Report to the LIPA Finance and Audit Committee
November 18, 2020

Power Supply Hedge Update
Agenda

- Hedging Is Prudent – Example of Natural Gas Price Volatility
- Hedging Is Prudent – Survey of Other Utilities
- Hedging Is Prudent – Volatility of Power Supply Charge vs. Market
Hedging Is Prudent – Example of Natural Gas Price Volatility

Henry Hub November 2020 Forward Natural Gas Price

EIA = US Energy Information Administration; LNG = Liquified Natural Gas
Hedging Is Prudent – Example of Natural Gas Price Volatility

EIA forecasts that gross U.S. LNG exports will fall to a low of 3.2 Bcf/d in July 2020. Demand ↓; Price ↓

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Hedging Is Prudent – Example of Natural Gas Price Volatility

Henry Hub November 2020 Forward Natural Gas Price

Warm summer, Demand Storage ↓, Price ↑

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5 tropical cyclones are in the Atlantic at the same time for only the second time in history. Supply ↓, Price ↑

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Hedging Is Prudent – Example of Natural Gas Price Volatility

Lack of cold weather in September, where is winter? Demand ↓ Price ↓

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Hedging Is Prudent – Example of Natural Gas Price Volatility

We see cold weather (blue). Demand ↑ Price ↑
Hedging Is Prudent – Example of Natural Gas Price Volatility

EIA forecasts that U.S. LNG exports will average more than 9.0 Bcf/d from December 2020 through February 2021.

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Hedging Is Prudent – Example of Natural Gas Price Volatility

In four months, we had large prices swing eventually ending at $3.00/dth.

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Hedge Plan Objectives

Industry Best Practices

Top 3 objectives in 2020 mirrored 2019 results:
- Volatility Reduction
- Budget/Rate Protection
- Catastrophic Price Protection

*Budget/Rate Protection moved up to the 2nd most important objective, swapping with Catastrophic Price Protection*

**LIPA Hedge Plan Parameter**

LIPA’s primary program objective is:
- To implement a framework by which LIPA/PSEG will carry out the Program with the primary objectives of reducing a portion of the volatility of energy supply prices in a programmatic & reasonable manner, over what LIPA’s customers would experience in the absence of a Program
- LIPA also has a Catastrophic Protection element in place
- Per the PRMC, LIPA has used Budget/Rate Protection when entering into longer-term hedges & allowing %’s to go above the defined plan
Hedging Is Prudent—Volatility of Power Supply Charge vs. Market

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