Prepay Transactions

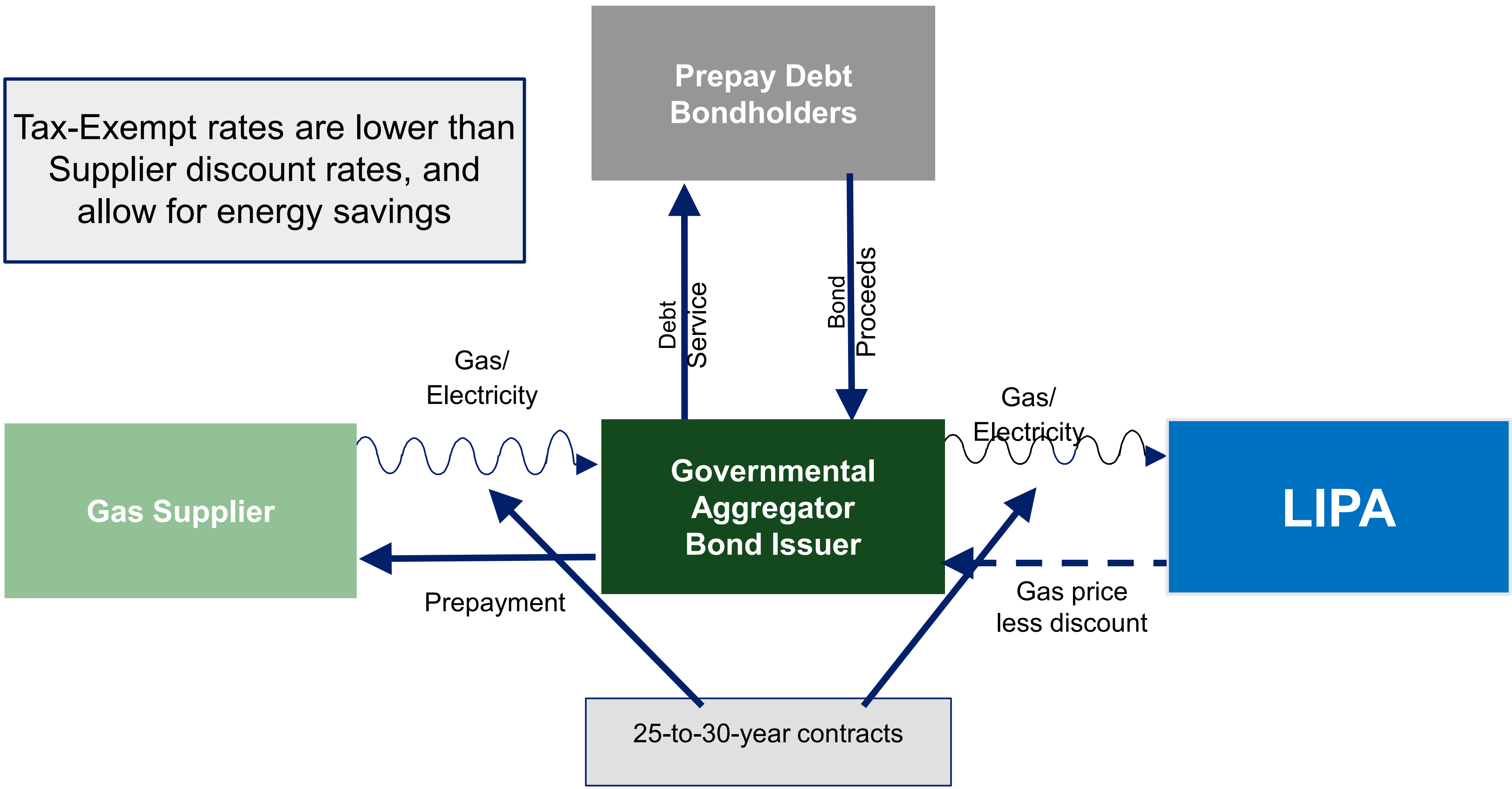
August 11, 2021

Long Island Power Authority

OVERVIEW - NATURAL GAS AND ELECTRIC PREPAYMENTS

- **Energy prepayment transactions enable municipal entities to issue tax-exempt debt to make a prepayment to an energy Supplier**
- **2003 Treasury regulations and 2005 Energy Policy Act created authorization for prepayments**
- **Regulations allow transactions to start out as either natural gas or electricity and convert to alternate energy at specified future dates at the purchaser's option**
- **There have been more than 60 of these transactions across the county with an estimated value of over $40 billion**
- **Expected prepay energy savings range from 7-10% of commodity value – roughly 30 cents per MmBtu for gas and $3 per MwH for electricity**
- **Most prepaying utilities are governmental, not-for-profit "Aggregators" that sell energy to end-user utilities, such as LIPA**
    - LIPA, as an "end-user," would be responsible for energy delivered (take-and-pay)
    - LIPA would pay a discounted price for energy delivered (targeting ~10% savings)

BASIC ENERGY PREPAYMENT STRUCTURE



TRANSACTION CONSIDERATIONS – RISK ALLOCATION VIA "TAKE-AND-PAY" STRUCTURE

The "take-and-pay" structure, and the bond investor's focus on the energy Supplier's credit, protects LIPA against many of the risks/concerns of a prepay

Risk	Mitigation
Supplier default on energy delivery	LIPA only pays if/when Supplier delivers energy Supplier/Guarantor assumes debt obligations in the event of Supplier default Bondholders look to Supplier/Guarantor
LIPA's uses less energy than expected or is required to reduce gas use due to environmental regulations or objectives	Supplier/Guarantor will remarket the gas to qualified entities to ensure LIPA compliance with Qualified Use Possible substitution of electricity for gas
Debt obligation associated with prepayment Rating agency treatment of prepay debt	Debt is non-recourse to LIPA, and LIPA's obligation is take and pay. Rating agencies do not count prepay transactions as debt or fixed costs of end users.

LIPA
Long Island Power Authority

FOR CONSIDERATION
August 11, 2021

TO: The Finance and Audit Committee

FROM: Thomas Falcone

SUBJECT: Recommendation to Authorize Execution of Prepaid Commodity Sales Agreements for Natural Gas and/or Electricity

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Requested Action

The Finance and Audit Committee (the "Committee") of Board of Trustees (the "Board") of the Long Island Power Authority ("LIPA") is being requested to recommend the authorization of the Chief Executive Officer or his designee to execute an agreement(s) with Southeast Energy Authority/Morgan Stanley Energy Structuring/Morgan Stanley & Co. LLC and/ or Southeast Energy Authority/J. Aron & Company LLC/Goldman Sachs & Co. LLC for a Prepaid Commodity Sales Agreement for Natural Gas and/or Electricity (the "Agreement").

Background

In the generation and delivery of electricity to Long Island and Rockaways customers, LIPA purchases both natural gas and electricity. Financial opportunities exist to reduce the cost of these purchases through Prepay Commodity programs. These programs are utilized by many public power and municipal gas utilities throughout the country to secure long-term discounts on the purchase of these commodities. LIPA would purchase the commodities through a long-term contract with a not-for-profit, governmental conduit prepay bond issuer. LIPA's contract would be for the purchase of natural gas, electricity, or natural gas with a conversion option to switch to electricity – either market-based or for renewable energy.

Discussion

Energy prepayments, and the amount of savings available, are a function of bond market dynamics and the underlying price of the commodity. Savings arise from the difference between a prepay bond issuer's lower cost of capital relative to that of a prepaid energy supplier who would typically finance in the taxable bond market. Entering into these agreements, as market opportunities are presented, will generate savings in LIPA's Power Supply Charge in the form of discounts on commodities. LIPA would purchase natural gas or electricity at a discount to a generally accepted market index. LIPA would enter a long-term (approximately 25 to 30 years) contract with the governmental prepay bond issuer. Under current market conditions, it is expected that the 25 to 30-year contract would reset roughly five years after the initial bond pricing and discount setting. LIPA's responsibility in the transaction is to take delivery and make payments for the commodity to the governmental prepay bond issuer at the time of delivery at the stated discounted price for a preset quantity. LIPA is not responsible for the bond debt. If the commodity is not delivered, LIPA has no obligation to make any payments.

LIPA has issued an energy prepay Request for Proposal to governmental prepay issuers, and reviewed the proposals. LIPA has selected a pool of two consortiums at this time to monitor the markets and propose options as they become feasible. These are financial transactions that are similar to bond refundings in their sensitivity to the commodity prices and interest rate relationships. LIPA would require minimum savings of $0.30 per mmBtu for natural gas or $1.00 per MwH for electricity for a contract to be considered. Market conditions may present options for multiple contracts. LIPA will not execute contracts in excess of the required commodity needs for current operations. Execution of all contracts will be reported to the Finance and Audit Committee of the Board of Trustees.

Recommendation

Based on the foregoing, I recommend that the Committee recommend to the Board the authorization the Chief Executive Officer or his designee to take all actions, including, without limitation, executing an agreement(s) with Southeast Energy Authority/Morgan Stanley Energy Structuring/Morgan Stanley & Co. LLC and/ or Southeast Energy Authority/J. Aron & Company LLC/Goldman Sachs & Co. LLC to enter into Prepaid Commodity Sales Agreement(s) for Natural Gas and/or Electricity.

Attachment

Exhibit "A" Resolution

Exhibit “A”

RECOMMENDATION TO AUTHORIZE THE EXECUTION OF PREPAID COMMODITY SALES AGREEMENT(S) FOR NATURAL GAS AND/OR ELECTRICITY

WHEREAS, in the generation and delivery of electricity to Long Island customers, the Long Island Power Authority (“LIPA”) purchases both natural gas and electricity; and

WHEREAS, financial opportunities exist to reduce the cost of these purchases through Prepay Commodity programs; and

WHEREAS, these programs are utilized by many public power and municipal gas utilities throughout the country to secure long-term discounts in the purchase of these commodities; and

WHEREAS, the commodities would be purchased by LIPA through a long-term contract with a not-for-profit, governmental conduit prepay bond issuer. LIPA’s contract would be for the purchase of natural gas, electricity, or natural gas with a conversion option to switch to electricity – either market-based or for renewable energy.

NOW, THEREFORE, BE IT RESOLVED, that the Finance and Audit Committee of the Board of Trustees hereby recommends that the Chief Executive Officer or his designee be authorized to execute and effect an agreement(s) with Southeast Energy Authority/Morgan Stanley Energy Structuring/Morgan Stanley & Co. LLC and/ or Southeast Energy Authority/J. Aron & Company LLC/Goldman Sachs & Co. LLC consistent with the terms of the accompanying memorandum, and to perform such other acts and deeds as may be necessary, convenient, or appropriate, in the judgment of the Chief Executive Officer or his designee, to implement the terms and conditions of such agreement.

Dated: August 11, 2021