

LONG ISLAND POWER AUTHORITY

MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING

HELD ON AUGUST 11, 2021

The Finance and Audit Committee of the Long Island Power Authority (“LIPA”) was convened at 9:06 a.m. at LIPA Headquarters, Uniondale, NY, pursuant to legal notice given on August 6, 2021 and electronic notice posted on LIPA’s website annually.

The following LIPA Trustees were present:

**Sheldon Cohen, Committee Chair
Elkan Abramowitz, Committee Member
Mark Fischl, Committee Member
Laureen Harris, Committee Member
Rev. Al Cockfield
Drew Biondo
Peter Gollon
Ali Mohammed**

Representing LIPA, in person, were Thomas Falcone, Chief Executive Officer; Bobbi O’Connor, Chief Administrative Officer & Board Secretary; Tamela Monroe, Chief Financial Officer; and Jen Hayen, Director of Communications. Participating via video conferencing were 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; 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.

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 May 19, 2021 Committee meeting.

Upon motion duly made and seconded, the minutes of the May 19, 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 2nd Quarter Financials to be presented by Donna Mongiardo.

Ms. Mongiardo presented the Discussion of the 2nd 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 Consideration of Recommendation to Approve Prepay Transaction to be presented by Tamela Monroe.

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

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.

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

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.

Chair Cohen stated that the last item on the agenda is the Consideration of Recommendation to Approve the Annual Report on the Board Policy on Economic Development and Community Engagement to be presented by Mark Smith.

Mr. Smith 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: (i) approval of the annual report on the Board Policy on Economic Development and Community Engagement (the “Policy”); and (ii) that LIPA has complied with the Policy since the last annual review, 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 the service territory through the efficient use of utility plant and equipment, consistent with LIPA’s mission to its customer-owners. The Board last reviewed and approved updates to the Policy by Resolution No. 1537, dated June 24, 2020.

Compliance with the Policy

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

The Policy requires that LIPA “promote the economic growth and vitality of its service territory.”

Additionally, the 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.” In accordance with the Policy, 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, without which rates such companies would not locate in the service territory.”

- 50 large business accounts received discounted power through our Business Development Rate and legacy New York State programs, such as the Excelsior Jobs program in 2020.

These businesses have received approximately \$1.3 million in discounts and provided over 1,200 jobs.

“Offer economic development rates and programs consistent with those offered by other utilities in the state or best practices within the electric utility industry.”

- 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 its inception, the Recharge New York program has developed over 2,600 jobs.

- 16 small business customers opened new accounts through the Vacant Space program in 2020, which encourages new businesses to occupy spaces that have been vacant for at least one year. Total incentives awarded during 2020 were \$56,000.
- A total of \$255,000 in incentives were awarded to support 11 community projects through the Main Street Revitalization program in 2020. Since 2019 these projects leveraged over \$116 million in private investment while creating over 500 jobs.

“Engage in community events, volunteerism, and educational programs consistent with the purpose of this Policy.”

- Due to the COVID-19 pandemic, two new programs were developed and implemented through working with the various Chambers of Commerce in our service territory. Grants of up to \$5,000 to enable outdoor commerce began in 2020 and to date have given out 36 grants totaling \$185,000. Beginning in 2021, the program was expanded to include grants up to \$2,000 for landscaping and beautification to improve the appearance of the business community.

Annual Review of the Policy

LIPA Staff has reviewed the Policy and recommends no changes at this time.

Recommendation

Based upon the foregoing, I recommend approval of the above-requested action by the 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 ECONOMIC DEVELOPMENT AND COMMUNITY ENGAGEMENT

WHEREAS, the Board Policy on Economic Development and Community Engagement (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. 1537, dated June 24, 2020; and

WHEREAS, the Finance and Audit Committee (the “Committee”) of the Board of Trustees (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 Committee hereby recommends to the Board that LIPA has complied with the Policy for the period since the last annual review and recommends approval of 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 10:00 a.m.
