

Report to the LIPA Finance and Audit Committee

December 15, 2021

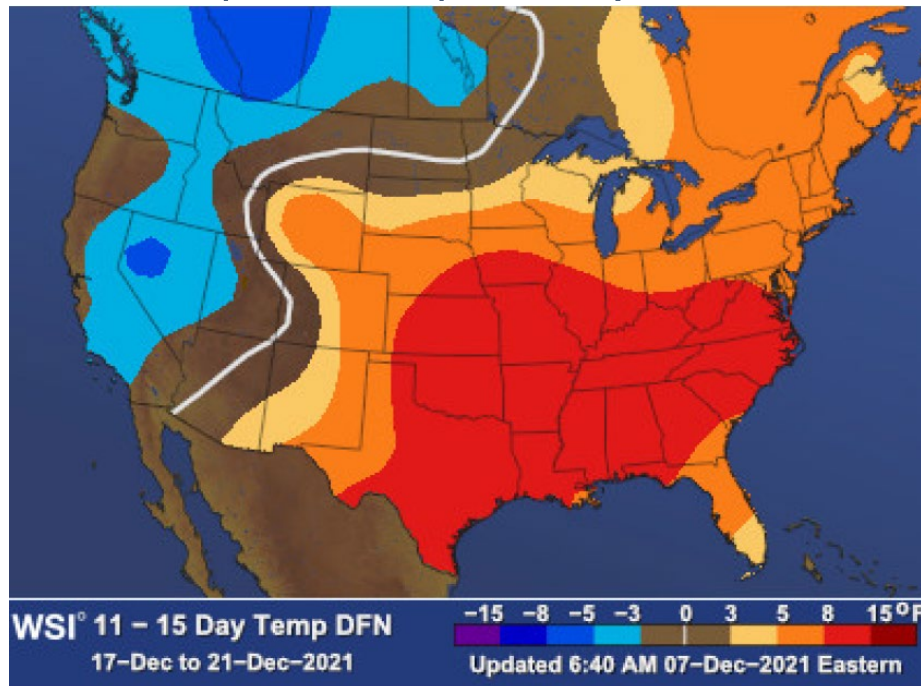
Power Supply Hedge Update

Agenda

- Hedging Is Prudent – Drivers Of Natural Gas Prices
- Hedging Is Prudent – Survey of Other Utilities
- Hedging Is Prudent – Power Supply Charge vs. Market

Hedging Is Prudent – Drivers Of Natural Gas Prices

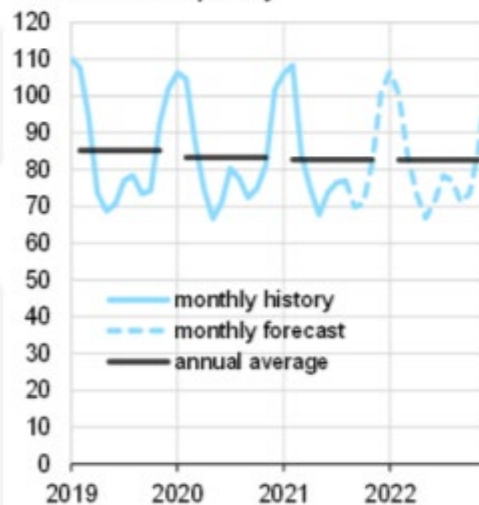
- *Consumption / Load / Weather*
- Economic Outlook (Res/Com/Ind); COVID-19
- Production / Drilling / Storage
- Transmission / Bottlenecks
- Exports – Mexico / China / Europe



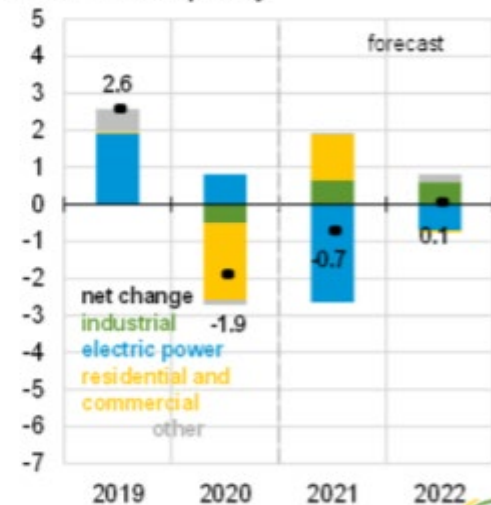
Hedging Is Prudent – Drivers Of Natural Gas Prices

- Consumption / Load / Weather
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U.S. natural gas consumption
billion cubic feet per day



Components of annual change
billion cubic feet per day

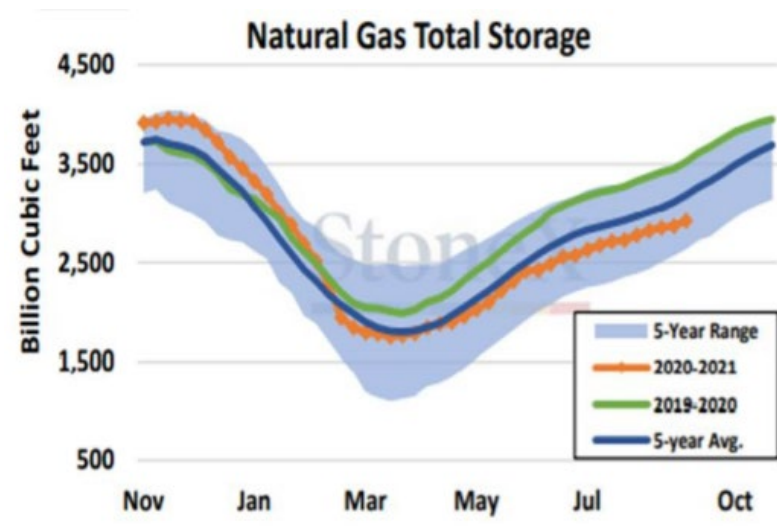
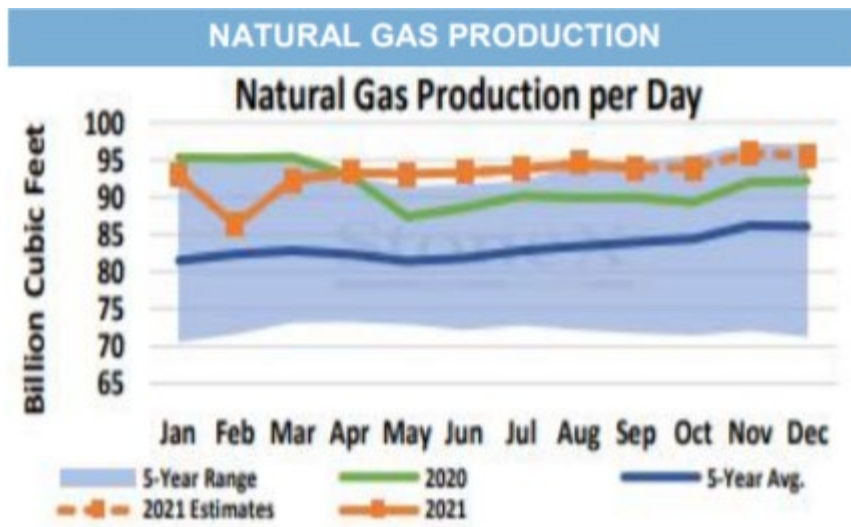


Source: U.S. Energy Information Administration, Short-Term Energy Outlook, September 2021



Hedging Is Prudent – Drivers Of Natural Gas Prices

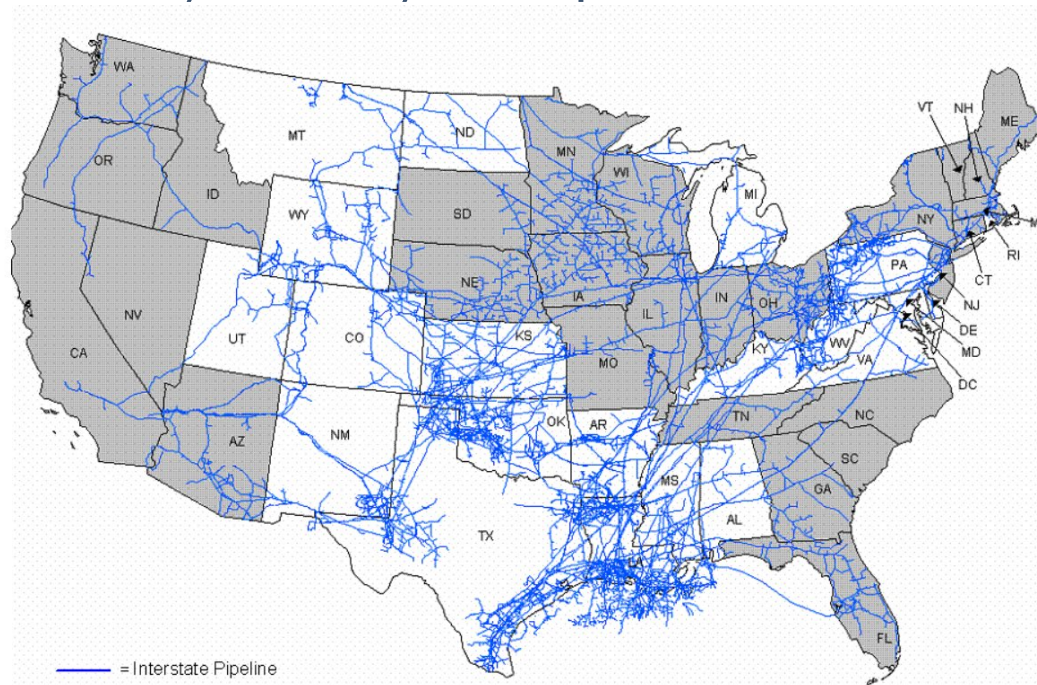
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Source: US Energy Information Administration

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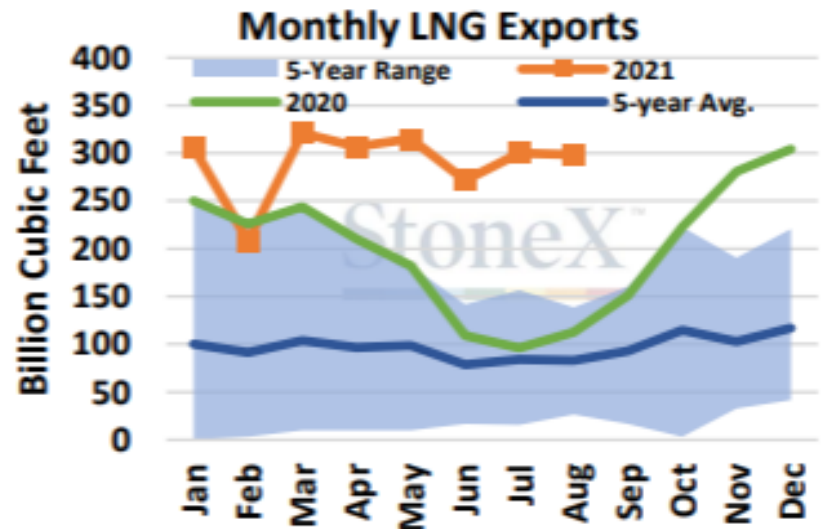
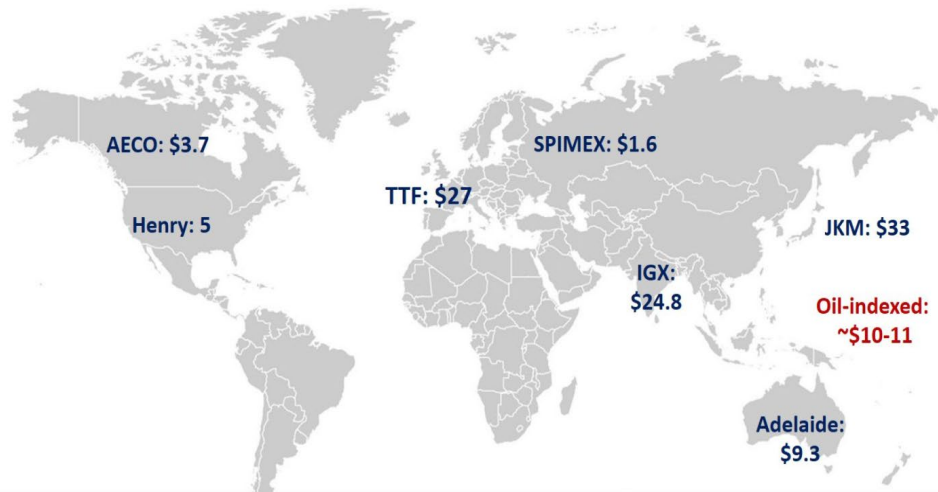
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Natural gas price benchmarks –November 2021 (\$/mmbtu)



Source: US Energy Information Administration

Hedging Is Prudent – Survey of Other Utilities

Hedging Practices Survey 2021

Our hedge advisor, StoneX, does an annual utility customer hedge survey. We utilize the results of the survey to validate the LIPA Hedge Program.

Results of selected survey questions collected during the later summer months of 2021 are compiled and presented here.

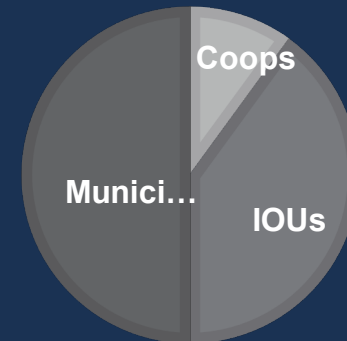
2021 Utility Hedge Survey Respondents

Electric Utilities represented 55% of participants

10% Energy Cooperatives

40% Investor-Owned Utilities

50% Municipal Utilities



Representation of Respondents

Hedging Is Prudent – Survey of Other Utilities

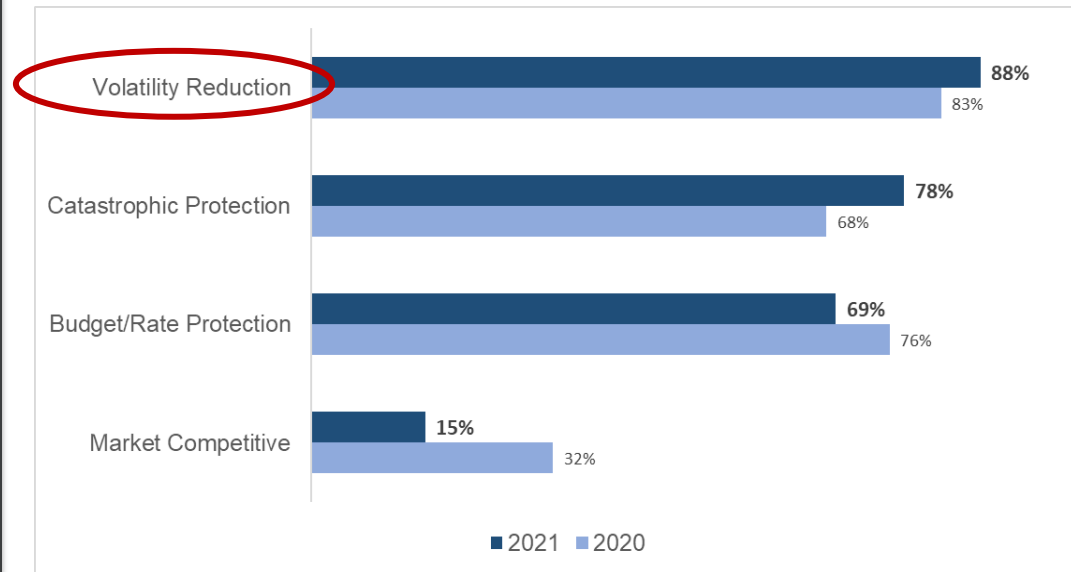
Hedge Plan Objectives

Industry Best Practices

Top 3 objectives in 2021 mirrored 2020 results:

- Volatility Reduction
- Catastrophic Price Protection
- Budget/Rate Protection

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

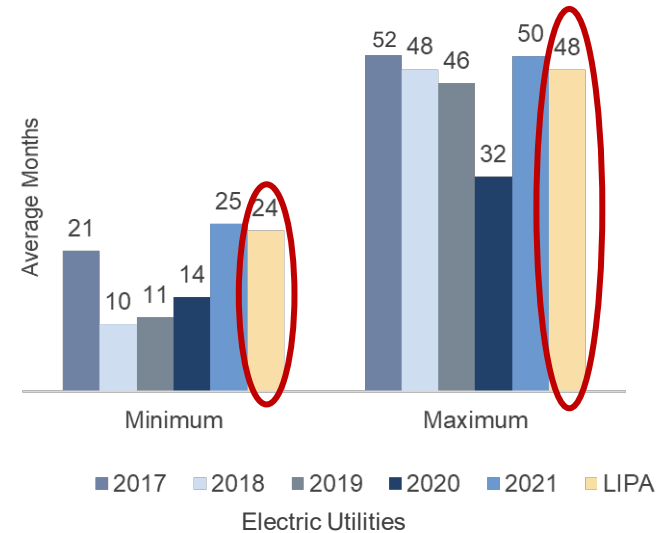
Hedging Is Prudent – Survey of Other Utilities

Hedge Horizon Parameters

Industry Best Practices

In 2021, the Electric Utilities Minimum and Maximum Hedge Horizons recalibrated and increased to reflect a ~2-year Minimum to ~4-year Maximum range

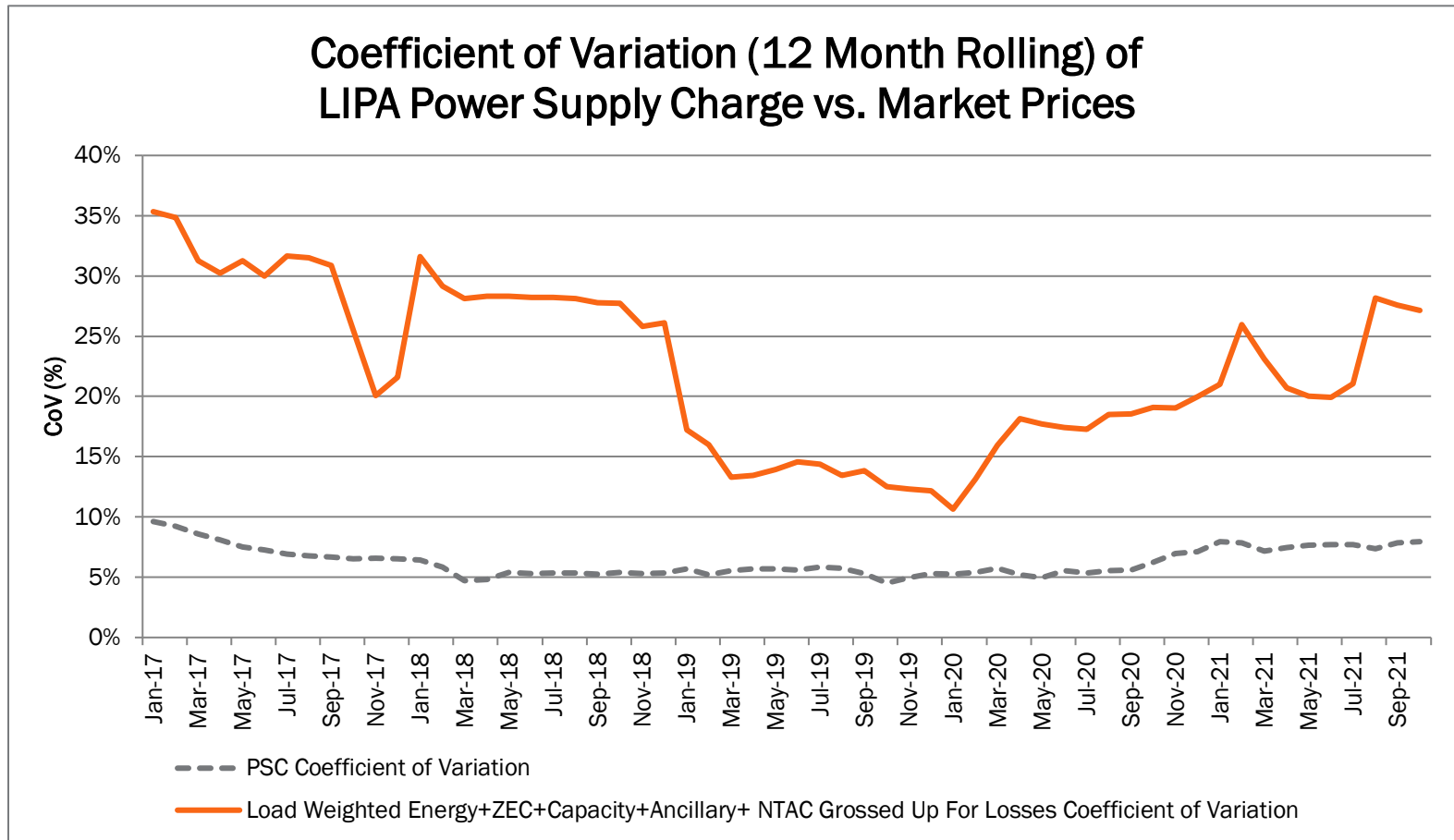
2021 results help to validate that 2020 results appeared to be an anomaly when compared to the previous 5-year trend, and underscore that the LIPA Hedge Horizon Plan Parameters are in line with industry standards



LIPA Hedge Plan Parameters

- LIPA is allowed to hedge up to 3 years out plus the current year with a scaled volume approach
- Value triggers and Time triggers have defined volume increments for each of the allowable years
 - Value triggers can start up to 48 months out
 - Time triggers can start up to 48 months out for hub and 24 months out for basis

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