

FOR CONSIDERATION

August 11, 2021

TO: The Board of Trustees

FROM: Thomas Falcone

SUBJECT: Authorization to Execute a Power Purchase Agreement with the New York Power Authority and Approval of Regulatory Accounting Treatment

Requested Action

The Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to adopt a resolution authorizing the Chief Executive Officer or his designee to execute a Power Purchase Agreement (“PPA”) with the New York Power Authority (“NYPA”) for the purchase of generating capacity from NYPA’s Richard M. Flynn Power Plant (“Plant”); to adopt a resolution designating the lump sum payment required at the commencement of the PPA term as a regulatory asset to be recovered through the Power Supply Charge over the PPA term, which is 62 months commencing on November 1, 2021; and to take such other actions as may be reasonably necessary to implement the foregoing arrangements.

Background

The Richard M. Flynn Power Plant is a nominal 150-megawatt gas- and oil-fired combined cycle generating unit located in Holtsville, New York, that went into service in 1994. A legacy PPA between LILCO and NYPA expired in 2014. Since the expiration of that contract, NYPA has been selling the Plant’s output on a merchant basis in the wholesale market.

On April 9, 2021, the Plant experienced a generator failure that requires major repairs to restore the Plant to operation. NYPA indicated that wholesale market revenues alone would not support the cost of the necessary repairs and that the Plant would be mothballed. LIPA, in consultation with PSEG Long Island, determined that the Plant’s capacity would be beneficial to assure system reliability for the next several years in light of the recent outage experience among LIPA’s interties with neighboring utilities.

Discussion

PSEG Long Island negotiated terms of a new contract, in which LIPA would reimburse NYPA for its actual repair costs (“Lump Sum Payment”) and purchase the Plant’s capacity for a 62-month term commencing on or around November 1, 2021, and ending on December 31, 2026, at a total cost of approximately \$67 million.

Under the proposed PPA, LIPA will purchase all the capacity provided by the Plant at a fixed price, subject to an availability guaranty. NYPA will retain the Plant’s energy and ancillary services and bear the cost and risk of making such sales in the wholesale markets. LIPA would have the right to terminate the PPA prior to 2026 in the event of another significant Plant failure. Should NYPA continue to operate the Plant beyond the termination of the PPA, it will reimburse

LIPA for a portion of the repair cost. The proposed capacity price is consistent with those obtained in other recent PPA extensions.

LIPA Staff recommends that the Board approve a regulatory asset associated with the Lump Sum Payment under the PPA that would be amortized and recovered through the Power Supply Charge over the PPA term, which is a period of 62 months. Such recovery is consistent with the current treatment of fixed power supply expenses authorized under the Tariff for Electric Service, and Governmental Accounting Standards Board Pronouncement No. 62 (“GASB 62”).¹

Recommendation

For the foregoing reasons, I recommend that the Board authorize the Chief Executive Officer or his designee to take all actions, including, without limitation, execution of the PPA, establishment of a regulatory asset to be recovered under the Power Supply Charge over a period of 62 months, and all other related arrangements and agreements, as may be necessary or convenient.

Attachment

Exhibit “A” Resolution

¹ GASB 62 requires the Board (as regulator) to make evident its intention when the fixed costs of the power purchase agreements should be recovered through rates, but that the timing of the recovery will be different from the timing of the actual expenditures.

Exhibit “A”

**AUTHORIZATION TO ENTER INTO POWER PURCHASE AGREEMENT WITH THE
NEW YORK POWER AUTHORITY FOR THE PURCHASE OF GENERATING
CAPACITY AND APPROVAL OF REGULATORY ACCOUNTING TREATMENT**

WHEREAS, the Long Island Power Authority (“LIPA”) had a prior contract with the New York Power Authority (“NYPA”) to purchase the output of the Richard M. Flynn Power Plant (“Plant”), which took effect when the unit was put into service in 1994 and expired in 2014; and

WHEREAS, the Plant provides needed generating capability that contributes to system reliability; and

WHEREAS, PSEG Long Island and NYPA have negotiated a Power Purchase Agreement (“PPA”) under which NYPA will sell the generating capacity produced by the Plant to LIPA for a term of sixty-two months; and

WHEREAS, the PPA includes a lump sum payment from LIPA to NYPA that should be recovered from LIPA’s customers under the Power Supply Charge over the term of the PPA.

NOW, THEREFORE, BE IT RESOLVED, that the Chief Executive Officer and/or his designee be and hereby are authorized to execute and effect a PPA and other related agreements and arrangements, if any, consistent with the terms of the accompanying memorandum; to seek cost recovery for the upfront payment required under the PPA consistent with the approach outlined in the accompanying memorandum; and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chief Executive Officer and/or his designee, to implement LIPA’s purchase of generating capacity from NYPA.

Dated: August 11, 2021