

**LONG ISLAND POWER AUTHORITY**

**MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING**

**HELD ON NOVEMBER 17, 2021**

*The Finance and Audit Committee of the Long Island Power Authority (“LIPA”) was convened at 8:19 a.m. at LIPA Headquarters, Uniondale, NY, pursuant to legal notice given on November 12, 2021 and electronic notice posted on LIPA’s website annually.*

*In compliance with New York State Open Meeting Law and in furtherance of COVID-19 public 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 November 17, 2021 Finance and Audit Committee meeting. Members of the public are encouraged to observe the live stream of the 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 (in person)**  
**Valerie Anderson Campbell (in person)**  
**Drew Biondo (in person)**  
**Rev. Alfred Cockfield (in person)**  
**Nancy Goroff (in person)**  
**Ali Mohammed (via video conferencing)**

**Representing LIPA, in person, were Thomas Falcone, Chief Executive Officer; Bobbi O’Connor, Chief Administrative Officer & Board Secretary; Tamela Monroe, Chief Financial Officer; Rick Shansky, Senior Vice President of Power Supply and Wholesale Markets; and Andrew Berger, Communications Assistant. Participating via video conferencing were Anna Chacko, General Counsel; Kenneth Kane, Senior Advisor to Operations Oversight; Billy Raley, Senior Vice President of T&D Oversight; Donna**

**Mongiardo, Vice President - Controller; Kathleen Mitterway, Senior Advisor for Audit; Corey Horowitz, Director of Risk Management; Tom Locascio, Director of External Affairs; and Jason Horowitz, Assistant General Counsel and Assistant Secretary to the Board.**

**Representing PSEG Long Island via video conferencing were Gregory Filipkowski, Chief Information Officer; and Richard Tinelli, Manager of Regulatory Requirements.**

**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 October 29, 2021 Committee meeting.*

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

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*Chair Cohen stated that next item on the agenda is the Projected 2021 Financial Results to be presented by Donna Mongiardo and Rich Tinelli of PSEG Long Island.*

*Ms. Mongiardo and Mr. Tinelli presented the Projected 2021 Financial Results and then took questions from the Trustees.*

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*Chair Cohen stated that next item on the agenda is the Discussion of Quarterly Financials Ended September 30 to be presented by Donna Mongiardo.*

*Ms. Mongiardo presented the Discussion of Quarterly Financials Ended September 30 and then took questions from the Trustees.*

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*Chair Cohen stated that the next item on the agenda is the Consideration of Recommendation to Approve Resolution Authorizing the Use of Up to \$30,000,000 from the Revenue Fund to Retire, Pay or Defeas Outstanding LIPA Bonds or Notes 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 the Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA” or the “Authority”) is requested to recommend the authorization of the use of up to \$30,000,000 (the “Authorized Amount”) currently held in the Revenue Fund for the purpose of retiring, redeeming or defeasing LIPA bonds or notes as described below.

### **Proposed Retirement of Authority Bonds or Notes**

LIPA has various series of outstanding bonds and notes that may, depending on market conditions, be advantageously be retired or defeased.

The General Resolution permits LIPA to use amounts held in the Revenue Fund, and not needed for the payment of Operating Expenses or any of the other purposes mandated under the General Resolution, to be withdrawn and used for any lawful purpose of the Authority. Such purposes may include the purchase or redemption of any bonds, notes or other obligations of the Authority. Prior to such withdrawal, LIPA must determine that, taking into account, among other considerations, anticipated future receipts of Revenues and other moneys constituting part of the Trust Estate under the General Resolution, the Authorized Amount is not needed for Operating Expenses or for any of the other purposes specified under the General Resolution.

It is proposed that LIPA authorize the use of up to \$30,000,000 of Authority moneys (the “Authorized Amount”) currently held in the Revenue Fund to be applied to the payment, redemption or defeasance of its bonds or notes to the extent that the Chief Executive Officer or Chief Financial Officer determines that such payment, redemption or defeasance will lower debt service payable by the Authority or otherwise be advantageous. We have determined that the Authorized Amount is not required to be applied to the payment of any amounts required to be paid or to be otherwise applied in accordance with the General Resolution.

To the extent that LIPA has entered into interest rate swap agreements relating to any of the Authority’s bonds and notes which may be retired or defeased with moneys proposed to be withdrawn from the Revenue Fund it is anticipated that such interest rate swap agreements will either be reallocated to other bonds or notes of the Authority, assigned to or assumed by other counterparties, or terminated, as and to the extent determined by the Chief Executive Officer or Chief Financial Officer.

## **Recommendation**

Based upon the foregoing, I recommend that the Committee recommend to the Board the adoption of the resolution attached hereto to permit the withdrawal of the Authorized Amount from the Revenue Fund for the purpose of retiring, redeeming or defeasing outstanding Authority bonds or notes.

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

### **AUTHORIZATION RELATING TO THE REDEMPTION AND DEFEASANCE OF OUTSTANDING AUTHORITY INDEBTEDNESS**

WHEREAS, the Long Island Power Authority (the “Authority”) has various series of outstanding bonds and notes under its Electric System General Resolution, dated May 13, 1998, as amended (the “General Resolution”) that may, depending on market conditions, be advantageously be retired or defeased; and

WHEREAS, the Authority wishes to authorize the use of up to \$30,000,000 of Authority moneys (the “Authorized Amount”) to be applied to the redemption or defeasance of its bonds or notes to the extent that the Chief Executive Officer or Chief Financial Officer determines that such redemption or defeasance will lower debt service payable by the Authority or otherwise be advantageous; and

WHEREAS, the Authorized Amount is not required to be applied to the payment of any amounts required to be paid or otherwise applied in accordance with the General Resolution; and

WHEREAS, to the extent that the Authority has entered into interest rate swap agreements relating to any of the Authority’s bonds and notes which may be retired or defeased pursuant to this resolution it is anticipated that such interest rate swap agreements will either be reallocated to other bonds or notes of the Authority, assigned to or assumed by other counterparties, or terminated, as determined by the Chief Executive Officer or Chief Financial Officer; and

**NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:**

1. The Chief Executive Officer and the Chief Financial Officer are each authorized to withdraw up to the Authorized Amount of Authority moneys from the Revenue Fund and apply the amount withdrawn to the retirement or defeasance of Authority bonds and notes to the extent that such officer shall determine that such retirement or defeasance will lower debt service payable by the Authority or otherwise be advantageous to the Authority. The Authority hereby determines, after taking into account, among other considerations, anticipated future receipts of Revenues and other moneys constituting part of the Trust Estate, that the Authorized Amount is not

needed for any of the purposes set forth in subsection (a), of Section 505 of the General Resolution and that the Authorized Amount may therefore be withdrawn from the Revenue Fund in accordance with subsection (b) of such Section 505. Prior to any such withdrawal such officer shall confirm such determination. Upon withdrawal, the Authorized Amount may be applied by such officers to the payment of scheduled debt service of such bonds and notes, the redemption of such bonds and notes prior to maturity, the defeasance of such bonds and notes and/or the purchase and cancellation of such bonds and notes, pursuant to a tender offer or otherwise, as such officer shall determine.

2. Each of the Chief Executive Officer and the Chief Financial Officer is hereby authorized and directed to execute and deliver any and all documents, including, but not limited to, escrow agreements, tender agreements and any required disclosure documents and the retirement or defeasance of any bonds or notes pursuant to this resolution.
3. As and to the extent that any Authority moneys are applied to the retirement or defeasance of bonds or notes of the Authority with respect to which there are existing interest rate swap agreements, the Chief Executive Officer and the Chief Financial Officer are each authorized to allocate such interest rate swap agreements to other outstanding Authority bonds or notes, or to terminate such agreements, as such officer may determine appropriate so as to permit the Authority to obtain the benefit of such interest rate swap agreements or to minimize the cost associated with the retirement or defeasance and, to the extent that such agreements are terminated, some or all of the costs of such termination may be funded with available Authority moneys, as determined by such officer. The Chief Executive Officer and the Chief Financial Officer are also hereby authorized to arrange for the assignment and assumption of any existing interest rate agreement to another counterparty or the amendment or termination of any such agreement, to the extent such officer determines any such assignment and assumption, amendment or termination to be advisable.
4. All terms used and not otherwise defined herein shall have the meaning set forth in the General Resolution.
5. This resolution shall take effect immediately.

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*Chair Cohen stated that the next item on the agenda is the Consideration of Recommendation to Approve the Annual Report on the Board Policy on Enterprise Risk Management to be presented by Bobbi O'Connor and Rick Shansky.*

*Ms. O'Connor and Mr. Shansky 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 that the Board: (i) find that LIPA has complied with the Board Policy on Enterprise Risk Management (the “ERM Policy” or “Policy”); and (ii) approve the annual report for the Policy, which Resolution is attached hereto as Exhibit “A”.

### **Background - Board Policy on Enterprise Risk Management**

By Resolution No. 1351, dated March 29, 2017, the Board adopted the ERM Policy, focusing on the identification, assessment, management, and mitigation of risks. The Policy was last reviewed and amended by the Board by Resolution No. 1572, dated December 16, 2020.

The Finance and Audit Committee (“F&A Committee”), in its Charter, was delegated the responsibility for reviewing LIPA’s practices relating to ERM. LIPA’s Service Provider, PSEG Long Island, participates in the implementation of LIPA’s ERM Program.

Specifically, the Policy provides that “the Chief Executive Officer or his or her designee will report annually to the F&A Committee of the Board on the Policy, including: a review of the significant risks to LIPA’s mission; and compliance with the key provisions of the Policy.”

### **Compliance with the Policy**

Performance for 2021 has been consistent with the Policy. LIPA and PSEG Long Island have maintained an ERM program designed to evaluate significant risks and corresponding mitigation activities facing the business. This Report covers ERM activities since the Board’s December 2020 review to the present. While the Service Provider’s performance with respect to matters identified by the Isaias Task Force has improved, several issues remain a work in progress. LIPA Staff recommends that, for the reasons set forth below, the Board find that LIPA has substantially complied with the objectives of the Policy for the period since the last annual report.

The Policy states: “Under the direction of LIPA’s Chief Executive Officer, LIPA and its Service Provider shall maintain an Enterprise Risk Management Program with the following key provisions”:

“An Enterprise Risk Management Committee consisting of at least three LIPA staff appointed by the Chief Executive Officer, two of whom must be drawn from LIPA’s senior management, to oversee the processes and procedures of the Program.”

- LIPA has an active Enterprise Risk Management Committee (“ERMC”) that reviews the progress and findings of the ERM Program, including discussions of the most significant risks facing LIPA and its Service Provider. Over the last ten months, the ERMC has met eight times to discuss the various components of the Program, including the review of LIPA and the Service Provider’s risk assessments and associated mitigation activities. In addition, it also reviewed the Service Provider’s Annual Report and deep-dive analysis provided on select high-priority risks. The

ERMC was also briefed on the status of the eight Board approved ERM performance recommendations and emerging risk trends.

- Currently, there are ten members on the Committee, including the CEO, CFO, CAO, CIO, General Counsel, and other LIPA Staff at the Senior Vice President, Vice President, and Director levels.
- The ERMC maintains an ERM Procedures Manual, which includes the integration of risk information into decision-making within Strategic Planning, Internal Audit, and other areas of the business. The ERM Procedures Manual also calls for maintaining a list of emerging risks and recognizes the Service Provider’s Risk Management Committee (“RMC”), which are responsible for managing their identified risks.

“An evaluation of the most significant risks facing the LIPA and its Service Provider, and corresponding mitigation activities, reported to senior management of LIPA and its Service Provider for review and evaluation on an annual basis, with ongoing monitoring activity between reviews.”

- Since the last Board report, the ERM teams have worked with Subject-Matter Experts (“SMEs”) to develop deep-dive analyses on selected significant risks of LIPA and PSEG Long Island to understand root causes, mitigations in place, and actions that could be taken to further mitigate these risks. The risk analyses were presented to LIPA’s ERMC or other special-focus committees and covered the following risks: inter-tie failures, climate regulation, customer communications during a major storm, and cyber security.
- Annually, the F&A Committee receives an update on the ERM Program highlighting the significant risks and mitigation actions facing LIPA and its Service Provider concurrent with this annual report.

“A review of the LIPA’s insurance and other forms of coverage against insurable risks, including the availability and economics of such coverage, performed each year.”

*Insurance:*

- The Amended & Restated Operations Services Agreement (“AR OSA”) requires LIPA to provide written notification to its Service Provider regarding the renewal of required policies, desired changes in coverages, and any requests to investigate other types of coverages. The LIPA notification is sent each December.
- During 2021, LIPA risk management and LIPA’s Insurance Advisor provided oversight of the coverages placed by PSEG Long Island as required by the AR OSA to assure prudent and economic coverage placed to protect the interest of LIPA’s bondholders and customer-owners.

**The policies included:**

- Excess 3<sup>rd</sup> Party General Liability
- Property Insurance (all risks, excludes wires and poles) includes U.S. Property Terrorism
- Cyber Insurance - LIPA named insured on PSEG Long Island’s Cyber Insurance
- Nuclear Electric Replacement for Nine Mile Point, Unit 2

- LIPA maintains its own insurance policies, including Director and Officer liability, premises general liability, and property insurance, as well as cyber event insurance and employee practices liability insurance.

“LIPA will conduct a biennial review of the maturity of the Program compared to industry best practices, which will be provided to the Board of Trustees, senior management, and LIPA’s Internal Audit staff.”

- The next ERM maturity assessment is scheduled for July 2022 based on the Board approved biennial review cadence. LIPA’s Internal Audit department will receive a copy of the 2022 ERM maturity assessment and diagnostic report prepared by a third-party vendor, which measures the current maturity of the LIPA ERM Program and comparison to an industry benchmark.

### Annual Review of the Policy

LIPA Staff has completed its annual review of the Policy and has no suggested amendments at this time.

### Recommended Changes to the ERM Program considering Isaias Task Force Reports

The Isaias Task Force’s 90-Day Report identified numerous examples where PSEG Long Island lacked transparency in its dealings with LIPA. This lack of transparency has impacted the effectiveness of LIPA’s ERM Program, including inaccurate and, at times, overly confident rankings by its Service Provider of certain key risks and poor implementation of mitigation strategies. To address these issues, LIPA Staff recommended changes to the PSEG Long Island ERM Program approved by the Board in December 2020. The Board has received implementation plans for each of these recommendations and quarterly updates on the status of their implementation. Below is a status as of November 2021:

- Include LIPA SMEs and ERM team members in all risk discussions: *Completed;*
- Designate management-level owners for each risk mitigation strategy and related management action plan: *Completed;*
- Establish a joint SharePoint site so that risk information, including risk assessment, deep-dive analysis, mitigation strategies, and current status of implementation plans, can be accessed in real-time by LIPA SMEs: *Completed;*
- Produce an annual ERM report, providing a complete aggregation of all risks, effectiveness of mitigation actions for high-priority risks, areas of weakness/need improvement, and general observations, by June 1 of each year: *Completed;*
- Perform deep-dive analysis on high-priority risks, including what mitigation actions have been implemented, those underway, planned, and areas of deficiency: *In-process, the last presentation on cyber security is planned for November/December of 2021;*
- Develop a risk correlation matrix to better understand end-to-end impacts and the risks that are interrelated (especially for major storm) to better inform needed mitigation strategies: *In process, PSEG Long Island to utilize LIPA’s correlation framework on a selected risk in 2022;*



- Provide risk training to all SMEs participating in the annual risk assessment process so that the expectations and value of the process are better understood by the participants: *In-process, training materials are being reviewed and sessions to be scheduled; and*
- Develop a process so that if a high-risk event or condition is identified by LIPA, or its Service Provider or personnel (e.g., when OMS was failing days before the storm), such event or condition (i) immediately triggers a risk review by the LIPA and its Service Provider’s ERM teams and (ii) is elevated to both LIPA and PSEG Long Island management. *Process developed; requires ongoing review to ensure adoption and utilization.*

### **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 ANNUAL REPORT ON THE BOARD POLICY ON ENTERPRISE RISK MANAGEMENT**

WHEREAS, the Enterprise Risk Management Policy (the “Policy”) was originally approved by the Board of Trustees by Resolution No. 1351, dated March 29, 2017; and

WHEREAS, the Policy was last reviewed and amended by Resolution No. 1572, dated December 16, 2020; and

WHEREAS, the Finance and Audit Committee (the “Committee”) of the Board of Trustees of the Long Island Power Authority (“LIPA”) has conducted an annual review of the Policy and recommends that the Board find that the Policy has been complied with.

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

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*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 the Power Supply Hedging Program to be presented by Corey Horowitz.*

*Mr. Horowitz 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 that the Board: (i) approve the annual report on the Board Policy on the Power Supply Hedging Program (the “Policy”) for the period since the last annual review; and (ii) find that LIPA has complied with the Policy, which resolution is attached hereto as Exhibit “A”.

### **Background**

By Resolution No.1352, dated March 29, 2017, the Board adopted the Policy to maintain an effective commodity hedging program (“Program”), focused on meeting the expectations of LIPA’s customers for reasonable stability and predictability in power supply costs. The Policy was last reviewed and amended by Resolution No. 1493, dated September 25, 2019.

The Committee, in its charter, was delegated the responsibility of reviewing LIPA’s practices relating to commodity risk management. The F&A Committee considers as part of its review whether LIPA and its Service Provider, PSEG Energy Resources and Trade (“PSEG ER&T”) has remained in compliance with the Policy. As set forth in the Policy, certain responsibilities were delegated by the Board to the Chief Executive Officer, including maintaining a Power Supply Risk Management Committee (“PRMC”) to oversee the activities of PSEG ER&T.

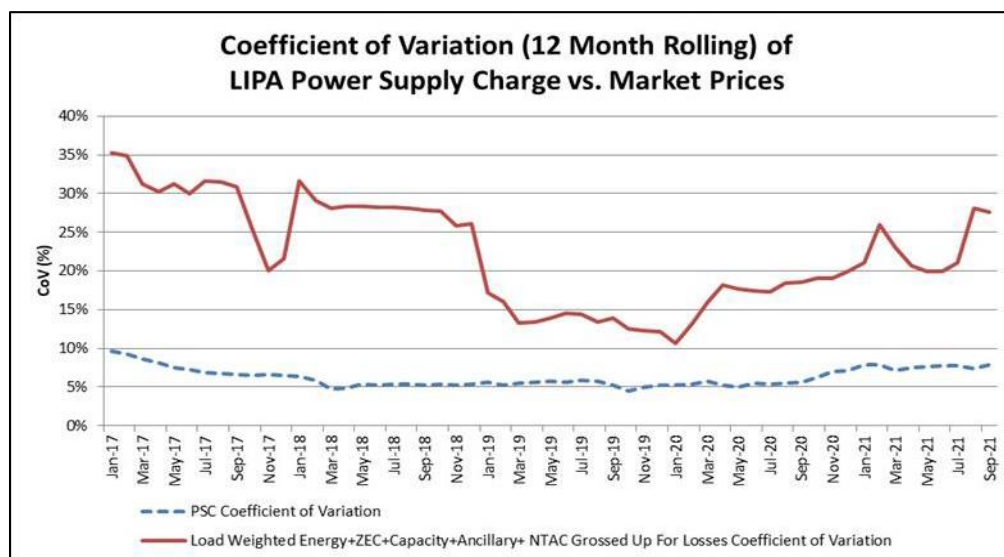
Specifically, the Policy provides that “the Chief Executive Officer, or his or her designee, will provide an annual compliance report on the Power Supply Hedging Program to the Finance and Audit Committee.”

### **Compliance with the Policy**

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

The Policy is intended to “Mitigate a portion of the volatility of power supply costs in a programmatic and reasonable way on behalf of the LIPA’s customer-owners.”

- The PRMC approves the LIPA Hedge Plan, which identifies certain power supply cost components that can be fixed to create reasonable and stable rates. In general, actively hedging these cost components has proven to reduce the Power Supply Charge (“PSC”) volatility compared to purchasing power and fuel in the open market. As part of its biannual Hedge Program update, on May 19, 2021, Mr. Steven Oster from PSEG ER&T presented to the F&A Committee a graph indicating the actual PSC volatility as compared to the volatility customers would be exposed to based upon unhedged market prices. The following graph reflects current data indicating that the LIPA’s PSC volatility through September 2021 is just below 8%, while market price volatility is more than three times that amount at 27%. Mr. Oster will present an updated PSC volatility graph at the F&A Committee’s December 15, 2021 meeting.



The Policy shall be “executed using financial derivative and physical supply and delivery contracts for a portion of LIPA’s projected fuel and purchased power purchases, provided, however that: the net hedge position does not exceed 90% of projected fuel and purchased power needs; and the term of any such hedge does not exceed ten years without the prior approval of the Board or a term in excess of seventy-two (72) months without the prior approval of the Finance and Audit Committee of the Board.”

- PSEG ER&T authorized traders to execute both financial and physical hedge transactions on LIPA’s behalf for defined volumes that as of December 1, 2021, would be within a 48-month hedge horizon. All transactions are monitored by PSEG Enterprise Risk Management Back-Office operations (“PSEG Back-Office”) for compliance; PSEG Back-Office generates and distributes hedge ratio position reports daily, weekly, and monthly to LIPA’s PRMC staff.
- Hedge transactions are triggered based on a time or value trigger protocol that has been established with an independent third-party hedge advisor. Time-trigger transactions allow for the accumulation of minimum required volume hedge levels under all price environments. Value-triggered transactions allow for the accumulation of additional hedge levels based on lower decile pricing levels of value versus four-year historical pricing. In addition, volumes associated with Board-approved Purchase Power Agreements (“PPAs”) having fixed prices and LIPA’s 18% ownership of Nine Mile Point 2 are included as part of the hedged volume. Currently, the PRMC has set a maximum hedge level limit of 85%.
- No hedges exceed a term of seventy-two months and the net hedge position does not exceed 90% of projected fuel and purchased power needs, meeting the requirements of the Policy.

The Policy states that the Program shall “Achieve appropriate risk mitigation and is not for purposes of financial speculation.”

- All transactions are based on PRMC Approved projected fuel and power requirements associated with LIPA-approved annual sales forecast. Specific power supply component volumes are also validated against historical actual consumption data. Each hedge transaction is reviewed by PSEG Enterprise Risk Management's Middle-Office group ("PSEG Middle-Office") for compliance to PRMC approved LIPA Hedge Plan and procedures.

The Policy states that the Program shall "Provide transparency regarding LIPA's commodity risk management activities and the results of such activities."

- PSEG ER&T, PSEG Back-Office, and PSEG Middle-Office provide to the PRMC staff on a daily, weekly, and monthly basis a hedge transaction report, hedge position report and position valuation report. In addition, the following table identifies several other required reports to the PRMC and LIPA's F&A Committee, their distribution and reporting frequency, and the originator of the reports.

Report	Distribution	Normal Frequency	Originator
Trading Activity Summary	PRMC Traders	Daily Weekly	Front Office Middle Office
Position Report	PRMC Traders	Weekly	Middle Office
Credit Risk Exposure Reports	PRMC Traders	Weekly	Middle Office
PRMC Meeting Minutes	PRMC	As Meetings are Held	PRMC Designated Secretary
Benchmarking	PRMC	Quarterly	Independent third-party hedge advisor
Power Supply Hedging Program	Board Finance & Audit Committee	Bi-annually	PSEG ER&T
Annual Compliance Report	Board Finance & Audit Committee	Annually	CEO or Designee

The Policy requires that "LIPA's Chief Executive Officer shall appoint a Power Supply Risk Management Committee ("PRMC") consisting of at least three LIPA staff, two of which must be drawn from LIPA senior management. The PRMC will establish, maintain, and monitor processes and controls, the conduct of LIPA's Power Supply Hedging Program, and the activities of its Service Provider, PSEG Energy Resource and Trade ("PSEG ER&T"). The key provisions of the PRMC's activities shall include":

"Oversight and ensuring that all Program activities conducted by LIPA and PSEG ER&T are in accordance with the Board Policy."

- **LIPA’s CEO has established a PRMC in compliance with the Board Policy. All active participants of the Power Supply Hedging Program are required to read and comply with the PRMC Approved Policies, Controls and Procedures Manual for Power Supply Hedging Program (“Manual”), which incorporates the Board Policy. All active participants are required to certify compliance with the Manual and Policy by executing the Yearly Certification of Compliance with Risk Management Policy and Procedures Form.**

**“Determining LIPA’s tolerance for exposure to fuel and purchased power price movements and power supply cost volatility considering the costs of limiting such exposure.”**

- **The PRMC has approved a Manual for the hedging Program that establishes LIPA’s tolerance for exposure to fuel and purchased power price movements. The PRMC has established minimum and maximum hedging limits by time period as well as collateral posting limits.**
- **The cost of the hedging Program is evaluated each day in the form of mark-to-market value of the positions and stress testing collateral exposure potential of all positions executed to limit PSC volatility.**

**“Addressing all risk factors that are demonstrably quantifiable, actionable and material to the Program.”**

- **The PRMC approved Manual specifically identifies authorized markets and delivery points, permissible hedge instruments, and the terms and volumes available for hedging to reduce PSC volatility. Within the Manual, there is also a specific LIPA Hedge Plan that addresses the PSC hedge components that are quantifiable, actionable and there is market liquidity available to hedge the required products and delivery points (i.e. natural gas, gas basis, power, power basis).**

**“Establishing risk boundaries consistent with such tolerances and evaluating allowable financial and physical instruments in executing the Program.”**

- **The PRMC approved Manual specifically identifies authorized markets, delivery points, permissible hedge instruments, terms, and volumes associated with hedging to reduce PSC volatility. Within the Manual, there is also a specific LIPA Hedge Plan which addresses the minimum and maximum hedge levels by time-period – consistent with utility peers.**

**“Establishing appropriate processes and protocols to review and monitor counterparty credit worthiness on a regular basis.”**

- **The Manual identifies specific procedures carried out by PSEG Credit Risk Management on behalf of LIPA for managing and monitoring counterparty credit risk on an on-going basis. PSEG Credit Risk Management provides the PRMC with a credit report each week as noted above.**

“Monitoring Commodity Futures Trading Commission rulemaking and all other regulatory and legal requirements to ensure that LIPA is taking all actions required to maintain compliance with respect to any transactions under the Power Supply Hedging Program.”

- PSEG ER&T, PSEG Corporate Legal department and LIPA’s internal and outside counsel monitor Commodity Futures Trading Commission regulatory rulemaking to determine what actions, if any, LIPA is required to undertake to assure continued compliance.

### Annual Review of the Policy

The Policy was last amended by the Board pursuant to Resolution No. 1493, dated September 25, 2019, at which time the Policy was significantly updated. LIPA Staff has completed its annual review of the Policy and has no suggested amendments 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 THE ANNUAL REPORT ON THE BOARD POLICY ON THE POWER SUPPLY HEDGING PROGRAM

WHEREAS, the Board Policy on the Power Supply Hedging Program (the “Policy”) was originally approved by the Board of Trustees by Resolution No.1352, dated March 29, 2017; and

WHEREAS, the Policy was last reviewed and amended by Resolution No. 1493, dated September 25, 2019; 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 has recommends that the Policy has been complied with.

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

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*Chair Cohen then entertained a motion to adjourn, which was duly made and seconded, after which the meeting concluded at approximately 9:17 a.m.*

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