New category of Main Street Revitalization Program**
  - $5,000 grants to be offered to Chambers of Commerce, Business Improvement Districts (BIDs)
  - Assist with facilitating outdoor commerce
  - Can be used to purchase tables, chairs, stanchions and rails, portable lighting, etc.
  - Pre-approval and Reimbursement basis, consistent with current program

- **Enhanced Vacant Space Revival Program**
  - Expectation to launch later in 2020
Questions?
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**For All Board Voting Items:**

**Title of Agenda Item:** Approval of the Annual Report and Amendments on the Board Policy on Economic Development

**Consent Agenda:** ☒ Yes ☐ No  

**Accompanying Presentation:** ☒ Yes ☐ No

**Recommendation from Committee:** ☐ N/A ☒ F&A; ☐ GP&P; ☐ Oversight & Clean Energy

**LIPA Presenter:** Justin Bell  

**PSEG Long Island Presenter:** John Keating

**Enterprise Risk Management Discussion:** ☐ Yes ☒ No

**For Policy Reports Only:**

**Type of Policy / Report:** ☒ Operating; ☐ Governance; ☐ Compliance; ☐ Mission

**Date of Last Report:** March 20, 2019  

**Compliance Since Last Report:** ☒ Yes ☐ No

**Proposed Changes to Policy:** ☒ Yes ☐ No

**Requested Action:** The Board is requested to adopt a resolution: (i) approving the annual report on the Policy; (ii) finding that LIPA has complied with the Policy; and (iii) approving certain amendments to the Policy.

**Summary: (include proposed amendments to Board Policies, if applicable)**

By Resolution No. 1356, dated March 29, 2017, the Board adopted the Policy with the purpose of promoting the economic growth and vitality of its service territory and the efficient use of utility plant and equipment, consistent with the mission of LIPA to its customer-owners and consistent with LIPA’s enabling statutes and applicable law. The Board last reviewed and approved updates to the Policy by Resolution #1470, dated March 20, 2019.

Staff proposes the following revisions to the Policy: (i) renaming the Policy from the Board Policy on Economic Development to the Board Policy on Economic Development and Community Engagement; (ii) expanding the scope of the Policy consistent with its new name; and (iii) certain other non-material amendments to the elements of the Policy for better explanation and clarification of the purpose and intent of the Policy.
FOR CONSIDERATION
June 24, 2020

TO: The Board of Trustees

FROM: Thomas Falcone

REQUEST: Approval of the Annual Report and Amendments on the Board’s Policy on Economic Development

Requested Action

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

Background

By Resolution No. 1356, dated March 29, 2017, the Board adopted the Policy with the purpose of promoting the economic growth and vitality of its service territory and the efficient use of utility plant and equipment, consistent with the mission of LIPA to its customer-owners and consistent with LIPA’s enabling statutes and applicable law. The Board last reviewed and approved updates to the Policy by Resolution #1470, dated March 20, 2019.

Compliance with the Policy

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

The Policy requires that LIPA promote the economic growth and vitality of its service territory and the efficient use of utility plant and equipment by:

“Attracting commercial customers to its service territory and helping such customers grow their businesses through electric rates that are discounted below LIPA’s average cost of service, without which rates such businesses would not locate in the service territory.”

- 60 large business accounts receive discounted power through our Business Development Rate, and legacy NY State programs, such as the Excelsior Jobs program. These businesses have received approximately $2.32 million in discounts during 2019 and provide over 1,200 jobs.

“Offering economic development rates and programs consistent with those offered by other utilities in the state or best practices within the electric utility industry, in compliance with applicable law.”
• 262 large business accounts received power through the Recharge New York program, with commodity delivered by LIPA and its agent, PSEG Long Island. Collectively, since inception, the Recharge New York program has developed over 2,600 jobs.

• 36 small business customers opened new accounts through the Vacant Space program, which encourages new businesses to occupy spaces that have been vacant for at least one year. Total incentives awarded during 2019 were $31,000.

• A total of $274,000 in incentives were awarded to support 14 community projects through the Main Street Revitalization program. These projects leveraged over $1.5 million in private investment, while creating over 300 jobs.

Additionally, LIPA and its service provider are considering additional programs that may be necessary to support economic growth on Long Island in the wake of the COVID-19 pandemic.

**Annual Review of the Policy**

Staff proposes the following revisions to the Policy:

• Renaming the Policy from the Board Policy on Economic Development to the Board Policy on Economic Development and Community Engagement;

• Expanding the scope of the Policy consistent with its new name; and

• Certain other non-material amendments to the elements of the Policy for better explanation and clarification of the purpose and intent of the Policy.

The proposed changes are more specifically shown on 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.

**Attachments**

- **Exhibit “A”** Resolution
- **Exhibit “B”** Board Policy on Economic Development (redline)
- **Exhibit “C”** Board Policy on Economic Development (clean)
WHEREAS, the Board Policy on Economic Development (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1356, dated March 29, 2017; and

WHEREAS, the Policy was last reviewed and amended by the Board pursuant to Resolution No. 1470, dated March 20, 2019; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with and the changes to the Policy recommended herein are due and proper.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board hereby finds that LIPA has complied with Policy for the period since the last annual review and approves the annual report to the Board; and

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

Dated: June 24, 2020
Board Policy: Economic Development and Community Engagement

Policy Type: Operating Policies

Monitored by: Finance and Audit Committee

Board Resolution:
- #1356, approved March 29, 2017
- #1470, amended March 20, 2019
- [#xxx], amended June 24, 2020

Board Policy on Economic Development and Community Initiatives Engagement

It is the policy of the Long Island Power Authority ("LIPA") to promote the economic growth and vitality of its service territory, and efficient use of utility plant and equipment by:

- Attracting commercial customers to its service territory and helping such customers grow their businesses through electric rates that are discounted below LIPA’s average cost of service, without which rates such companies’ businesses would not locate in the service territory;
- Offering economic development rates and programs consistent with those offered by other utilities in the state or best practices within the electric utility industry, in compliance with applicable law;
- Engage in community events, volunteerism, and educational programs consistent with the purpose of this Policy.

The Chief Executive Officer, or his or her designee, will report annually to the Finance and Audit Committee of the Board of Trustees on efforts to attract and retain businesses to the service territory and comply with the provisions of consistent with the Economic Development Policy.

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1 The discounted rates will be above LIPA’s marginal cost of serving new electric load or retaining existing load by using facilities and assets that would otherwise be underutilized.

2 The policy does not promote the use of customer funds for charitable causes unrelated to a power, duty or purpose of LIPA granted pursuant to applicable law.
Board Policy: Economic Development and Community Engagement
Policy Type: Operating Policies
Monitored by: Finance and Audit Committee
Board Resolution: #1356, approved March 29, 2017
#1470, amended March 20, 2019
[#xxx], amended June 24, 2020

Board Policy on Economic Development and Community Engagement

It is the policy of the Long Island Power Authority (“LIPA”) to promote the economic growth and vitality of our service territory.

This Policy furthers LIPA’s mission and is directly related to its powers and duties. In addition to benefitting LIPA’s customers, this Policy encourages the efficient use of utility plant and equipment and attracts personnel to LIPA and its service provider who are mission-oriented and dedicated to Long Island and the Rockaways. LIPA and its service provider will:

- Attract commercial customers to LIPA’s service territory and help such customers grow their businesses through electric rates that are discounted below LIPA’s average cost of service\(^1\), without which rates such companies would not locate in the service territory;
- Offer economic development rates and programs consistent with those offered by other utilities in the state or best practices within the electric utility industry;
- Engage in community events, volunteerism, and educational programs consistent with the purpose of this Policy\(^2\).

The Chief Executive Officer, or his or her designee will report annually to the Finance and Audit Committee of the Board of Trustees on efforts consistent with this Policy.

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\(^1\) The discounted rates will be above LIPA’s marginal cost of serving new electric load or retaining existing load by using facilities and assets that would otherwise be underutilized.

\(^2\) The policy does not promote the use of customer funds for charitable causes unrelated to a power, duty or purpose of LIPA granted pursuant to applicable law.
### BOARD AGENDA SUMMARY SHEET

<table>
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<tr>
<th>Committee or Board:</th>
<th>Date:</th>
<th>Board Meeting Date:</th>
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<td>Board</td>
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**For All Board Voting Items:**

**Title of Agenda Item:** Approval of the Annual Report and Amendments on the Board Policy on Staffing and Employment

Consent Agenda: ☒ Yes ☐ No

**Accompanying Presentation:** ☐ Yes ☒ No

**Recommendation from Committee:** ☐ N/A ☒ F&A; ☒ GP&P; ☐ Oversight & Clean Energy

**LIPA Presenter:** Barbara Ann Dillon (presentation at GP&P)  
**PSEG Long Island Presenter:** N/A

**Enterprise Risk Management Discussion:** ☒ Yes ☐ No

**For Policy Reports Only:**

**Type of Policy / Report:** ☒ Operating; ☐ Governance; ☐ Compliance; ☐ Mission

**Date of Last Report:** July 24, 2019

**Compliance Since Last Report:** ☒ Yes ☐ No

**Proposed Changes to Policy:** ☒ Yes ☐ No

**Requested Action:**

The Board is requested to adopt a resolution: (i) approving the annual report on the Policy; (ii) finding that LIPA has complied with the Policy; and (iii) approving certain amendments to the Policy.

**Summary:**

By Resolution No. 1338, dated January 25, 2017, the Board adopted the Policy with the purpose of fostering a work environment that attracts and retains the experienced professionals of diverse talents and backgrounds and promotes an ethical and productive organization. The Board last reviewed and amended the Policy on July 24, 2019.

The Board Policy has been revised to require LIPA to conduct an Annual Employee Engagement Survey and design programs and initiatives to maintain an employee engagement score among the top 10 percent of benchmarked companies. Additionally, there are certain minor suggested edits to the Policy.
TO: The Board of Trustees  
FROM: Thomas Falcone  
SUBJECT: Approval of the Annual Report and Amendments to the Board Policy on Staffing and Employment

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 (“LIPA”) has complied with the Board Policy on Staffing and Employment (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 - Board Policy on Staffing and Employment

By Resolution No. 1338, dated January 25, 2017, the Board adopted the Policy with the purpose of fostering a work environment that attracts and retains the experienced professionals of diverse talents and backgrounds and promotes an ethical and productive organization. The Board last reviewed and amended the Policy on July 24, 2019.

Compliance with the Policy

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

The Policy requires the Board of Trustees “Appoint and, if necessary, discharge the CEO; evaluate the performance of and determine the compensation of the CEO; and with the advice of the CEO, appoint the other Board-appointed Officers specified in the Authority’s By-laws.”

- The Board completed the CEO’s annual performance evaluation at its March 2020 Board meeting. The CEO’s performance evaluation was prepared by the Chair of the Governance, Planning and Personnel Committee with the assistance of a third-party human resources consultant and 360-degree anonymous feedback from all Trustees as well as LIPA’s Executive Committee.

- The Board reviewed the salary of LIPA’s CEO of $300,000. A survey of 24 public power utilities of similar size to LIPA found an average salary for the position of $481,000, with a range of $240,000 to $1.1 million. LIPA was the third largest utility, ranked by customers, to participate in the survey. LIPA’s CEO salary was ranked 22 out of the 24 utilities.

- No Board-appointed Officers were hired in 2019.

The Policy authorizes and directs the Chief Executive Officer to:
“Manage the organization and staffing of the Authority, including hiring and terminating staff, to enable the Authority to achieve its mission and values, while recognizing that diversity of talent, interests, background and experience is a key attribute to a healthy organization”; and “Maintain staffing at the minimum level necessary to ensure that the Authority meets its obligations with respect to its bonds and notes and all applicable statutes and contracts and oversee the activities of the Authority’s service provider.”

- The CEO has managed LIPA’s staffing levels at the minimum level necessary to execute its goals and mission.
- LIPA staff consists of 57 full-time employees and 5 part-time employees.

The Policy directs the CEO to “develop and implement human resource practices, programs, training, and initiatives that are consistent with this Policy…including: (a) an Employee Handbook that provides guidance to employees regarding their rights, benefits, and responsibilities…and (b) an Employee Code of Ethics and Conduct, including annual acknowledgement of receipt and compliance by each employee.”

- The Employee Handbook includes all components required by the Policy, comports with all applicable law, and was updated to incorporate changes in human resources best practice. The Handbook is revised and updated as necessary on an on-going basis.
- All employees certified their compliance with the Code of Ethics and Conduct.

The Policy directs the CEO to “Establish and administer compensation practices and benefits for the Authority’s staff that are sufficient but not excessive to attract and retain a qualified, experienced workforce; are appropriate based on an individual’s knowledge, skill, and contribution; motivate and reward individual performance; and encourage organizational responsiveness to the Authority’s mission and values.” The Policy contains further guidance on such practices.

- The Director of Human Resources and Administration completed an annual salary benchmarking analysis for all staff positions using industry specific and national salary data. That benchmarking analysis is consistent with the criteria provided in the Board’s Policy and was used to establish a salary range for each position.
- LIPA has an active performance appraisal and enhancement system which includes monthly “check-ins” with supervisors, and an annual performance evaluation. As required by the Policy, individual employee performance and contribution is considered in setting salaries and merit increases.

The Policy directs the CEO to “refrain from establishing or implying employment obligations to individuals of longer than one year or offering compensation that exceeds the range set for the position by a benchmarking survey, without Board approval.” and “unless authorized in writing by the CEO, employment at the Authority shall be on an at will basis.”

- All LIPA employees are at-will employees.
- No employment offer exceeded the salary range set for the position.
The Policy directs the CEO to “Establish policies and programs that support and encourage the personal and professional development of employees, including: programs for continuing education, tuition reimbursement, and professional development; core skills continuing education; performance appraisal and enhancement; management and leadership training; and utility and public power industry learning.

- LIPA provides in-house training and development program for employees that includes certain leadership and management training seminars and programs including a Project Leadership certificate program (6 courses), and topics including LIPA Rates Series (Rates and Rate Cases), Giving Feedback and Providing Coaching, Writing Effective Evaluations, Cyber Security, Creating Positive Work Environments, Effective Communication, Dealing with Difficult Issues, Sexual Harassment including Managing Unconscious Bias, and on-going IT training, among others.

- LIPA further encourages professional development through: (i) industry webinars, conferences, and training; (ii) reimbursement of professional certifications and memberships; (iii) educational assistance programs; and (iv) a personal development program that incorporates 360-degree feedback, among other initiatives.

Lastly, the Policy directs the CEO to “maintain a succession plan to address the inevitable turn-over of executives and staff with the least possible interruption to the operations of the Authority.”

- The CEO has identified the names and order of appointment of three direct reports to serve as Acting Chief Executive Officer in the event of his absence, disability, incapacity or resignation, until such time as the Board appoints an interim or permanent successor, as provided for in the LIPA By-Laws.

- LIPA’s Senior Vice Presidents and Chief Officers have designated emergency successors to serve in an Acting capacity, as required by internal LIPA policy.

- The Board is briefed in Executive Session, at least annually, on the succession plan by the CEO.

**Proposed Changes to the Board Policy**

The Board Policy has been revised to require LIPA to conduct an Annual Employee Engagement Survey and design programs and initiatives to maintain an employee engagement score among the top 10 percent of benchmarked companies. Additionally, there are certain minor suggested edits to the Policy. All proposed changes are more fully set forth in Exhibit “B”.

**Enterprise Risk Management Discussion**

The Board has adopted a Policy on Enterprise Risk Management (“ERM”). Enterprise Risks are brought to the Board’s attention throughout the year. While there are several risks related to Staffing and Employment, the two most significant risks relate to succession planning; and attracting and retaining qualified individuals. The specific risks identified are:

- “Succession planning challenges due to the limited ability to develop internal candidates or identify and attract external candidates for succession results in inadequate expertise to fulfill...
LIPA’s mission and goals;” and

• “Difficulty attracting and retaining individuals with the necessary knowledge, skillsets and experience results in challenges to fulfilling LIPA’s mission and goals”.

Both risks are rated as medium level risks. LIPA mitigates the risk associated with succession planning by having emergency plans in place for the CEO and certain executive management positions, and a process in place to identify gaps. Additionally, LIPA has a process in place that provides for the identification, retention and transfer of information necessary for the continuity of services and retention of institutional knowledge.

LIPA mitigates the attraction and retention risk through review of best practices related to compensation and benefits. Additionally, LIPA selectively utilizes executive search firms to identify candidates with the necessary knowledge and experience to fill key positions. LIPA’s participation and leadership in industry associations also improves its reputation and attractiveness to potential employees.

Based on the mitigations actions that are currently in place, we believe both risks are being adequately managed.

**Recommendation**

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

**Attachments**

- **Exhibit “A”** Resolution
- **Exhibit “B”** Staffing and Employment Policy (redline)
- **Exhibit “C”** Staffing and Employment Policy (clean)
RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE BOARD POLICY ON STAFFING AND EMPLOYMENT

WHEREAS, the Staffing and Employment Policy (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1338, dated January 25, 2017; and

WHEREAS, the Policy was last reviewed and amended by the Board on July 24, 2019; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with and the changes to the Policy recommended herein are due and proper.

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 and approves the annual report to the Board; and

BE IT FURTHER RESOLVED, that consistent with the accompanying memorandum, the changes to the Policy that are reflected in attachment Exhibit “B” are hereby approved.

Dated: June 24, 2020
Board Policy: Staffing and Employment

Policy Type: Operating Policy

Monitored by: Governance, Planning and Personnel Committee

Board Resolution:—

#1338, approved January 25, 2017
#1435, amended October 24, 2018
#1485, amended July 24, 2019
#XXX, amended June 24, 2020

Board Policy on Staffing and Employment

It is the policy of the Long Island Power Authority ("LIPA") to foster a work environment that attracts and retains experienced professionals of diverse talents and backgrounds and promotes an ethical and productive workplace. In furtherance of these goals, the Board of Trustees:

- Appoints and, if necessary, discharges the Chief Executive Officer ("CEO");
- Evaluates the performance of and determines the compensation of the CEO;
- With the advice of the CEO, appoints the other Board-appointed Officers specified in the Authority’s LIPA’s By-laws.

Furthermore, the Board of Trustees authorizes and directs the CEO to:

- Manage the LIPA’s organization and staffing of the Authority, including hiring and terminating staff, to enable the Authority to achieve its mission and values, while recognizing that diversity of talent, interests, background and experience is a key attribute to a healthy organization;
- Maintain staffing at the minimum level necessary to ensure that the Authority meets its obligations with respect to its bonds and notes and all applicable statutes and contracts and oversees the activities of the Authority’s service

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1 The Board annually evaluates the CEO’s performance by comparing: (i) the Authority’s performance to the policies established by the Board, and (ii) the skills of the CEO to the competency profile established for the position. The Board periodically reviews the CEO’s compensation using a benchmarking survey. The CEO’s cost-of-living adjustments (“COLA”), if any, are tied to performance. If the CEO’s performance “meets expectations”, the COLA equals the rate of inflation. If the CEO “significantly exceeds expectations”, the COLA equals the rate of inflation plus one percent. If the CEO’s performance is “outstanding,” the COLA equals the rate of inflation plus two percent.

2 Pursuant to the Authority’s By-laws, the Board-appointed Officers include the Chief Executive Officer, the Chief Financial Officer, and the General Counsel. The Chief Executive Officer may appoint such other Officers as he or she may from time to time deem necessary or desirable.
Develop and implement human resource practices, programs, training, and initiatives that are consistent with this Policy and the Policy on Diversity and Inclusion, meet or exceed relevant laws and regulations, and ensure an ethical, safe, and discrimination/harassment free work environment, including:

a. an Employee Handbook that provides guidance to employees regarding their rights, benefits, and responsibilities and that addresses:
   - diversity and equal employment opportunity;
   - the Americans with Disabilities Act and reasonable accommodations;
   - intolerance for workplace bullying and harassment;
   - domestic violence and prevention of violence in the workplace;
   - timekeeping practices;
   - vacation, sick time and other benefits, including family and medical leave;
   - internal transfers and promotions;
   - reasonable travel and expense reimbursement;

b. a Code of Ethics and Conduct, including annual acknowledgement of receipt and compliance by each employee; and

c. a record retention policy that complies with applicable New York State laws and regulations.

Establish and administer compensation practices and benefits for the Authority’sLIPA’s staff that are sufficient but not excessive to attract and retain a qualified, experienced workforce; are appropriate based on an individual’s knowledge, skill, and contribution; motivate and reward individual performance; and encourage organizational responsiveness to the Authority’sLIPA’s mission and values. Such practicesLIPA will establish salary ranges for each position that are informed by:
   - compensation and benefits of employees with similar skills at utilities of similar size and complexity;
   - an -appropriate -balance -of -compensation -practices -among -public -and private organizations;
   - industry and regional cost-of-living trends;
   - the ability to recruit qualified personnel for a position;
   - individual employee performance and contribution; and
   - a process that permits an employee to appeal in writing any compensation decision resulting from a performance evaluation.

Refrain from establishing or implying employment obligations to individuals of longer than one year or offering compensation to new hires that exceeds the range set for the position by a benchmarking survey, without Board approval. Unless authorized in writing by the CEO, employment at the Authority shall be on an at-will basis.
• Establish policies and programs that support and encourage the personal and professional development of employees, including:
  o programs for continuing education and tuition reimbursement;
  o core skills continuing education;
  o performance appraisal and enhancement;
  o management and leadership training; and
  o utility and public power industry learning.

• Conduct an annual engagement survey and utilize the results to design programs and initiatives to maintain an annual employee engagement score among the top 10 percent of benchmarked companies.

• Maintain a succession plan to address the inevitable turn-over of executives and staff with the least possible interruption to the operations of the Authority.

The CEO will report annually to the Governance, Planning, and Personnel Committee on compliance with the key provisions of this Policy.
Board Policy: Staffing and Employment

Policy Type: Operating Policy

Monitored by: Governance, Planning and Personnel Committee

Board Resolution: #1338, approved January 25, 2017
#1435, amended October 24, 2018
#1485, amended July 24, 2019
#XXX, amended June 24, 2020

Board Policy on Staffing and Employment

It is the policy of the Long Island Power Authority ("LIPA") to foster a work environment that attracts and retains experienced professionals of diverse talents and backgrounds and promotes an ethical and productive workplace. In furtherance of these goals, the Board of Trustees:

- Appoints and, if necessary, discharges the Chief Executive Officer ("CEO");
- Evaluates the performance of and determines the compensation of the CEO;\(^1\)
- With the advice of the CEO, appoints the other Board-appointed Officers specified in LIPA’s By-laws.\(^2\)

Furthermore, the Board of Trustees authorizes and directs the CEO to:

- Manage LIPA’s organization and staffing, including hiring and terminating staff, to enable the Authority to achieve its mission and values, while recognizing that diversity of talent, interests, background and experience is a key attribute to a healthy organization;
- Maintain staffing at the minimum level necessary to ensure that LIPA meets its obligations with respect to its bonds and notes, statutes, contracts, and oversight of its service provider;
- Develop and implement human resource practices, programs, training, and initiatives that are consistent with this Policy and the Policy on Diversity and Inclusion, meet or exceed relevant laws and regulations, and ensure an ethical, safe,

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1 The Board annually evaluates the CEO’s performance by comparing: (i) the Authority’s performance to the policies established by the Board, and (ii) the skills of the CEO to the competency profile established for the position. The Board periodically reviews the CEO’s compensation using a benchmarking survey. The CEO’s cost-of-living adjustments ("COLA"), if any, are tied to performance. If the CEO’s performance “meets expectations,” the COLA equals the rate of inflation. If the CEO “significantly exceeds expectations,” the COLA equals the rate of inflation plus one percent. If the CEO’s performance is “outstanding,” the COLA equals the rate of inflation plus two percent.

2 Pursuant to the Authority’s By-laws, the Board-appointed Officers include the Chief Executive Officer, the Chief Financial Officer, and the General Counsel. The Chief Executive Officer may appoint such other Officers as he or she may from time to time deem necessary or desirable.
and discrimination/harassment free work environment, including:

a. an Employee Handbook that provides guidance to employees regarding their rights, benefits, and responsibilities and that addresses:
   • diversity and equal employment opportunity;
   • the Americans with Disabilities Act and reasonable accommodations;
   • intolerance for workplace bullying and harassment;
   • domestic violence and prevention of violence in the workplace;
   • timekeeping practices;
   • vacation, sick time and other benefits, including family and medical leave;
   • internal transfers and promotions;
   • reasonable travel and expense reimbursement;

b. a Code of Ethics and Conduct, including annual acknowledgement of receipt and compliance by each employee; and

c. a record retention policy that complies with applicable New York State laws and regulations.

• Establish and administer compensation practices and benefits for LIPA’s staff that are sufficient but not excessive to attract and retain a qualified, experienced workforce; are appropriate based on an individual’s knowledge, skill, and contribution; motivate and reward individual performance; and encourage organizational responsiveness to LIPA’s mission and values. LIPA will establish salary ranges for each position that are informed by:
   • compensation and benefits of employees with similar skills at utilities of similar size and complexity;
   • an appropriate balance of compensation practices among public and private organizations;
   • industry and regional cost-of-living trends;
   • the ability to recruit qualified personnel for a position;
   • individual employee performance and contribution; and
   • a process that permits an employee to appeal in writing any compensation decision resulting from a performance evaluation.

• Refrain from establishing or implying employment obligations to individuals of longer than one year or offering compensation to new hires that exceeds the range set for the position by a benchmarking survey, without Board approval. Unless authorized in writing by the CEO, employment shall be on an at-will basis.

• Establish policies and programs that support and encourage the personal and professional development of employees, including:
   • programs for continuing education and tuition reimbursement;
   • core skills continuing education;
   • performance appraisal and enhancement;
o management and leadership training; and
o utility and public power industry learning.

- Conduct an annual engagement survey and utilize the results to design programs and initiatives to maintain an annual employee engagement score among the top 10 percent of benchmarked companies.

- Maintain a succession plan to address the inevitable turn-over of executives and staff with the least possible interruption to the operations of the Authority.

The CEO will report annually to the Governance, Planning and Personnel Committee on compliance with the key provisions of this Policy.
FOR CONSIDERATION
March 27, 2020

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Approval of: (i) the Annual Investment Report for 2019; and (ii) the 2020 Investment Guidelines (the “Board Policy on Investments”)

Requested Action

The Board of Trustees (the “Board”) of the Long Island Power Authority (the “LIPA”) is requested to adopt a resolution approving: (i) the LIPA’s Annual Investment Report for 2019 in the form attached hereto as Exhibit “B”; and (ii) the 2020 Board Policy on Investments in the form attached hereto as Exhibit “D”.

Annual Investment Report for 2019

Section 2925 of the Public Authorities Law (“PAL”) requires that LIPA annually review and approve an investment report. LIPA’s investments are either (i) managed by an investment manager in primarily short term, highly liquid investments; or (ii) invested in broad-based, low cost equity and fixed-income mutual funds. All investments of LIPA funds are governed by the Board Policy on Investments.

LIPA’s investments were compliant with the terms and conditions of the Policy for 2019 and performed consistent with Staff’s expectations given the nature of the investments.

2020 Board Policy on Investments

The Board is also required by Section 2925(6) of the PAL to annually review and approve the Board Policy on Investments, which detail the Board’s operative instructions to Staff regarding the investing, monitoring and reporting of LIPA funds. The Board Policy on Investments was last reviewed and approved on September 25, 2019.

The proposed revisions to the Board Policy on Investments seek to clarify, simplify and ensure continued compliance with various contractual and regulatory requirements.

Based on Staff’s review, which was performed in consultation with LIPA’s investment advisor, bond counsel, and disclosure counsel, Staff proposes the following changes:

• the addition of Secured Overnight Financing Rate (SOFR) as another index option for Floating Rate Notes in consideration of the LIBOR rate sunsetting December 31, 2020;
• establishing quarterly and annual management reporting deadlines of 45 days and 90 days respectively; and
• certain other nonmaterial amendments.

All changes to the Policy are shown in Exhibit “C”.

**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”.

**Attachments**

- **Exhibit “A”** Resolution
- **Exhibit “B”** 2019 Annual Investment Report
- **Exhibit “C”** 2020 Board Policy on Investments (redline)
- **Exhibit “D”** 2020 Board Policy on Investments (clean)
RESOLUTION APPROVING THE ANNUAL INVESTMENT REPORT FOR 2019 AND THE 2020 BOARD POLICY ON INVESTMENTS

RESOLVED, that the Board of Trustees hereby approves the Annual Investment Report for the period ended December 31, 2019, in the form presented at this meeting; and

BE IT FURTHER RESOLVED, that the Board of Trustees hereby approves and adopts the revised Board Policy on Investments in the form presented at this meeting to be effective immediately.

Dated: March 27, 2020
ANNUAL INVESTMENT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2019
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Section II    Investment Policy
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The Long Island Power Authority
Investment Report

SECTION I

Annual Investment Report
LONG ISLAND POWER AUTHORITY
ANNUAL INVESTMENT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2019

1. Investment Policy and Amendments Since Prior Year Investment Report

LIPA’s Investment Policy incorporates the investment requirements of New York State, LIPA’s General Bond Resolution, and the Nuclear Decommissioning Trust Agreements. The Investment Policy was last approved by the Board of Trustees on September 25, 2019.

The Policy details LIPA’s guidelines with respect to the purchase and sale of investments and specifies the procedures for monitoring, maintaining, accounting for and reporting of such investments. The Policy is attached in Section II.

The Investment Policy approved September 25, 2019 included the following modifications to the Investment Policy which were approved on March 29, 2018:

- Decreasing the allocation of domestic equity mutual funds in the OPEB Account from 45% to 40%.
- Increasing the allocation of international equity mutual funds in the OPEB Account from 20% to 25%.
- Increasing the allocation in equity mutual funds from 50% to 55%, while delineating 35% to domestic equity mutual funds and 20% to international equity mutual funds in the Nuclear Decommissioning Trust Fund.
- Removal of the policy relating to investments in individual securities in the Nuclear Decommissioning Trust Fund.
- Decreasing the allocation in fixed income mutual funds from 50% to 45%, while delineating 20% to mutual funds holding inflation protected bonds in the Nuclear Decommissioning Trust Fund.
- Replacement of the definition of “Authorized Persons,” in Section 7, Bank Authorization, to the Authority’s Chief Executive Officer or authorized designees, and providing for internal policies relating to banking thresholds.
2. Result of Annual Audit

The “Independent Accountant’s Report on Investment Compliance” issued by LIPA’s auditors, KPMG LLP, is attached hereto in Section III.

3. Investment Income Record

Attached hereto in Section IV is a summary of LIPA’s investment income for the year ended December 31, 2019, totaling approximately $48 million dollars.

4. Total Fees, Commissions, or Other Charges Paid to Investment Bankers, Brokers, Agents, Dealers and Advisors Rendering Investment Associated Services

The majority of LIPA’s investments are managed through the services of an investment manager who provides cash management and investment advisory services. The fees for such services are based upon the average daily amortized cost basis of the investments under management each month and are paid monthly. For the year ended December 31, 2019, LIPA paid approximately $211,000 in connection with these services. Additionally, custodial services for the investments are provided by a custodial bank. Fees for these custodial services are based upon the average daily market value of the investments held during the quarter and are paid quarterly. For the year ended December 31, 2019, LIPA paid approximately $52,000 in connection with these services.

Other short term investments are held in accounts with investment institutions and commercial banks. It is general practice in the financial community for these institutions to include the commission or transaction fee, if any, in their purchase price or to charge an investment fee that is netted from the income of the investment.

LIPA utilized the services of an investment manager for the investment of its Nuclear Decommissioning Trust for the early part of 2019. Effective April 1, 2019 the accounts were self-directed. These fees, as well as custody and trustee fees are directly deducted from the Trust, as they are offset against investment income, which is reinvested in the Trust to meet eventual decommissioning
obligations. For the year ended December 31, 2019, approximately $200,000 in fees was incurred for these services, $118,000 for investment management fees and $82,000 for custody and trustee fees.

There were no other fees or charges to investment bankers, agents, dealers or advisors in connections with investment activities for the year ended December 31, 2019.
SECTION II

Investment Policy
Adopted September 25, 2019
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1. OVERVIEW OF INVESTMENT POLICY

1.1. Purpose and Scope

This policy sets forth instructions to the officers and staff of the Long Island Power Authority (the “Authority”) with regard to investments of monies of the Authority and its subsidiary and the monitoring and reporting of such investments. The Policy is intended to meet the provisions of the Public Authorities Law (“PAL”) Section 2925, the Office of the State Comptroller’s Investment Guidelines for Public Authorities contained in 2 New York Codes, Rules and Regulations (“NYCRR”) Part 201, Section 201.3, the provisions of the Authority’s enabling legislation, and the parameters established by the Authority’s Financing Documents. This Policy has been adopted by, and can only be changed by, the Board of Trustees.

1.2. Definitions

“Authority” means the Long Island Power Authority, a corporate municipal instrumentality of the State of New York, established pursuant to Chapter 517 of the Laws of 1986 of the State of New York.

“Eligible Banking Institution” means any commercial bank or financial institution whose long-term unsecured debt securities are rated A- or better by S&P, A3 or better by Moody’s, or A- or better by Fitch, and having its principal office within the State, as authorized by the Board of Trustees by Resolution on May 18, 2016.

“Financing Documents” means the Electric System General Bond Resolution, adopted May 13, 1998 (the “General Bond Resolution”); the Electric System General Subordinated Revenue Bond Resolution, adopted May 20, 1998 (“Subordinated Bond Resolution”); the Credit Agreement, dated as of March 1, 2013 among the Long Island Power Authority and Toronto Dominion (Texas) LLC, as Administrative Agent expiring on March 22, 2019 related to Electric System General Revenue Notes, Series 2013A, which will be replaced by a Revolving Credit Agreement with JP Morgan; any agreement with the issuer of any Credit Facility (as defined in the General Bond Resolution or the Subordinated Bond Resolution); and any Liquidity Facility (as defined in the General Bond Resolution or the Subordinated Bond Resolution), in each case as the same may be amended and supplemented from time to time.

“Investment Funds” means monies and financial resources available for investment by the Authority and its subsidiary.

“Investment Securities” means any or all the investment obligations described in Section 2.2 hereof.

“Rating Agencies” means Standard and Poor’s Global Ratings (S&P), Moody’s Investors Service (Moody’s), and Fitch Ratings (Fitch).

“State” means the State of New York.
1.3. Management of Investment Program

1.3.1. Delegation of Investment Authority

The responsibility for implementing the investment program is delegated to the Chief Financial Officer. The Chief Financial Officer directs the Authority’s investment activities through the Director of Finance and Treasury Operations or the Manager of Treasury Operations.

Investments shall be made in accordance with this policy, including the Operating Procedures and Controls, which are attached as Appendix A. The governing body and management of the Authority are responsible for making investment decisions for the Authority and for doing so with the judgment, care, skill, prudence and diligence under the circumstances then prevailing that a knowledgeable and prudent investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. All Authority staff participating in the investment process shall act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence in the Authority’s ability to effectively fulfill its responsibilities. All participants in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

1.3.2. Annual Review and Approval

Authority staff involved in the investment process shall review the Investment Policy on an annual basis, or more frequently as required, and shall submit the Investment Policy to the Authority’s Finance and Audit Committee and Board of Trustees no less frequently than annually for review and approval as required by the PAL.

After any modifications to the Investment Policy, a revised policy must be distributed to Authority personnel on the approved distribution list and the Financial Institutions specified in Appendix A.

2. INVESTMENT MANAGEMENT OBJECTIVES AND PERMITTED INVESTMENT

2.1. Investment Objectives

The investment objectives of the Authority, listed in order of importance, are: to conform with all applicable legal and regulatory requirements; to adequately safeguard investment principal; to provide for portfolio liquidity; and to earn reasonable rates of return.

The investment objectives for the NDTF and OPEB Accounts (described below) are: to conform with all applicable legal and regulatory requirements; to earn reasonable rates of return; and to provide for portfolio liquidity, as necessary.

2.2. Permitted Investments

The Authority, subject to the requirements of Section 3.5 of this Policy, may deposit monies with Eligible Banking Institutions, as separately authorized by the Board of Trustees by Resolution on May 18, 2016. Additionally, investments shall be limited to the following types of securities (“Permitted Investments”):
1. **U.S. Treasury & Government Guaranteed** – U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. Government.

2. **Federal Agency/GSE** – Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality or government-sponsored enterprise (GSE).

3. **Supranationals** – U.S. dollar denominated debt obligations of a multilateral organization of governments.

4. **Corporates and Other Debt Obligations** – U.S. dollar denominated corporate notes, bonds or other debt obligations issued or guaranteed by a U.S. or foreign corporation, financial institution, non-profit, or other entity.

5. **Municipals** – Obligations issued or guaranteed by any state, territory or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality or other unit of local government of any U.S. state or territory.

6. **Collateralized Investment Agreements** – Investment agreements or guaranteed investment contract with any financial institution that guarantees repayment of principal and a fixed or floating interest rate for a predetermined period of time.

7. **Agency Mortgage Backed Securities** – Mortgage-backed securities (MBS), backed by residential, multi-family or commercial mortgages, that are issued or fully guaranteed as to principal and interest by a U.S. Federal agency or government sponsored enterprise, including but not limited to pass-throughs, collateralized mortgage obligations (CMOs) and REMICs.

8. **Asset-Backed Securities** – Asset-backed securities (ABS) whose underlying collateral consists of loans, leases or receivables including but not limited to auto loans/leases, credit card receivables, student loans, equipment loans/leases.

9. **Negotiable Bank Deposit Obligations** – Negotiable bank certificates of deposit, deposit notes or other deposit obligations issued by a nationally or state-chartered bank, credit union or savings association, or by a federally or state-licensed branch of a foreign bank or financial institution.

10. **Commercial Paper** – U.S. dollar denominated commercial paper issued or guaranteed by a U.S. or foreign corporation, company, financial institution, trust or other entity, including both unsecured debt and asset-backed programs.

11. **Bankers’ Acceptances** – Bankers’ acceptances issued, drawn on, or guaranteed by a U.S. bank or U.S. branch of a foreign bank.

12. **Money Market Mutual Funds** – Shares in open-end and no-load money market mutual funds, provided such funds are registered under the Investment Company Act of 1940 and operate in accordance with Rule 2a-7.
13. **Floating Rate Notes** – Floating rate notes (FRNs) may be purchased as part of the Authority’s Portfolio if the following criteria are met:

a. FRN rate resets no less frequently than quarterly;

b. FRN rate resets with a frequency that produces a close tracking with money market rates;

c. FRN is indexed to a money market rate such as Federal Funds, or the Treasury Bill or LIBOR of corresponding maturity, that correlates very highly with overall changes in money market rates even under wide swings in interest rates;

d. Any interest rate cap is at least 10%; and

e. Director of Finance and Treasury Operations, Manager of Treasury Operations or the designated Investment Manager uses pricing services, pricing matrices or "theoretical" pricing models to calculate the market value of all FRNs held in the portfolio to value the portfolio holdings.

14. **Repurchase Agreements** – Permitted provided certain conditions are met:

a. The contract is fully secured by deliverable U.S. Government Obligations as described in Section 2.2.1 having a market value of at least one hundred two percent (102%) of the amount of the obligation’s principal and accrued interest;

b. A written master repurchase agreement governs the transaction that outlines the basic rights of both buyer and seller, including:
   - events of default which would permit the purchaser to liquidate pledged collateral;
   - the relationship between parties to the agreement, which shall ordinarily be purchaser and seller;
   - method of computing margin maintenance requirements and providing for timely correction of margin deficiencies or excesses;

c. The repurchase agreement is transacted on a delivery or book entry versus payment basis;

d. The securities are held free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee; the Trustee shall have received written confirmation from such third party that it holds such securities free and clear of any lien as agent for the Trustee; and such third party is either
   - a Federal Reserve Bank, or
   - a bank which is a member of the Federal Reserve Bank or maintains account with member banks to accomplish book-entry transfer of securities to the credit of the Authority and which (1) has combined capital and surplus of more than $1 billion, and (2) has a long-term debt rating of “A-“ or higher by S&P and “A3“ or higher by Moody’s;

e. A perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Authority;

f. The Investment Manager will value the collateral daily, and require that if additional collateral is required then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);

g. Substitutions of collateral will be permitted only with advance written approval of the Chief Financial Officer;
h. The Authority will only enter into repurchase agreements with reputable firms that have a short-term debt rating of “A-1” or higher by S&P and “P-1” or higher by Moody’s and are:
- Broker dealers who are members of the National Association of Securities Dealers, listed on the Federal Reserve Bank of New York’s list of primary government securities dealers, and have $25 billion in assets and $350 million in capital, or
- Banks or trust companies authorized to do business in the State of New York and have $5 billion in assets and $500 million in capital;
- No more than 10% or $50 million, whichever is less, of the Investment Funds will be invested with any single repurchase agreement counterparty; and

i. The repurchase agreement shall have a term not to exceed ninety days.

Permitted investments must be authorized if the moneys being invested are subject to a legal or other restriction that precludes such investment.
## 2.3. Diversification, Ratings and Maturity of Investments Reference Table

<table>
<thead>
<tr>
<th>Sector</th>
<th>Sector Maximum (%)</th>
<th>Per Issuer Maximum (%)</th>
<th>Minimum Ratings Requirement¹</th>
<th>Maximum Maturity ²</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td>5.5 Years (5.5 year avg. life ³ for GNMA)</td>
</tr>
<tr>
<td>GNMA</td>
<td>100%</td>
<td>40%</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Other U.S. Government Guaranteed (e.g. AID, GTC)</td>
<td>100%</td>
<td>10%</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Federal Agency/GSE: FNMA, FHLMC, FHLMC, FFCB</td>
<td>75%</td>
<td>40%⁴</td>
<td>N/A</td>
<td>10 Years</td>
</tr>
<tr>
<td>Federal Agency/GSE other than those above</td>
<td>100%</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supranational where U.S. is a shareholder and voting member</td>
<td>25%</td>
<td>10%</td>
<td>Highest ST or Two Highest LT Rating Categories (A-1/P-1, AA-/Aa3, or equivalent)</td>
<td>5.5 Years</td>
</tr>
<tr>
<td>Corporates and other Debt Obligations</td>
<td>40%²</td>
<td>5%³</td>
<td>Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent)</td>
<td>5.5 Years</td>
</tr>
<tr>
<td>Municipals</td>
<td>25%</td>
<td>5%</td>
<td>Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)</td>
<td>5.5 Years</td>
</tr>
<tr>
<td>Agency Mortgage-Backed Securities</td>
<td>25%</td>
<td>40%⁴</td>
<td>N/A</td>
<td>5.5 Year Avg. Life⁵</td>
</tr>
<tr>
<td>Asset-Backed Securities</td>
<td>20%</td>
<td>5%</td>
<td>Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent)</td>
<td>5.5 Year Avg. Life⁵</td>
</tr>
<tr>
<td>Certificates of Deposit (CD)</td>
<td>50%²</td>
<td>5%³</td>
<td>Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3, or equivalent)</td>
<td>3 Years</td>
</tr>
<tr>
<td>Commercial Paper (CP)</td>
<td>50%²</td>
<td>5%³</td>
<td>Highest ST Rating Category (A-1/P-1, or equivalent)</td>
<td>270 Days</td>
</tr>
<tr>
<td>Collateralized Investment Agreements</td>
<td>50%</td>
<td>5%</td>
<td>Two Highest LT Rating Categories</td>
<td>5.5 Years</td>
</tr>
<tr>
<td>Bankers’ Acceptances (BAs)</td>
<td>35%²</td>
<td>5%³</td>
<td>Highest ST Rating Category (A-1/P-1, or equivalent)</td>
<td>180 Days</td>
</tr>
<tr>
<td>Floating Rate Notes</td>
<td>Should reflect the appropriate sector requirements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>40%</td>
<td>20%</td>
<td>Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty’s parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent) If the counterparty is a Federal Reserve Bank, no rating is required</td>
<td>90 Days</td>
</tr>
<tr>
<td>Government Money Market Funds</td>
<td>100%</td>
<td>100%</td>
<td>Highest Fund Rating by all NRSROs who rate the fund (AAAa,Aaa-mf, or equivalent)</td>
<td>N/A</td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>100%</td>
<td>25%</td>
<td>Highest Fund Rating by all NRSROs who rate the fund (AAAa,Aaa-mf, or equivalent)</td>
<td>N/A</td>
</tr>
</tbody>
</table>

¹ Minimum ratings requirement may vary based on the investment's risk profile.
² Maximum maturity varies based on sector-specific requirements.
³ avg. life refers to average life.
⁴ For Collateralized Investment Agreements, the minimum requirement is 40%.
⁵ For Commercial Paper (CP), the average life is 270 days.
⁶ For Government Money Market Funds, the rating requirement is highest fund rating by all NRSROs who rate the fund (AAAa,Aaa-mf, or equivalent).
Notes:
1 Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization ("NRSRO"), unless otherwise noted. ST=Short-term; LT=Long-term.
2 Maximum allocation to non-government securities is 75% combined.
3 Maximum across all non-government permitted investment sectors is 5% combined per issuer.
4 Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.
5 The maturity limit for MBS and ABS is based on the expected average life at time of purchase, measured using Bloomberg or other industry standard methods.
6 All investments shall mature or be redeemable no later than such times as shall be necessary to provide monies needed for payments to be made from any such fund or account. Unless otherwise noted, maturity limitation is measured from the transaction’s settlement date.

2.4. Prohibited Investment Vehicles

The Authority is prohibited from investing in the investments or engaging in the practices listed below:

- Investment in Auction Rate Securities (ARS);
- Home equity ABS and reverse repurchase agreements;
- Short sales (selling a specific security before it has been legally purchased);
- Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing;
- Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and deleveraged notes, or notes linked to lagging indices or to long-term indices;
- Investing in any security not specifically permitted by this Investment Policy (see process below for minor exceptions).

2.5. Downgrades

The Director of Finance and Treasury Operations, Manager of Treasury Operations or the designated Investment Manager(s) shall report any credit rating downgrade resulting in violation of the Investment Policy to the Chief Financial Officer within a reasonable period of learning of the downgrade, along with any recommended action. Upon receiving such report, the Chief Financial Officer shall provide direction to the Director of Finance and Treasury Operations, Manager of Treasury Operations or the Investment Manager(s) which would generally be to liquidate any security that does not comport with the Investment Policy and Financing Documents at the time of the downgrade. Any direction to take an action other than to liquidate such security shall be reported to the Finance and Audit Committee of the Board of Trustees.

2.6. Process for Obtaining Approval for Exceptions

Approval for new instruments not listed herein shall be obtained from the Authority's Board of Trustees. The Board hereby authorizes minor exceptions (including ratings or diversification guidelines) to the Investment Policy with the immediate approval of the Chief Financial Officer and final approval by the Board of Trustees. Any such minor exceptions to the Investment Policy will be reported to the Finance and Audit Committee of the Board of Trustees. If the Board of
Trustees comes to the decision not to approve a minor exception the investment will be liquidated immediately.

2.7. **Nuclear Decommissioning Trust Funds and OPEB Account**

Sections 2.2, 2.3, 2.4 and 2.5 shall not govern the investment of the Nuclear Decommissioning Trust Funds (NDTF) for Nine Mile Point Unit 2 or the Other Post-Employment Benefits (OPEB) Account. Separate investment provisions are provided for the NDTF (Appendix B) and OPEB Account (Appendix C).

3. **OPERATING PARAMETERS AND CONTROLS**

The Authority has developed the following investment management controls to ensure that its assets are protected against loss, theft and misuse.

3.1. **Authorized Officers and Employees**

Investment decisions on behalf of the Authority shall be made by the Director of Finance and Treasury Operations, Manager of Treasury Operations or the external Investment Manager(s), under the supervision of the Chief Financial Officer.

3.2. **Competitive Selection**

For each transaction more than $10 million (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Authority shall use competitive quotations. For each transaction equal to or less than $10 million (or such other threshold dollar amount as the Chief Financial Officer may specify in writing), the Authority may use either competitive quotations or negotiated prices. The foregoing shall not apply to the purchase of government securities at initial auction or upon initial offering. A minimum of three quotes shall be obtained and documented from Dealers and/or Banks, except in the purchase of government securities at their initial auction or upon initial offering, and the most favorable quote accepted.

To the extent that the Authority invests in an SEC registered mutual fund or exchange traded fund whose investment objectives and policies are consistent with this Investment Policy, the selection of a no-load, open-end fund constitutes a competitive selection.

3.3. **Annual Investment Audit**

An annual independent audit of all investments will be performed by the external auditors. The Authority shall comply with all legal and regulatory requirements, including those mandated by the PAL, the NYCRR, the Financing Documents, and the Investment Policy. The Annual Investment Audit shall:

- Determine whether investment assets are adequately safeguarded; adequate accounts and records are maintained which accurately reflect all transactions and report on the disposition of the Authority's investment assets; and a system of adequate internal controls is maintained;
- Determine whether the Authority has complied with applicable laws, regulations, the State Comptroller’s investment guideline requirements, such public authority accounting directives as may be issued by the State Comptroller, and the Investment Policy; and
- Be designed to the extent practical to satisfy both the common interest of the Authority and the public officials accountable to others.

The results of the Annual Investment Audit shall be set forth in a report submitted to the Chief Financial Officer, and to the Authority’s Board of Trustees (the “Annual Investment Audit Report”) which shall include without limitation:

- A description of the scope and objectives of the audit;
- A statement that the audit was made in accordance with generally accepted government auditing standards;
- A description of any material weakness found in the internal controls;
- A description of any non-compliance with the Authority’s own investment policies as well as applicable laws, regulations, the State Comptroller’s investment guideline requirements, and such public authority accounting directives as may be issued by the State Comptroller;
- A statement of positive assurance of compliance on the items tested;
- A statement on any other material deficiency or reportable condition as defined by Governmental Auditing Standards identified during the audit not covered above; and
- Recommendations, if any, with respect to amendment of this Investment Policy.

The Annual Investment Audit Report shall be filed within ninety (90) days after the close of the Authority’s fiscal year with the Office of Budget and Policy Analysis of the Office of the State Comptroller.

3.4. Written Contracts and Confirmations

A written contract and/or a written confirmation shall be required for each investment transaction. However, the Authority shall not be required to enter into a formal written contract if the Authority’s oral instructions to its broker, dealer, agent, investment manager/advisor, or custodian with respect to such transactions are confirmed in writing or by written confirmation at the earliest practicable moment.

3.5. Safekeeping and Custody

All investment securities purchased by the Authority or held as collateral on deposits or investments shall be held by a third-party custodian who may not otherwise be a party to the investment transaction and with whom the Authority has a written custodial agreement. All securities shall be held in the name of the Authority and will be free and clear of any lien.

All investment transactions will be conducted on a delivery-vs.-payment basis. Payment for investments shall be made only upon receipt by the custodian of the physical security, or in the case of securities in book-entry form, when credited for the custodian’s account, which shall be segregated for the Authority’s sole use. The custodian shall issue a safekeeping receipt to the Authority listing the specific instrument, rate, maturity and other pertinent information. Monthly,
the custodian will also provide reports listing all securities held for the Authority, the book value of holdings, and the market value as of month-end.

The custodian may act on oral instructions from the Chief Financial Officer, the Director of Finance and Treasury Operations, or the Manager of Treasury Operations. Such instructions are to be confirmed in writing, within one business day, by an authorized signatory of the Authority.

Representatives of the custodian responsible for, or in any manner involved with, the safekeeping and custody process of the Authority shall be bonded in such a fashion as to protect the Authority from losses from malfeasance and misfeasance. If required by the Chief Financial Officer, appropriate Authority Officials may also be bonded in such a fashion.

All demand deposits, time deposits, and certificates of deposit shall be collateralized for amounts over and above Federal Deposit Insurance Corporation coverage. All collateral shall be Permitted Investments as set out in Section 2. There shall be a written custodial agreement that, among other things, specifies the circumstances under which collateral may be substituted. The Authority should not accept a pledge of a proportionate interest in a pool of collateral. The market value and accrued interest of collateral should, at least, equal the value of the investment and any accrued interest at all times. The recorded value of collateral backing any investment should be compared with current market values (mark-to-market) at the time of the initial investment and monthly thereafter to be certain that it continues to be at least equal to the value of the investment plus accrued interest. The mark-to-market reviews should use “bid” prices from a constant source. Negotiable Bank Deposit Obligations as defined in sections 2.2 and 2.3 of this policy are exempt from these collateral requirements.

3.6. **Internal Controls**

The Authority follows the operating procedures defined in Appendix A to control all Authority investment activity.

3.7. **Notification Concerning Violations of Investment Policy**

If this Investment Policy is violated, the Chief Financial Officer shall be informed immediately and advised of any corrective action that should be taken, as well as the implication of such action.

4. **QUALIFIED FINANCIAL INSTITUTIONS**

4.1. **Qualifications for Brokers, Dealers and Agents**

The Director of Finance and Treasury Operations and/or the Authority’s Investment Manager shall identify broker/dealers that are approved for investment purposes (“Qualified Institutions”) and maintain a list of such approved dealers. Only firms meeting the following requirements will be eligible to serve as Qualified Institutions:

- “Primary” dealers and regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule);
- Registered as a dealer under the Securities Exchange Act of 1934;
- Member in good standing of the National Association of Securities Dealers (NASD);
Registered to sell securities in the State; and
The firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

When selecting trading partners, the Authority will also consider the firm’s quality, size, reliability, the Authority’s prior experience with the firm, the firm’s level of expertise and prior experience with respect to the contemplated transactions.

4.2. Qualifications for Investment Advisors/Managers

For the purpose of rendering investment management/advisory services to the Authority, the Authority may qualify any bank or trust company organized under the laws of any state of the United States of America, any national banking association, and any partnership, corporation, or person which is:

- Authorized to do business in the State as an investment manager/advisor; and
- Registered with the SEC under the Investment Advisor Act of 1940 or exempt from registration.

The Authority shall consider the firm’s capitalization, quality, size and reliability, the Authority’s prior experience with the firm, the firm’s level of expertise and prior experience with respect to the contemplated transaction.

4.3. Qualifications for Custodial Banks

To be eligible to hold Investment Securities purchased by the Authority or collateral securing its investments, a custodial bank shall be a member bank of the Federal Reserve System or maintain accounts with member banks of the Federal Reserve System to accomplish book-entry transfer of Investment Securities to the credit of the Authority. The custodian should not be the same party that is selling the Investment Securities. To be eligible to perform custodial services, the Chief Financial Officer, or his/her designee, must review the annual financial statements and credit ratings of the proposed custodian bank and based upon such review, affirmatively find that the proposed custodial bank is financially sound. Such determinations of creditworthiness shall be undertaken on a periodic basis as determined by the Chief Financial Officer.

4.4. Ongoing Disclosure

All brokers, dealers and other financial institutions described in sections 4.1, 4.2, and 4.3 shall be provided with current copies of the Authority’s Investment Policy. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the Authority has investment transactions.

4.5. Affirmative Action
Article 15-A of the Executive Law and 9 NYCRR Part 4.21 regarding affirmative action shall apply with respect to the Authority’s investment activities. The Authority shall seek to use minority and women-owned financial firms in the conduct of the Authority’s investment activities.

5. **REPORTING**

Management reporting is required by the Authority to track compliance with policy guidelines, assess the performance of the portfolio, and to inform appropriate management personnel.

5.1. **Management Reporting**

To manage the Investment Funds effectively and to provide management with useful information, it is necessary for the Director of Finance and Treasury Operations to report reliable and timely information regarding the investment transactions that take place.

A Quarterly Management Report on the investment management program shall be prepared by the Manager of Treasury Operations under the supervision of the Director of Finance and Treasury Operations and presented to the Chief Financial Officer and the Authority’s Board of Trustees. The Quarterly Management Report shall include:

- A portfolio inventory;
- Credit quality of each holding (or average credit quality of each fund);
- Duration (or average maturity) of each fund;
- Mark-to-market valuations on investments and collateral;
- A breakdown of the portfolio by counterparty; and
- Portfolio position against asset allocation target

An Annual Investment Report shall be prepared by the Manager of Treasury Operations and submitted by the Chief Financial Officer to the Board of Trustees and filed with the State Division of the Budget, State Comptroller, State Senate Finance Committee, and Assembly Ways and Means Committee. The Annual Investment Report may be a part of any other annual report that the Authority is required to make. The Annual Investment Report shall include the following:

- The Investment Policy is in compliance with Section 2925(3) of the Public Authorities Law and any amendments since last reported;
- An explanation of the Investment Policy and amendments;
- The results of the Annual Independent Audit (described in Section 3.3.);
- Investment income record of the Authority; and
- A list of the total fees, commissions or other charges paid to each investment banker, broker, agent, dealer and manager/advisor rendering investment associated services to the Authority since the date of the last investment report.

5.2. **Performance Reporting**

Performance reporting shall be included in the Management Reports and should track performance relative to specified benchmarks and sector indices for the current period and year-to-date. The Director of Finance and Treasury Operations and Chief Financial Officer will act on any weaknesses related to the management of the assets.
6. **APPLICABILITY**

This Investment Policy shall govern all investments initiated by the Authority after March 20, 2019 and shall not apply to any investments initiated by the Authority on or prior to March 20, 2019. Nothing contained in these Investment Policy shall be deemed to alter, affect the validity of, modify the terms of, or impair any contract, agreement or investment of funds made or entered into in violation of, or without compliance with, the provisions of this Investment Policy.

7. **BANK AUTHORIZATION**

The Chief Executive Officer or any authorized designees\(^1\) (“Authorized Persons”) are authorized to deposit any of the funds of the Authority in any commercial bank or financial institution whose long-term deposits are rated A- or better by Standard & Poor’s Corporation, A3 or better by Moody’s Investor Service, Inc. or A- or better by Fitch, Inc. (each such institution referred to herein as the “Bank”), either at its head office or at any of its branches.

Any funds of the Authority deposited in the Bank may be subject to withdrawal or charge at any time and from time to time upon checks, notes, drafts, bills of exchange, acceptances, undertakings, wire transfers or other instruments or orders for the payment of money when made, signed, drawn, accepted or endorsed, as applicable, on behalf of the Authority in accordance with the Financial Policies and Procedures of the Authority and its Service Provider by Authorized Persons.

---

1 The Chief Executive Officer’s designees under this Investment Policy shall include only persons permitted by the LIPA By-Laws, Article IV, Section 7(c) (Powers and Duties of the Chief Executive Officer) and Article VIII, Section 1 (Execution of Instruments), and any other applicable guidance or limitations provided by the LIPA Board of Trustees.
A. Distribution of the Investment Policy

The policy and all subsequent amendments, revisions and updates shall be distributed to Authority personnel per the approval of the Chief Financial Officer.

During the period in which the Authority retains investment manager(s), the investment manager(s) must also receive the Investment Policy and all amendments, updates, or revisions to insure compliance with the most current policy. Below is the distribution list matrix for the investment policy.

<table>
<thead>
<tr>
<th>Distribution List</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Trustees</td>
<td>As necessary</td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>As necessary</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>As necessary</td>
</tr>
<tr>
<td>Director of Finance and Treasury Operations</td>
<td>As necessary</td>
</tr>
<tr>
<td>VP and Controller</td>
<td>As necessary</td>
</tr>
<tr>
<td>Investment Manager(s)</td>
<td>As necessary</td>
</tr>
<tr>
<td>General Counsel</td>
<td>As necessary</td>
</tr>
<tr>
<td>Manager of Treasury Operations</td>
<td>As necessary</td>
</tr>
</tbody>
</table>

B. Roles and Responsibilities in Executing the Investment Policy

The roles and responsibilities for investment management at the Authority rest primarily with the Director of Finance and Treasury Operations and the Chief Financial Officer. The matrix below defines the roles and responsibilities of all parties involved in the execution of the Investment Policy.

<table>
<thead>
<tr>
<th>Roles</th>
<th>Responsibility</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Trustees</td>
<td>▪ Final Approval of the policy</td>
<td>▪ Annual</td>
</tr>
<tr>
<td></td>
<td>▪ Approval of exceptions to the policy (e.g. new investment types)</td>
<td>▪ As necessary</td>
</tr>
<tr>
<td></td>
<td>▪ Approval of revisions to the policy</td>
<td></td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>▪ Responsible for adherence to all Authority policies</td>
<td>▪ As necessary</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>▪ Approval of the policy</td>
<td>▪ Annual</td>
</tr>
<tr>
<td></td>
<td>▪ Approval of investment strategy</td>
<td>▪ Annual</td>
</tr>
<tr>
<td></td>
<td>▪ Approval of performance measurements</td>
<td>▪ Ongoing</td>
</tr>
<tr>
<td></td>
<td>▪ Approval of minor exceptions to the policy (i.e. amounts, maturities)</td>
<td>▪ As necessary</td>
</tr>
</tbody>
</table>
C. Segregation of Duties

The Authority requires adequate segregation of duties to prevent possible fraud, operational errors, misappropriation of funds, unauthorized trades, concealment of trades, and manipulation of accounting records. Personnel involved in risk monitoring activities should be segregated from risk taking (i.e. executing transactions).

<table>
<thead>
<tr>
<th>Activity to be Performed</th>
<th>Segregation Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Execution</td>
<td>Individuals who are authorized to execute transactions should not confirm and settle the trades or conduct account reconciliation activities.</td>
</tr>
<tr>
<td>Trade Confirmation</td>
<td>Individuals who conduct confirmations should not execute transactions.</td>
</tr>
<tr>
<td>Settlement – Disbursing and Receiving Funds</td>
<td>Individuals who handle cash settlement on the trades should not execute the trades. Cash settlement shall be transacted by any one of the authorized Authority signatories who did not participate in the trade execution. Only one signature is required due to the nature of the transaction, i.e., transfer of assets between Authority accounts.</td>
</tr>
<tr>
<td>Account Reconciliation</td>
<td>Account reconciliation activities must be segregated from trade execution activities.</td>
</tr>
</tbody>
</table>

D. Management Reporting
### Operating Procedures

Operating procedures for the administration of the Authority’s investment program should include the following:

- The establishment and maintenance of a system of internal controls;
- Each disbursement of funds (and corresponding receipt of Investment Securities) or delivery of Investment Securities (and corresponding receipt of funds) shall be based upon proper written authorization. If the authorization is initially given orally, there shall be documented confirmation from an authorized signatory of the Authority to the custodian;
- The process of initiating, reviewing and approving requests to buy and sell Investment Securities shall be documented and retained for audit purposes. Dealer limits should be established and reviewed regularly;
- Custodians must have prior authorization from the Authority to deliver obligations and collateral. All transactions must be confirmed, to the Authority. Delivery of obligations sold shall only be made upon receipt of funds; Custodial banks shall be required to report whenever activity has occurred in the Authority’s custodial account;
- There shall be at least monthly verification of both the principal amount and the market values of all investments and collateral. Appropriate listings shall be obtained from the custodian and compared against the Authority’s records;
- A record of investments shall be maintained. The records shall identify the Investment Security, the fund for which held, the place where kept, date of disposition and amount realized, and the market value and custodian of collateral;
- Methods for adding, changing or deleting information contained in the investment record, including a description of the documents to be created and verification tests to be conducted;
- A data base of records incorporating descriptions and amounts of investments, transaction dates, interest rates, maturities, bond ratings, market prices, and related information necessary to manage the portfolio;
- Requirements for periodic reporting and a satisfactory level of accountability.
APPENDIX B – NDTF INVESTMENT PROVISIONS

NUCLEAR DECOMMISSIONING TRUST FUND
INVESTMENT PROVISIONS

To meet the Authority’s objectives of funding future liabilities for the nuclear decommissioning obligations of the Authority’s 18% share of Nine Mile Point Unit 2, while balancing long-term risk and return and providing reasonable diversification, the NDTF Account shall allocate assets in accordance with the targets for each asset class as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Asset Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity Mutual Funds</td>
<td>35%</td>
</tr>
<tr>
<td>International Equity Mutual Funds</td>
<td>20%</td>
</tr>
<tr>
<td>Fixed Income Mutual Funds</td>
<td>25%</td>
</tr>
<tr>
<td>Fixed Income Mutual Funds – Inflation Protected Securities</td>
<td>20%</td>
</tr>
</tbody>
</table>

Domestic and International Equity Mutual Funds should replicate broad-based, low cost market index strategies. These funds may be designed to replicate the composition of benchmark market indices, such as those provided by Barclay’s, CRSP, Dow Jones, FTSE, MSCI, Russell, and S&P.

Fixed Income Mutual Funds should replicate the Barclays U.S. Treasury Inflation Protected Securities Index\(^1\) or the Barclay’s Capital U.S. Float Adjusted Aggregate Bond Market Index.

The portfolio should be rebalanced on a quarterly basis when any asset class falls outside of a 5% range of its asset weighting.\(^2\)

The Authority may from time to time find it necessary to hold cash, Treasury bills, money market mutual funds, investment accounts, or “sweep accounts” pending investment or for other reasons.

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\(^1\) Includes the inflation-indexed securities within the Barclays U.S. Treasury Bond Index, which represents U.S. Treasury obligations with maturities of more than one year.

\(^2\) The Authority shall have until May 31, 2019 to rebalance investments into the above stated investment allocation.
APPENDIX C – OPEB ACCOUNT INVESTMENT PROVISIONS

OPEB ACCOUNT
INVESTMENT PROVISIONS

To meet the Authority’s objectives of funding future contractual retirement benefit obligations while balancing long-term risk and return and providing reasonable diversification, the OPEB Account shall allocate assets in accordance with the targets for each asset class as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Asset Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity Mutual Funds</td>
<td>40%</td>
</tr>
<tr>
<td>International Equity Mutual Funds</td>
<td>25%</td>
</tr>
<tr>
<td>Fixed Income Mutual Funds</td>
<td>20%</td>
</tr>
<tr>
<td>Fixed Income Mutual Funds – Inflation Protected Securities</td>
<td>15%</td>
</tr>
</tbody>
</table>

Domestic and International Equity Mutual Funds should replicate broad-based, low cost market index strategies. These funds may be designed to replicate the composition of benchmark market indices, such as those provided by Barclay’s, CRSP, Dow Jones, FTSE, MSCI, Russell, and S&P.

Fixed Income Mutual Funds should replicate the Barclays U.S. Treasury Inflation Protected Securities Index\(^3\) or the Barclay’s Capital U.S. Float Adjusted Aggregate Bond Market Index.

The portfolio should be rebalanced on a quarterly basis when any asset class falls outside of a 5% range of its asset weighting.\(^4\)

The Authority may from time to time find it necessary to hold cash, Treasury bills, money market mutual funds, investment accounts, or “sweep accounts” pending investment or for other reasons.

---

\(^3\) Includes the inflation-indexed securities within the Barclays U.S. Treasury Bond Index, which represents U.S. Treasury obligations with maturities of more than one year.

\(^4\) The Authority shall have until May 31, 2019 to rebalance investments into the above stated investment allocation.
The Long Island Power Authority
Investment Report

SECTION III

Auditors’ Report
The Long Island Power Authority
Investment Report

SECTION IV

Income Summary
<table>
<thead>
<tr>
<th>Fund</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Fund</td>
<td>$4,289,117</td>
</tr>
<tr>
<td>Rate Stabilization Fund</td>
<td>6,369,182</td>
</tr>
<tr>
<td>Construction Fund I</td>
<td>525,401</td>
</tr>
<tr>
<td>Construction Fund II</td>
<td>4,523,354</td>
</tr>
<tr>
<td>OPEB Account</td>
<td>9,170,636</td>
</tr>
<tr>
<td>Nuclear Decommissioning Trust Fund</td>
<td>16,560,423</td>
</tr>
<tr>
<td>Utility Debt Securitization Authority</td>
<td>3,812,218</td>
</tr>
<tr>
<td>Bank Account Interest</td>
<td>3,011,168</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>13,932</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$48,275,432</strong></td>
</tr>
</tbody>
</table>

Not included above is the Grant Account managed by LIPA's Investment Advisor which earned $1,248,115 in 2019, however, in accordance with FEMA guidance such income must be returned to FEMA. Therefore, LIPA's financial statements reflect a liability to FEMA, and do not include these earnings as Investment Income.
FOR CONSIDERATION  
December 18, 2019

TO: The Board of Trustees  
FROM: Thomas Falcone  
SUBJECT: Approval of the Annual Report and Amendments on the Board’s Policy on Governance and Agenda Planning

__________________________________________________________

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 Policy on Board Governance and Agenda Planning (the “Governance Policy” or the “Policy”) for the period since the last annual review of 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. 1323, dated September 21, 2016, the Board adopted the Policy. The Policy provides that “The members of the Board of Trustees of the Long Island Power Authority are fiduciaries who are collectively entrusted with responsibility for the Authority, including ensuring the Authority achieves its mission and values for the benefit of its customer-owners.” The Board conducts an annual review of the Policy and considers as part of its annual review whether LIPA has remained in compliance with the Policy and whether any updates or revisions should be made to the Policy. The Board last reviewed the Policy in October 2018.

Compliance with the Board Policy on Governance and Agenda Planning

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

The Policy provides that “the Board will use the expertise of individual members to enhance the understanding of the Board as a body, without allowing the expertise of individual members or staff to substitute for the judgment of the Board as a whole.”

- Trustees are assigned by the Chair to Board Committees based, in part, on their individual experience outside the Authority.
- Trustees have adopted a Board Policy process to provide clear direction to staff from the Board, acting as a whole, rather than from Trustees acting as individual members.
- The Trustees have annually conducted a survey and review of their collective performance, and have instituted improvements to the Board’s governance, such as the Board Policy
process, changes to Committee charters, the addition of developmental topics to the Board’s agenda, and better use of the Board’s time through judicious use of a Consent Agenda for consensus and ministerial items.

The Policy provides that “the Board will direct and control the Authority through the careful establishment of broad written policies reflecting the Board’s values and perspectives for the benefit of the Authority’s customer owners. The Board’s major policy focus will be on the intended long-term impacts, not on the administrative means of attaining those impacts, which are the role of the chief executive and service provider.”

- The Board has over the course of five years adopted approximately twenty policies that focus on the intended long-term impacts, rather than the administrative means of achieving those impacts. New policies are developed, and existing policies are revised at the direction of the Board to address the Authority’s long-term plans and values or adapt to changing circumstances in the industry or within the Authority’s operations.
- This month, the Board has adopted an additional policy specifically relating to Information and Physical Security.

The Policy provides that “the Board will monitor the Board’s process, performance and activities in comparison to its governance objectives.”

- The Board policies are reviewed by the Board or appropriate Committee annually for compliance purposes. The annual reports include information relating to performance and activities in furtherance of the Board’s governance objectives. In addition, the Governance Committee conducts an annual review of the overall effectiveness of the Board.
- The Policy Implementation Reports are available on the Authority’s website.

The Policy provides that “the Board will pursue continual board education and development across all areas of the Authority’s operations and Board activities, including orientation of new members in the Board’s fiduciary duties, governance process, and periodic discussion of governance process improvement.”

- LIPA staff yearly provides the Board with training opportunities, including those requested by the Trustees, in a variety of different areas including governance, utility operations and trends, electric rates and finance.

The Policy provides that “the Board will establish and maintain an outline of the core competencies required for an effective Board member (see, Appendix A of the Policy); and establish and maintain a list of Trustee expectations to ensure that all Trustees have a common understanding of the requirements for a productive and engaged Board member (see, Appendix B of the Policy).”

- The Board has adopted both a set of core competencies and a list of expectations, which are reviewed annually.

- As described below, Authority Staff is proposing to amend Appendix B of the Policy relating to Trustee expectations to include a set of expectations specifically for the Chairpersons of the
Board and Committees, which is an improvement at the direction of the Board from its last annual governance review.

The Policy provides that “the Board will systematically monitor the performance of the Chief Executive Officer and service provider relative to the policies of the Board relating to its mission and values and any limitations established by Board policy. To do so, the Board will adopt a schedule developed as part of the annual Board agenda planning process. . .”

- Annually the Governance, Planning and Personnel Committee reviews the performance of the Chief Executive Officer relative to the policies of the Board.
- Annually Staff provides the Board with the proposed agenda for all Board meetings for the Boards review and comment. Likewise, the Secretary to the Board provides periodic reports relating to compliance with each policy, as appropriate.
- The Authority’s Service Provider, typically at each Board meeting, provides the Trustees with information relating to the Service Provider’s performance under the Amended and Restated Operations Services Agreement. Similar, for those Board policies relating to the Authority’s mission, the Service Provider and Authority staff report annually to the Board on progress relative to that stated policy.

Proposed Changes to the Board Policy

The proposed changes to the Policy, as shown in Exhibit “B”, include the following:

- Appendix B of the Policy now includes a section relating to the expectations of the Chairpersons for the Board and Committees;
- Consistent with recent practice, the Policy provides that the annual agenda setting presentation in the fourth quarter of each year is presented to the full Board rather than to the Governance Committee; and
- Certain other non-material clarifications and formatting changes.

Recommendation

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

Attachments

Exhibit “A” Resolution
Exhibit “B” Board Governance and Agenda Planning Policy (redline)
Exhibit “C” Board Governance and Agenda Planning Policy (clean)
Exhibit “D” Report to the Board on the Board Governance and Agenda Planning Policy
RESOLUTION APPROVING THE REPORT TO THE BOARD OF TRUSTEES ON THE BOARD GOVERNANCE AND AGENDA PLANNING POLICY AND AMENDMENTS TO THE POLICY

WHEREAS, the Board Governance and Agenda Planning Policy (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1323, dated September 21, 2016; and

WHEREAS, the Board has conducted an annual review of the Policy and affirms that the Policy has been complied with and the changes to the Policy recommended herein are due and proper.

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, and approves the annual report to the Board; and

BE IT FURTHER RESOLVED, that consistent with the accompanying memorandum, the changes to the Policy that are reflected in attachment Exhibit “B” are hereby approved.

Dated: December 18, 2019
Policy on Board Governance and Agenda Planning

The members of the Board of Trustees of the Long Island Power Authority (“LIPA” or “the Authority”) are fiduciaries who are collectively entrusted with responsibility for the Authority, including ensuring LIPA achieves its mission and values for the benefit of its customer-owners. The Chief Executive Officer of the Authority, including acting through the Authority’s service provider, is responsible for implementing the Board’s policies and the day-to-day operations of the Authority.

Board Objectives for Governance

To achieve its purpose, the Board of the Authority must govern with attention to its fiduciary duties of loyalty and care and by emphasizing through its actions and agendas:

- outward vision;
- the mission and values of the Authority;
- decisions and actions of the Board arrived at based on deliberation and a spirit of cooperation and collegiality with due respect for the expression of individual opinions;
- informed and fact-based discussion and debate;
- encouragement and exploration of diverse viewpoints regarding mission, policy, and actions;
- clear and appropriate distinction of Board and chief executive roles and responsibilities; and;
- proactivity rather than reactivity.

Accordingly, the Board will:

- Use the expertise of individual members to enhance the understanding of the Board as a body, without allowing the expertise of individual members or staff to substitute for the judgment of the Board as a whole.
- Direct and control the Authority through the careful establishment of broad written policies reflecting the Board’s values and perspectives for the benefit of the Authority’s customer-owners. The Board’s major policy focus will be on the intended long-term impacts, not on the administrative means of attaining those impacts, which are the role of the chief executive and service provider.
- Monitor the Board’s process, performance and activities in comparison to its governance objectives.
- Pursue continual board education and development across all areas of the Authority’s operations and Board activities, including orientation of new members in the Board’s
fiduciary duties, governance process, and periodic discussion of governance process improvement.

- Establish and maintain an outline of the core competencies required for an effective Board member (See Appendix A).
- Establish and maintain an outline of the core competencies required for an effective Chairperson and Committee Chairs (See Appendix A).
- Establish and maintain a list of Trustee expectations to ensure that all Trustees have a common understanding of the requirements for a productive and engaged Board member (See Appendix B).
- Systematically monitor the performance of the Chief Executive Officer and service provider relative to the policies of the Board relating to its mission and values and any limitations established by Board policy. To do so, the Board will adopt a schedule developed as part of the annual Board agenda planning process discussed below.

### Annual Board Agenda Planning

A proactive approach to governance consistent with the Board’s responsibilities begins with setting the Board’s agenda each year. Accordingly, the Board will plan an annual cycle of governance and development topics for its meetings that (a) completes an annual re-exploration of its mission and values, and the policies to achieve those ends and (b) continually improves Board performance through Board education, development and deliberation.

- The annual Board agenda cycle will start in the fourth quarter of each year with the Board’s development of topics for each meeting for the following year.
  - The Governance, Planning and Personnel Committee will recommend a schedule of Board meetings and topics for each Board meeting for the coming year to the Board Chair by the first Board meeting of each year. That annual schedule will include a review of the objectives and accomplishments of the Authority and its service provider related to each of the Board’s “mission” and “operating” policies.
  - The Committee will also recommend a schedule of education and development for the Trustees for the year (e.g. presentations by industry experts, advocacy groups, staff) on key areas of focus (e.g. governance, customer voice, finance, rates and risk, and operations and planning), to be arranged by staff based on the topics requested by the Board.
- Throughout the year, the Board will attend to consent agenda items as expeditiously as possible to leave time available to address governance and development items requiring discussion.

A sample Board meeting agenda is provided as Appendix C. It is the intent of the Board to follow the format of the sample Board agenda, with allowances for specific circumstances as they arise.

Appendix A: Trustee, Chair and Committee Chair Core Competencies and Attributes

Appendix B: Trustee Expectations

Appendix C: Sample Board Agenda
Appendix A

Competencies and Professional Attributes for LIPA Trustees

Section 1020-d of the LIPA Reform Act requires that all Trustees appointed to the Long Island Power Authority’s (“LIPA” or the “Authority”) Board of Trustees (the “Board”) shall reside in the service territory and have relevant utility, corporate board or financial experience.

Section 2824 of the Public Authorities Law of the State of New York requires that the board of each public authority establish a governance committee whose responsibilities include advising those responsible for appointing Trustees, on the skills and experiences required of potential Trustees. LIPA’s Governance, Planning and Personnel Committee’s (the “Governance Committee”) charter provides that that Committee is responsible for “developing a description of the competencies and personal attributes required of Trustees to assist those authorized to appoint members to the Board in identifying qualified individuals.” In addition, the LIPA Board’s Policy on Board Governance and Agenda Planning requires the Authority to establish and maintain an outline of the core competencies required to be an effective Board member and an effective Board or Committee Chairperson.

The Governance Committee has prepared, and the LIPA Board of Trustees has approved this document to provide guidance to those charged with appointing LIPA’s Trustees on the key roles and responsibilities of LIPA’s Trustees and the competencies, skills and experience necessary to satisfy the requirements of the LIPA Reform Act and govern the business of the Authority.

Key Roles and Responsibilities of Trustees

Trustees are responsible for fulfilling the legal and fiduciary duties incumbent upon them as policymakers. The Board defines the mission and values of the Authority with a focus on key dimensions of utility performance such as rate competitiveness, fiscal soundness, reliability, customer service and value, and environmental stewardship. In addition, the Board sets policy for the Authority and ensures its performance on behalf of its customer-owners, including setting LIPA’s rates and charges, hiring and evaluating certain of LIPA’s senior officers, and approving its budgets and major contracts.

In order to carry out the key roles and responsibilities of the Board, it is the opinion of the Board that each Trustee must possess qualifications necessary to oversee the operation of an electric utility that affects the economy, quality of life, operations, and energy efficiency of every home, business, and institution in the utility’s service territory. Moreover, it is imperative that Trustees understand the complex industry issues they are required to set policy on and, in certain cases, consider and take action on.

Required Experience and Skill of Trustees

As required by Section 1020-d of the LIPA Reform Act, individuals considered for appointment to the Board must have experience in at least one of the following three areas:
• Prior utility experience or energy industry experience, such as individuals who prior to their respective appointments, have been employed by an electric or gas utility company, or have been voting members of one or more groups, companies, associations or organizations dedicated to utility, energy or environmental matters.

• Finance and/or accounting expertise and experience, such as individuals who prior to their respective appointments, have had past employment experience in finance or accounting, professional certification in finance or accounting, or any other comparable experience or a background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities at a firm with sizable financial resources or exposure.

• Corporate Board or Corporate Governance experience, such as serving on the Board of a large business or not-for-profit organization with substantial financial resources, executive experience working directly with a board in an official capacity, or direct experience in providing advice and analysis to the board of a large business or not-for-profit organization with substantial financial resources.

In addition, the Board suggests that specific expertise relevant to the Board’s Committees, such as the Committees listed below, would be helpful to the conduct of the Board’s responsibilities. For example, such experience may include specific experience in general governance of the Authority’s business, management of personnel and compensation, public policy setting or other skills that might be relevant to the Authority now or in the future.

Preferred Attributes of Trustees

Trustees are expected to work collaboratively to address the business of the Authority, establish policies and expectations, and make sound judgments in performing their fiduciary responsibilities to the customer-owners of the Authority. In order to perform effectively, it is expected that Board members will exhibit the following professional attributes:

• Ability to work collaboratively to arrive at consensus and joint-decision making. Demonstrably favorable prior experience in working with recognized issues-oriented committees, business associations or community groups is recommended.

• Ability to communicate clearly and to the point on issues that affect the business of the Board. Recognized experience in dealing publicly with issues in a calm and balanced manner and promoting the positions espoused by a group or committee in public forums is recommended.

• Ability to weigh all sides of an issue. Trustees need to represent all of the Authority’s customer-owners and are not appointed to represent any single constituency or interest group. A demonstrated ability to find common ground and accept input from a broad range of viewpoints is recommended.

• Ability to commit significant time and effort to the Authority’s business. The number and range of issues that Trustees need to deliberate and decide on requires a significant
commitment of time and effort for Trustees to be educated, to weigh the input of all parties and constituencies, and to deliberate on matters of policy and performance. A demonstrated ability to commit sufficient time to the Authority and to manage that time wisely is recommended.

**Board Committees that Require Specific Competencies**

The LIPA Board has established three committees to provide specific, specialized guidance to the Board as a whole and to LIPA’s executive management, and to allow for more detailed examinations of strategic issues. A list of these committees and the particular responsibilities of each is provided below. It is the opinion of the Committee that those elected officials responsible for appointing Trustees to the LIPA Board should appoint individuals that possess some of the competencies and experience listed below in order to ensure proper and effective functioning of the LIPA Board.

- **Finance and Audit Committee** - The members of this committee must be familiar with corporate financial and accounting practices and should possess a basic understanding of governmental financial reporting and auditing. Members are responsible for overseeing, monitoring and making recommendations with respect to the Authority’s investment and debt management policies and procedures, internal and external audit process, the financial reporting process and the system of risk assessment and internal controls with specific responsibility for:
  - annual budgets;
  - borrowing, debt management, and interest rate exchange agreements;
  - power supply hedging;
  - investments including the Authority’s investment policy and the investment of assets;
  - financial statements and disclosure matters;
  - internal audit;
  - enterprise risk management and internal control; and
  - compliance oversight

In addition, Finance and Audit Committee members are regularly required to opine on matters affecting financial policy.

- **Oversight and REV Committee** – The members of this committee must be familiar with electric utility operations and measuring performance, in connection with all aspects of electric utility operations in order to ensure that customers in LIPA’s service territory receive a safe, reliable, efficient, clean and economical supply of electricity. Members are
responsible for monitoring PSEG Long Island’s performance under the Amended & Restated Operations Services Agreement (“Amended OSA”) related to:

- performance metrics;
- emergency management;
- transmission and distribution operations;
- energy efficiency and renewable goals;
- capital and operating budget expenditures;
- communications with stakeholders;
- customer service;
- billing and collections;
- power supply and fuel supply management (as carried out by PSEG Energy Resources & Trade);
- power markets activities;
- senior management staffing;
- monitoring PSEG Long Island’s compliance with “Contract Standards” as defined in the Amended OSA, including compliance with applicable law and New York Public Service Commission (“PSC”) practices;
- PSEG Long Island’s implementation of recommendations included in Management and Operations Audit conducted by the Department of Public Service (“DPS”);
- reviewing Authority management’s operations and financial oversight process; and
- monitoring the policies, principles and recommendations being advanced by the Public Service Commission in its REV proceeding.

- Governance, Planning and Personnel Committee – The members of this committee must be familiar with the fiduciary responsibilities of Board members, governance best practices, the differing roles and responsibilities of the Board and management, corporate management, human resources, and compensation matters. Members are responsible for:
  - developing and recommending to the Board policies for the sound governance of the Authority including but not limited to the purpose and role of the Board, the Board’s relationship with the CEO of the Authority and other Board-appointed officers;
• developing, reviewing and updating, as needed, Codes of Ethics and Conduct, performance standards for the Board and employees of the Authority and other such policies as it deems necessary or appropriate to address transparency, independence, accountability, fiduciary responsibilities, and management oversight;

• updating the Authority's corporate governance principles;

• ensuring that the Board’s policies provide strategic direction for the Authority and that the Board is being effective in the utilization of the Authority’s assets and oversight of the Authority’s activities;

• advising those responsible for appointing Trustees on the skills and experiences required of potential Trustees;

• presenting recommendations to the Board relating to attraction, appointment, evaluation, retention, compensation, and separation from employment of the Authority’s CEO;

• overseeing the CEO’s administration of the Authority’s compensation and benefit plans and personnel policies and programs including those related to the attraction, retention, continued development, and separation from employment of employees;

• consulting with the CEO and advising the Board with respect to the attraction, appointment, retention and separation from employment of the Chief Financial Officer and General Counsel;

• advising the Board with respect to emergency succession planning for the position of the CEO.
Appendix B

Expectations of Individual LIPA Trustees:

- **Know and be able to Understand, articulate and model** the Authority’s mission, vision and values, and Board policies.
- Serve the Authority and its customer-owners as a whole rather than any constituency or special group.
- Volunteer to serve on Board committees as requested by the Chair.
- Be familiar with national, state and local trends and developments in the electric industry that affect the Authority.
- Attend and participate in all Board and committee meetings.
- Participate in training and development opportunities outside of Board and committee meetings.
- Be effective in all Board discussions and deliberations by being prepared and familiar with required reading materials provided in advance.
- Recognize potential leaders **in the community** for the Authority’s Board and identify them to their respective appointing authorities.
- **Understand, Support and comply with** the Authority’s by-laws and Board policies, including the Board Policy on Trustee Communications and the Trustee Code of Ethics and Conduct.
- Hold Authority information and data confidential until advised by the Chief Executive Officer or their designee that such information and data can be shared publicly.
- Participate in Board self-assessments and all other surveys and requests for information to continuously improve the Board’s performance.

Expectations of the Board and Committee Chairpersons:

- **Know and be able articulate the core responsibilities of the Board and respective Committees, as provided for in the Authority’s By-laws and Committee Charters.**
- Ensure that each Trustee and Committee Member is properly informed on voting items, and that Staff provides sufficient information in advance of votes to enable the Trustees or Committee Members to form appropriate judgments.
- Communicate amongst Trustees and Committee Members in advance of each meeting in order to hold each Trustee or Committee Member accountable for knowing and understanding the content and significance of the materials provided by Authority Staff.
- Encourage participation by each Trustee and Committee Member.
- **Provide input to the Chief Executive Officer or his/her designee on agenda planning in advance of each meeting.**
- Serve as the leader and facilitator during Board and Committee meetings to ensure that each meeting is conducted with respect and decorum, and in compliance with the Board Policy on Trustee Communications.
- **Support and encourage continuing education for Trustees and Committee Members to develop individual and collective skill sets.**
Appendix C

Sample Board Meeting Agenda

- Call to Order – Attendance
- Chair’s Remarks
  - Chief Executive Officer report
- Consent Agenda (to be developed for each meeting by Board Chair)
  - Approval of prior meeting minutes
  - Approval of ministerial items
- Board Reports
  - Chief Financial Officer report
  - Secretary’s Report on Communications and Board Policies
  - Service Provider report on performance against contract standards
  - Other specific items as requested by the Board
- Governance Topics and Monitoring of Board-Specified Performance Objectives
  - Scheduled annual review of Board policies related to mission, values or governance and suggested amendments or new policies (to be scheduled on an annual basis by the Governance Committee and ratified at the first Board meeting of the year)
  - Presentations for Board development and education
  - Governance items for discussion (new developments, violations, etc.)
- Other agenda items as may lawfully come before the Board
- Public comment
- Adjourn
Board Policy: Board Governance and Agenda Planning

Policy Type: Governance

Monitored By: Governance, Planning and Personnel Committee

Board Resolution: #1323, approved September 21, 2016
#1439, amended October 24, 2018
#[XXX], amended December 18, 2019

Policy on Board Governance and Agenda Planning

The members of the Board of Trustees of the Long Island Power Authority ("LIPA" or "the Authority") are fiduciaries who are collectively entrusted with responsibility for the Authority, including ensuring LIPA achieves its mission and values for the benefit of its customer-owners. The Chief Executive Officer of the Authority, including acting through the Authority’s service provider, is responsible for implementing the Board’s policies and the day-to-day operations of the Authority.

Board Objectives for Governance
To achieve its purpose, the Board of Trustees must govern with attention to its fiduciary duties of loyalty and care and by emphasizing through its actions and agendas:

- outward vision;
- the mission and values of the Authority;
- decisions and actions of the Board arrived at based on deliberation and a spirit of cooperation and collegiality with due respect for the expression of individual opinions;
- informed and fact-based discussion and debate;
- encouragement and exploration of diverse viewpoints regarding mission, policy, and actions;
- clear and appropriate distinction of Board and chief executive roles and responsibilities; and;
- proactivity rather than reactivity.

Accordingly, the Board will:

- Use the expertise of individual members to enhance the understanding of the Board as a body, without allowing the expertise of individual members or staff to substitute for the judgment of the Board as a whole.
- Direct and control the Authority through the careful establishment of broad written policies reflecting the Board’s values and perspectives for the benefit of the Authority’s customer-owners. The Board’s major policy focus will be on the intended long-term impacts, not on the administrative means of attaining those impacts, which are the role of the chief executive and service provider.
- Monitor the Board’s process, performance and activities in comparison to its governance objectives.
- Pursue continual board education and development across all areas of the Authority’s operations and Board activities, including orientation of new members in the Board’s
fiduciary duties, governance process, and periodic discussion of governance process improvement.

- Establish and maintain an outline of the core competencies required for an effective Board member (See Appendix A).
- Establish and maintain an outline of the core competencies required for an effective Chairperson and Committee Chairs (See Appendix A).
- Establish and maintain a list of Trustee expectations to ensure that all Trustees have a common understanding of the requirements for a productive and engaged Board member (See Appendix B).
- Systematically monitor the performance of the Chief Executive Officer and service provider relative to the policies of the Board relating to its mission and values and any limitations established by Board policy. To do so, the Board will adopt a schedule developed as part of the annual Board agenda planning process discussed below.

**Annual Board Agenda Planning**

A proactive approach to governance consistent with the Board’s responsibilities begins with setting the Board’s agenda each year. Accordingly, the Board will plan an annual cycle of governance and development topics for its meetings that (a) completes an annual re-exploration of its mission and values, and the policies to achieve those ends and (b) continually improves Board performance through Board education, development and deliberation.

- The annual Board agenda cycle will start in the fourth quarter of each year with the Board’s development of topics for each meeting for the following year.
  - The Board will adopt a schedule of Board meetings and topics for each Board meeting for the coming year. That annual schedule will include a review of the objectives and accomplishments of the Authority and its service provider related to each of the Board’s “mission” and “operating” policies.
  - The Board will also adopt a schedule of education and development for the Trustees for the year (e.g. presentations by industry experts, advocacy groups, staff) on key areas of focus (e.g. governance, customer voice, finance, rates and risk, and operations and planning), to be arranged by staff based on the topics requested by the Board.
- Throughout the year, the Board will attend to consent agenda items as expeditiously as possible to leave time available to address governance and development items requiring discussion.

A sample Board meeting agenda is provided as Appendix C. It is the intent of the Board to follow the format of the sample Board agenda, with allowances for specific circumstances as they arise.

**Appendix A**: Trustee, Chair and Committee Chair Core Competencies and Attributes

**Appendix B**: Trustee Expectations

**Appendix C**: Sample Board Agenda
Appendix A

Competencies and Professional Attributes for LIPA Trustees

Section 1020-d of the LIPA Reform Act requires that all Trustees appointed to the Long Island Power Authority’s (“LIPA” or the “Authority”) Board of Trustees (the “Board”) shall reside in the service territory and have relevant utility, corporate board or financial experience.

Section 2824 of the Public Authorities Law of the State of New York requires that the board of each public authority establish a governance committee whose responsibilities include advising those responsible for appointing Trustees, on the skills and experiences required of potential Trustees. LIPA’s Governance, Planning and Personnel Committee’s (the “Governance Committee”) charter provides that that Committee is responsible for “developing a description of the competencies and personal attributes required of Trustees to assist those authorized to appoint members to the Board in identifying qualified individuals.” In addition, the LIPA Board’s Policy on Board Governance and Agenda Planning requires the Authority to establish and maintain an outline of the core competencies required to be an effective Board member and an effective Board or Committee Chairperson.

The Governance Committee has prepared, and the LIPA Board of Trustees has approved this document to provide guidance to those charged with appointing LIPA’s Trustees on the key roles and responsibilities of LIPA’s Trustees and the competencies, skills and experience necessary to satisfy the requirements of the LIPA Reform Act and govern the business of the Authority.

Key Roles and Responsibilities of Trustees

Trustees are responsible for fulfilling the legal and fiduciary duties incumbent upon them as policymakers. The Board defines the mission and values of the Authority with a focus on key dimensions of utility performance such as rate competitiveness, fiscal soundness, reliability, customer service and value, and environmental stewardship. In addition, the Board sets policy for the Authority and ensures its performance on behalf of its customer-owners, including setting LIPA’s rates and charges, hiring and evaluating certain of LIPA’s senior officers, and approving its budgets and major contracts.

In order to carry out the key roles and responsibilities of the Board, it is the opinion of the Board that each Trustee must possess qualifications necessary to oversee the operation of an electric utility that affects the economy, quality of life, operations, and energy efficiency of every home, business, and institution in the utility’s service territory. Moreover, it is imperative that Trustees understand the complex industry issues they are required to set policy on and, in certain cases, consider and take action on.

Required Experience and Skill of Trustees

As required by Section 1020-d of the LIPA Reform Act, individuals considered for appointment to the Board must have experience in at least one of the following three areas:

- Prior utility experience or energy industry experience, such as individuals who prior to their respective appointments, have been employed by an electric or gas utility company,
or have been voting members of one or more groups, companies, associations or organizations dedicated to utility, energy or environmental matters.

- Finance and/or accounting expertise and experience, such as individuals who prior to their respective appointments, have had past employment experience in finance or accounting, professional certification in finance or accounting, or any other comparable experience or a background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities at a firm with sizable financial resources or exposure.

- Corporate Board or Corporate Governance experience, such as serving on the Board of a large business or not-for-profit organization with substantial financial resources, executive experience working directly with a board in an official capacity, or direct experience in providing advice and analysis to the board of a large business or not-for-profit organization with substantial financial resources.

In addition, the Board suggests that specific expertise relevant to the Board’s Committees, such as the Committees listed below, would be helpful to the conduct of the Board’s responsibilities. For example, such experience may include specific experience in general governance of the Authority’s business, management of personnel and compensation, public policy setting or other skills that might be relevant to the Authority now or in the future.

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Trustees are expected to work collaboratively to address the business of the Authority, establish policies and expectations, and make sound judgments in performing their fiduciary responsibilities to the customer-owners of the Authority. In order to perform effectively, it is expected that Board members will exhibit the following professional attributes:

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- Ability to commit significant time and effort to the Authority’s business. The number and range of issues that Trustees need to deliberate and decide on requires a significant commitment of time and effort for Trustees to be educated, to weigh the input of all parties and constituencies, and to deliberate on matters of policy and performance. A
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- Finance and Audit Committee - The members of this committee must be familiar with corporate financial and accounting practices and should possess a basic understanding of governmental financial reporting and auditing. Members are responsible for overseeing, monitoring and making recommendations with respect to the Authority’s investment and debt management policies and procedures, internal and external audit process, the financial reporting process and the system of risk assessment and internal controls with specific responsibility for:
  - annual budgets;
  - borrowing, debt management, and interest rate exchange agreements;
  - power supply hedging;
  - investments including the Authority’s investment policy and the investment of assets;
  - financial statements and disclosure matters;
  - internal audit;
  - enterprise risk management and internal control; and
  - compliance oversight

In addition, Finance and Audit Committee members are regularly required to opine on matters affecting financial policy.

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• performance metrics;
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• capital and operating budget expenditures;
• communications with stakeholders;
• customer service;
• billing and collections;
• power supply and fuel supply management (as carried out by PSEG Energy Resources & Trade);
• power markets activities;
• senior management staffing;
• monitoring PSEG Long Island’s compliance with “Contract Standards” as defined in the Amended OSA, including compliance with applicable law and New York Public Service Commission (“PSC”) practices;
• PSEG Long Island’s implementation of recommendations included in Management and Operations Audit conducted by the Department of Public Service (“DPS”);
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  • developing and recommending to the Board policies for the sound governance of the Authority including but not limited to the purpose and role of the Board, the Board’s relationship with the CEO of the Authority and other Board-appointed officers;
  • developing, reviewing and updating, as needed, Codes of Ethics and Conduct, performance standards for the Board and employees of the Authority and other such
policies as it deems necessary or appropriate to address transparency,

- independence, accountability, fiduciary responsibilities, and management oversight;

- updating the Authority’s corporate governance principles;

- ensuring that the Board’s policies provide strategic direction for the Authority and that the Board is being effective in the utilization of the Authority’s assets and oversight of the Authority’s activities;

- advising those responsible for appointing Trustees on the skills and experiences required of potential Trustees;

- presenting recommendations to the Board relating to attraction, appointment, evaluation, retention, compensation, and separation from employment of the Authority’s CEO;

- overseeing the CEO’s administration of the Authority’s compensation and benefit plans and personnel policies and programs including those related to the attraction, retention, continued development, and separation from employment of employees;

- consulting with the CEO and advising the Board with respect to the attraction, appointment, retention and separation from employment of the Chief Financial Officer and General Counsel;

- advising the Board with respect to emergency succession planning for the position of the CEO.
Appendix B

Expectations of Individual LIPA Trustees:

- Understand, articulate and model the Authority’s mission, vision and values.
- Serve the Authority and its customer-owners as a whole rather than any constituency or special group.
- Volunteer to serve on Board committees as requested by the Chair.
- Be familiar with national, state and local trends and developments in the electric industry that affect the Authority.
- Attend and participate in all Board and committee meetings.
- Participate in training and development opportunities outside of Board and committee meetings.
- Be effective in all Board discussions and deliberations by being prepared and familiar with required reading materials provided in advance.
- Recognize potential leaders in the community for the Authority’s Board and identify them to their respective appointing authorities.
- Understand, support and comply with the Authority’s By-laws and Board policies, including the Board Policy on Trustee Communications and the Trustee Code of Ethics and Conduct.
- Hold Authority information and data confidential until advised by the Chief Executive Officer or their designee that such information and data can be shared publicly.
- Participate in Board self-assessments and all other surveys and requests for information to continuously improve the Board’s performance.

Expectations of the Board and Committee Chairpersons:

- Know and be able articulate the core responsibilities of the Board and respective Committees, as provided for in the Authority’s By-laws and Committee Charters.
- Ensure that each Trustee and Committee Member is properly informed on voting items, and that Staff provides sufficient information in advance of votes to enable the Trustees or Committee Members to form appropriate judgments.
- Communicate amongst Trustees and Committee Members in advance of each meeting in order to hold each Trustee or Committee Member accountable for knowing and understanding the content and significance of the materials provided by Authority Staff.
- Encourage participation by each Trustee and Committee Member.
- Provide input to the Chief Executive Officer or his/her designee on agenda planning in advance of each meeting.
- Serve as the leader and facilitator during Board and Committee meetings to ensure that each meeting is conducted with respect and decorum, and in compliance with the Board Policy on Trustee Communications.
- Support and encourage continuing education for Trustees and Committee Members to develop individual and collective skill sets.
Appendix C

Sample Board Meeting Agenda

- Call to Order – Attendance
- Chair’s Remarks
- Chief Executive Officer report
- Consent Agenda (to be developed for each meeting by Board Chair)
  - Approval of prior meeting minutes
  - Approval of ministerial items
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  - Chief Financial Officer report
  - Secretary’s Report on Communications and Board Policies
  - Service Provider report on performance against contract standards
  - Other specific items as requested by the Board
- Governance Topics and Monitoring of Board-Specified Performance Objectives
  - Scheduled annual review of Board policies related to mission, values or governance and suggested amendments or new policies
  - Presentations for Board development and education
  - Governance items for discussion (new developments, violations, etc.)
- Other agenda items as may lawfully come before the Board
- Public comment
- Adjourn
Objective of the Board Governance and Agenda Planning Policy (adopted September 2016)

- Plan annual cycle of topics for Board and committee meetings to systematically monitor the totality of performance of LIPA and its Service Provider relative to the Board’s Policies

Trustee feedback received during 2019

- More frequent briefings on:
  - cyber
  - succession planning
- One night meeting should be considered (subject to scheduling and availability)
- One meeting in Suffolk County should be considered (subject to scheduling and availability)
- Continue to streamline process for educational/development workshops
2020 Proposed Topics for Trustee Workshops

**Customer Voice**
- Discussion of Media, Marketing and Outreach
- Storm/Emergency Communications, Systems and Technologies

**Governance**
- Deep-dive into LIPA and PSEG Long Island’s Enterprise Risk Management Programs

**Finance, Rates and Risks**
- Internal Controls and Risk Assessment
- Rate Setting Process and PSC Working Group Initiatives

**Operations and Planning**
- Northport visit (plant, cable and Iroquois pipeline)
- Discussion of pathways to the State’s 2040 goals (key challenges, including how transmission and renewables are built and paid for (i.e. physical grid vs. financial arrangements))

Staff will seek Trustees feedback to select 3 of the above topics of most interest to the Board to be addressed during 2020.
## Summary of LIPA Board and Committee Meetings in Past 12 Months

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*Total time spent does not include:
1) executive sessions which constituted approximately 4 hours (30 minutes per Board meeting);
2) briefings; and 3) workshops and other training opportunities
Summary of Proposed 2020 LIPA Meetings

*The proposed Board agenda for 2020 does not include:
1) a time allowance for executive sessions or emerging issues, which are likely to increase the total time spent by the Board during the year by 3-4 hours; or
2) Board briefings, workshops and training, which are in addition to the Board’s meeting schedule

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<th>Average Length</th>
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# Proposed January 22, 2020 Meetings

## Board
- Roll call, pledge, consent agenda, CEO, CFO, Secretary and Operating Reports ("Routine Board Matters") (30 mins.)
- Discussion of PSEG LI and PSEG ER&T’s 2019 OSA Metric Performance (20 mins.)
- Public Comment (20 mins.)
- Board Workshop (90 mins)

## Governance, Planning & Personnel
- Discussion of 2019 Goals and Accomplishments (25 mins.)
- Discussion of 2020 Work Plan (20 mins.)
- EXECUTIVE SESSION – SUCCESSION PLANNING

**Total proposed time for January meetings:** 3.4 hours
# Proposed March 27, 2020 Meetings

## Board
- Routine Board Matters (30 mins.)
- Debt and Capital Markets Policy (20 mins.)
- Review and Approval of 2019 Financials (10 mins.)
- Annual Governance Package (see Appendix) (15 mins.)
- Public Comment (20 mins.)
- EXECUTIVE SESSION – BOARD’S SELF-EVALUATION

## F&A
- Routine F&A Matters (20 mins.)
- 2019 Audit Results from Independent Auditors (20 mins.)
- EXECUTIVE SESSION with Independent Auditors (10 mins.)
- Recommendation to Approve 2019 Financials (25 mins.)
- Presentation from PSEG ER&T on Power and Fuel Supply Management and Hedging (20 mins.)
- Annual Financial Package (see Appendix) & Charter (15 mins.)

## Gov., Planning & Personnel
- CEO Performance and Compensation (20 mins.)
- Annual Governance Package & Committee Charter (15 mins.)
- Committee’s Annual Self-Report to the Board (includes results of Board’s self-evaluation for 2019) (10 mins.)

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**Total Duration:**
- Board: **155 mins.**
- F&A: **110 mins.**
- Gov., Planning & Personnel: **45 mins.**
Proposed March 27, 2020 Meetings, cont.

Oversight & REV

- Discussion of 2019 OSA Performance Metrics (20 mins.)
- Briefing on Winter Storm Summary (20 mins.)
- Committee’s Annual Self-Report to the Board (10 mins.)
- Consideration of a PPA (20 mins.)
- EXECUTIVE SESSION – CYBER (20 mins.)

Total proposed time for March meetings: 6.6 hours
### Proposed May 20, 2020 Meetings

#### Board
- Routine Board Matters (30 mins.)
- T&D System Reliability Policy (20 mins.)
- Customer Service Policy (20 mins.)
- Taxes, PILOTs and Assessments Policy (20 mins.)
- Public Comment (20 mins.)

#### [110 mins.]

#### F&A
- Routine F&A Matters (20 mins.)
- EXECUTIVE SESSION – Internal Audit (10 mins.)
- Review Quarterly Financials Ended March 30 (10 mins.)
- Review Audit Relationships Policy, Internal Audit Charter and Confirmation of Independence (15 mins.)
- Economic Development Policy (15 mins.)
- Committee’s Annual Self-Report to the Board (10 mins.)

#### [80 mins.]

#### Oversight & REV
- Update on Implementation of 2019 Utility 2.0 Programs (20 mins.)
- Review Annual Update to Emergency Response Plan (20 mins.)
- Summer Preparation for Power Supply & T&D (20 mins.)
- Review Committee Charter (10 mins.)

#### [70 mins.]

**Total proposed time for May meetings: 4.3 hours**
## Proposed July 22, 2020 Meetings

### Board
- Routine Board Matters (30 mins.)
- Resource Planning, Energy Efficiency & Renewables Policy (30 mins.)
- Customer Value & Affordability Policy (30 mins.)
- Public Comment (20 mins.)
- Board Workshop (90 mins.)

**Total proposed time for Board:** 200 mins.

### Oversight & REV
- Update on T&D Capital Budget (30 mins.)
- Presentation of Annual Energy Efficiency Report (20 mins.)
- Review Utility 2.0 Proposals (25 mins.)
- Committee’s Annual Self-Report to the Board (10 mins.)
- Consideration of a PPA (10 mins.)

**Total proposed time for Oversight & REV:** 95 mins.

### Governance, Planning & Personnel
- Staffing & Employment Policy (20 mins.)
- EXECUTIVE SESSION – SUCCESSION PLANNING (20 mins.)

**Total proposed time for Governance, Planning & Personnel:** 40 mins.

**Total proposed time for July meetings:** 5.5 hours
Proposed September 23, 2020 Meetings

| Board | • Routine Board Matters (30 mins.)  
       | • Construction of T&D Projects Policy (20 mins.)  
       | • Public Comment (20 mins.) | [70 mins.] |
|-------|---------------------------------------------------------------------------------|
| F&A   | • Routine F&A Matters (20 mins.)  
       | • Discuss Independent Auditor’s 2020 Audit Plan (20 mins.)  
       | • Enterprise Risk Management Policy and Annual Insurance Review (30 mins.)  
       | • Presentation from PSEG ER&T on Power and Fuel Supply Management and Hedging (20 mins.)  
       | • Power Supply Hedging Policy (15 mins.) | [105 mins.] |
| Oversight & REV | • Briefing on PSEG Long Island’s Energy Efficiency & Renewables Plan (20 mins.)  
                  | • Briefing on Implementation of Management Audit Recommendations (20 mins.) | [60 mins.] |
|        | • Oversight & LIPA Operations Policy (20 mins.)                                   |

**Total proposed time for September meetings:** 3.9 hours
Proposed November 18 Budget Meeting

Board

- Budget Presentation (90 mins.)
- Q&A (30 mins.)
- Board Workshop (90 mins.)

[210 mins.]

Total proposed time for November meetings: 3.5 hours
## Proposed December 16, 2020 Meetings

### Board
- Routine Board Matters (30 mins.)
- Approval of 2021 Budget (10 mins.)
- Approval of 2021 Plan of Finance (20 mins.)
- Approval of Tariff Changes (15 mins.)
- Governance and Agenda Planning Policy (20 mins.)
- Public Comment (20 mins.)

### F&A
- Routine F&A Matters (20 mins.)
- Approval of 2021 Budget (10 mins.)
- Approval of 2021 Plan of Finance (10 mins.)
- Approval of 2021 Internal Audit Plan and Resource Requirements (10 mins.)
- EXECUTIVE SESSION – Internal Audit (10 mins.)
- Approval of Tariff Changes (15 mins.)
- Review Quarterly Financials Ended September 30 (10 mins.)

### Governance, Planning & Personnel
- EXECUTIVE SESSION – SUCCESSION PLANNING

### Oversight & REV
- Safety Policy (20 mins.)
- Physical and Cyber Security (25 mins.)

**Total proposed time for December meetings: 4.6 hours**
Appendix
Annual Governance Package

- Procurement Policy
- Property Acquisition / Disposition Policy
- Lobbying Policy
- Mission Statement
- By-Laws
- Trustee Code of Ethics and Conduct
- Trustee Communications Policy
- Purpose and Role of LIPA Trustees Policy
- Whistleblower Policy
Annual Financial Package

- Investment and Risk Policy
- Interest Rate Exchange Agreement Policy
- Prompt Payment Policy
- Investment Report