

LONG ISLAND POWER AUTHORITY

MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING

HELD ON MAY 19, 2021

The Finance and Audit Committee of the Long Island Power Authority (“LIPA”) was convened at 8:47 a.m. at LIPA Headquarters, Uniondale, NY, pursuant to legal notice given on May 14, 2021 and electronic notice posted on LIPA’s website annually.

In compliance with Governor Andrew M. Cuomo’s Executive Order No. 202.1 on COVID-19 safety, the following guidelines were publicly posted and followed:

The Long Island Power Authority is taking steps to minimize the risk of exposure for the public and our employees. As such, LIPA will not be permitting in-person access to its May 19, 2021 Finance and Audit Committee meeting. Members of the public are encouraged to observe the live stream of the Finance and Audit Committee meeting posted at the LIPA website. The meeting will also be recorded and posted to LIPA’s website for later viewing.

The following LIPA Trustees were present:

Sheldon Cohen, Committee Chair (in person)
Elkan Abramowitz, Committee Member (in person)
Mark Fischl, Committee Member (in person)
Laureen Harris, Committee Member (via video conferencing)
Ali Mohammed (via video conferencing)
Drew Biondo (via video conferencing)
Peter Gollon (via video conferencing)

Representing LIPA, in person, were Thomas Falcone, Chief Executive Officer; Bobbi O’Connor, Chief Administrative Officer & Board Secretary; and Jen Hayen, Director of Communications. Participating via video conferencing were Tamela Monroe, Chief Financial Officer; Anna Chacko, General Counsel; Kenneth Kane, Senior Advisor to Operations Oversight; Rick Shansky, Senior Vice President of Power Supply and Wholesale Markets; Billy Raley, Senior Vice President of T&D Oversight; Donna Mongiardo, Vice President - Controller; Kathleen Mitterway, Senior Advisor for Audit; Tom Locascio,

Director of External Affairs; Jason Horowitz, Assistant General Counsel and Assistant Secretary to the Board; Joe Wiener, Assistant General Counsel; and Mark Smith, Senior Manager of Rates.

Representing PSEG LI via video conferencing were Richard Tinelli, Manager of Regulatory Requirements; and Premal Patel, Manager of Accounting Services.

Representing PSEG ER&T via video conferencing was Steven Oster, Senior Director of Wholesale Energy Services.

Chair Cohen welcomed everyone to the Finance and Audit Committee meeting of the Long Island Power Authority Board of Trustees.

Chair Cohen stated that the first item on the agenda is the adoption of the minutes from the March 29, 2021 Committee meeting.

Upon motion duly made and seconded, the minutes of the March 29, 2021 meeting were approved unanimously.

Chair Cohen stated that next item on the agenda is the Overview of Financial Results to be presented by Donna Mongiardo and Rich Tinelli and Prem Patel of PSEG LI.

Ms. Mongiardo, Mr. Tinelli and Mr. Patel presented the Overview of Financial Results and then took questions from the Trustees.

Chair Cohen stated that next item on the agenda is the Discussion of the 1st Quarter Financials, to be presented by Donna Mongiardo.

Ms. Mongiardo presented the Discussion of the 1st Quarter Financials and then took questions from the Trustees.

Chair Cohen stated that the next item on the agenda is the Discussion of Internal Audit Activities to be presented by Kathleen Mitterway.

Ms. Mitterway presented the Discussion of Internal Audit Activities and took questions from the Trustees.

Chair Cohen stated that the next item on the agenda is the Annual Review of the Confirmation of Independence and Code of Ethics and the Board Policy on Audit Relationships and Internal Audit Charter to be presented by Kathleen Mitterway.

Ms. Mitterway presented the following action items and took questions from the Trustees:

Requested Action

The Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to adopt a resolution recommending approval an amended Board Policy on Audit Relationships, as further described below.

Board Policy on Audit Relationships

The Finance and Audit Committee of LIPA’s Board of Trustees, in its Charter, was delegated the responsibility of reviewing LIPA’s policies regarding Audit Relationships.

The Board Policy on Audit Relationships defines the expectations of the Board regarding the existing authority granted to the Finance and Audit Committee for:

- **Selecting an independent certified public accounting firm to conduct annual audits of LIPA.**
- **The annual review of the audit plan as well as the Charter, activities, staffing, budget, and organizational structure of Internal Audit, and confirming the independence of the internal auditors.**
- **Monitoring, in consultation with the Vice President - Audit, the significant findings of internal audit reports and the status of the implementation of management’s action plans in response to such audit findings.**

- Setting forth the procedures for the Board of Trustees's receipt, review and implementation of any recommendations in a Management and Operations Audit conducted by the New York State Department of Public Service ("DPS").

Proposed Changes to Board Policy

The proposed changes to the Board Policy include (i) the change in reporting relationship to specify that the individual serving as chief audit officer reports administratively to the Chief Administrative Officer, (ii) replacing references to VP – Audit with chief audit executive, (iii) delegating to the Chief Executive Officer the power to appoint an individual to serve as chief audit executive on an interim basis, (iv) and certain other minor amendments. The proposed changes to the Policy are more specifically set forth in Exhibit "B".

Recommendation

Based upon the foregoing, I recommend the approval of the adoption of the resolution in the form attached hereto as Exhibit "A".

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RESOLUTION RECOMMENDING APPROVAL OF AMENDMENTS TO THE LONG ISLAND POWER AUTHORITY BOARD POLICY ON AUDIT RELATIONSHIPS

WHEREAS, the Board of Trustees of Long Island Power Authority ("LIPA") oversees the management of the Authority, the contractual relationship with LIPA's Service Provider, and fulfillment of LIPA's mission; and

WHEREAS, as stewards of LIPA, the Trustees are responsible for setting LIPA's audit relationship policy and overseeing its fulfillment; and

WHEREAS, the Finance & Audit Committee of LIPA's Board of Trustees, in its Charter, was delegated the responsibility of reviewing LIPA's policies regarding Audit Relationships;

WHEREAS, in LIPA's By-Laws, LIPA's Board of Trustees delegated certain responsibilities to the Chief Executive Officer for managing and directing the staff of LIPA; and

NOW, THEREFORE, BE IT IS RESOLVED, that the Finance and Audit Committee hereby recommends approval and adoption of the amended Policy on Audit Relationships, in accordance with the accompanying memorandum; and

BE IT FURTHER RESOLVED, that the Policy on Audit Relationships be subject to annual review and evaluation by the Finance & Audit Committee in accordance with the accompanying memorandum.

Requested Action

The Finance and Audit Committee (the “Committee”) is requested to adopt a resolution recommending revisions to the Long Island Power Authority (the “Authority”) Internal Audit Charter (the “Charter”) in the form attached hereto.

Background

The Charter, which was most recently adopted by the Committee on May 20, 2020, establishes the purpose, authority and responsibilities of Internal Audit.

Proposed Changes

Consistent with the Charter, the Committee has undertaken a thorough annual review of the Charter’s adequacy. Suggested revisions:

- replace all references to the Vice President - Audit with references to the individual serving as chief audit executive; and
- update the reference that the individual serving as chief audit executive reports administratively to the Chief Administrative Officer Recommendation

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

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RECOMMENDATION FOR APPROVAL OF REVISED LONG ISLAND POWER AUTHORITY INTERNAL AUDIT CHARTER

WHEREAS, the Trustees adopted on May 20, 2020, an Internal Audit (“Charter”) which establishes, among other things, the purpose, authority and responsibilities of Internal Audit; and

WHEREAS, the Trustees have reviewed the proposed revised Internal Audit Charter and believes it is reasonable and appropriate to approve it for the reasons set forth in the accompanying memorandum:

NOW, THEREFORE, BE IT RESOLVED, that the Trustees hereby adopt the Long Island Power Authority’s “Internal Audit Charter” in the form presented at this meeting.

Chair Cohen stated that the next item on the agenda is the Semi-Annual Presentation from PSEG ER&T on Power and Fuel Supply Hedging be presented by Steven Oster.

Mr. Oster presented the Semi-Annual Presentation from PSEG ER&T on Power and Fuel Supply Hedging and took questions from the Trustees.

Chair Cohen stated that the last item on the agenda is the Recommendation to Approve the Annual Report on the Board Policy on Taxes and PILOTs to be presented by Joe Wiener and Mark Smith.

Mr. Wiener and Mr. Smith presented the following action item and took questions from the Trustees:

Requested Action

The Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) of the Long Island Power Authority is requested to adopt a resolution recommending that the Board: (i) find 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) approve the annual report for the Policy.

Background

By Resolution No. 1320, dated September 21, 2016, the Board adopted the Policy. The Board adopted the last annual review of the Policy by Resolution No. 1525, dated May 20, 2020. Additionally, from 2016 to 2020, LIPA 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

LIPA 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 results in higher operational costs that disadvantage Long Island plants compared to the competitive prices of power in the regional electric markets. 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.
- In November 2020, LIPA entered into a settlement with the Town of Huntington and the Northport-East Northport School District for the Northport Power Station. The settlement will reduce LIPA’s annual property tax payments to 47% of 2020 levels by 2027. If the taxing jurisdictions fulfill the terms of the settlement, LIPA will waive a

refund for back tax years estimated at over \$650 million, plus interest. In addition, LIPA will also make a total of \$3 million and \$14.5 million in payments over the next seven years to the Town and school district, respectively, in exchange for their discontinuing appeals of the court's ruling that LIPA is entitled to challenge its tax assessments.

- As previously reported to the Board, in 2018 LIPA entered into settlement agreements with the Town of Brookhaven and the Village of Port Jefferson to gradually reduce the taxes on the Port Jefferson power plant, 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. LIPA has now revised its agreement with the Village of Port Jefferson to reduce its taxes by 47% by 2027 consistent with the agreement reached for the Northport Power Station, as discussed above.
- In November 2019, LIPA entered into a tentative settlement with Nassau County for the E.F. Barrett and Glenwood Landing generating stations. The settlement was contingent on the approval of a PILOT agreement by the Nassau County Legislature. By March 31, 2021, the PILOT agreement was not approved by the Nassau County Legislature and LIPA's offer was accordingly withdrawn. LIPA anticipates a trial relating to the Barrett and Glenwood Landing power stations in late 2021 to early 2022.
- 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 continues to defend itself in litigation challenging the 2% PILOT cap on transmission and distribution property in certain jurisdictions on Long Island. A court in Suffolk County recently ruled that (1) LIPA's properties acquired from LILCO are not exempt from real-property taxation for tax years 2014/15 through 2019/20 by reason of the LIPA's failure to timely challenge their unlawful assessment as non-exempt, taxable properties by the Town Assessors during those tax years; and (2) compelling LIPA to pay over to Suffolk County the unpaid real property taxes levied against the transmission and distribution properties for tax years 2014/15 through 2019/20, with interest and penalties in the amount of approximately \$66.7 million. LIPA intends to appeal the April 1, 2021 Decision and Order. LIPA does not believe that this litigation will have a material adverse impact on its business.
- 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 2020, 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 media, stakeholders, and local leaders to discuss the impact of taxes on energy bills.

Annual Review of the Policy

LIPA 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.

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RESOLUTION RECOMMENDING APPROVAL OF 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 Board adopted the last annual review of the Policy by Resolution No. 1525, dated May 20, 2020; and

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Finance and Audit Committee hereby recommends that the Board of Trustees find that LIPA has complied with Policy for the period since the last annual review and approve the annual report to the Board.

Chair Cohen then entertained a motion to adjourn, which was duly made and seconded, after which the meeting concluded at approximately 9:38 a.m.
