

## **FOR CONSIDERATION**

July 27, 2022

**TO:** The Board of Trustees

**FROM:** Thomas Falcone

**SUBJECT:** Approval to Extend the Sound Cable Project (“Y-49 Cable”) Facilities and Marketing Agreement; Approval for Regulatory Accounting Treatment of Certain Costs Associated with the Y-49 Cable

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### **Requested Action**

The Board of Trustees of the Long Island Power Authority (the “Board”) is requested to approve a resolution (i) authorizing the Chief Executive Officer or his designee to execute an agreement for an approximately six-month extension of the existing Sound Cable Project Facilities and Marketing Agreement, dated August 26, 1987 (“F&M Agreement”) between the Long Island Lighting Company, a wholly-owned subsidiary of the Long Island Power Authority (collectively “LIPA”) and the Power Authority of the State of New York (“NYPA”), and (ii) establishing regulatory accounting treatment of costs associated with LIPA’s contractual obligations for certain repairs of the Sound Cable Project under the F&M Agreement, which resolution is attached hereto as **Exhibit “A”**.

### **Background**

Since 1991, LIPA has paid NYPA for transmission service over the Y-49 Cable under the F&M Agreement. The Y-49 Cable consists of certain 345 kV transmission facilities between Con Edison’s Sprain Brook substation located in Yonkers, NY, and LIPA’s East Garden City Substation. Under the F&M Agreement, LIPA has paid NYPA’s costs of debt service, maintenance and repair of facilities associated with the cable, and assumes certain operating risks. As long as LIPA is the holder of transmission rights for the Y-49 Cable, LIPA is entitled to the transmission congestion contracts (“TCCs”) associated with the cable, which are valuable financial instruments that provide the financial equivalent of delivering energy purchased in the NYISO market from the Sprain Brook point of injection to Long Island. LIPA is compensated for the “congestion” (essentially, the difference in electricity price) between the two locations.

In November 2020, the original project debt was fully retired, which would have also completed the term of the F&M Agreement. At the time, NYPA was in the process of evaluating its options for long-term life extension of the cable. NYPA and LIPA executed a two-year extension to maintain the benefits that inure to both parties while the long-term extension was evaluated. That extension terminates on November 30, 2022.

The cable has experienced multiple failures and required several substantial repairs in recent years, for which LIPA is contractually responsible. The cost of three recent failures repaired and billed

by NYPA is approximately \$25 million and the estimated cost of two additional fault repairs is expected to be approximately \$20 million (collectively, the “Cable Repair Costs”).

During the past two years, NYPA has completed its life extension analysis and is currently planning to take an approximately six-month extended outage from the Fall of 2022 to the Spring of 2023 to perform the required work. LIPA has also completed its analysis of the long-term benefits of extending the transmission service contract and determined that the benefits to LIPA do not support the debt service for the life extension project once it goes into service plus the ongoing Operations & Maintenance (“O&M”) costs. A long-term extension of the F&M Agreement, therefore, is not recommended.

### **Discussion**

Although a long-term F&M Agreement extension is not recommended, there would be a significant benefit to LIPA customers from a short-term extension for the duration of cable life extension measures while the cable is out of service. During this period, LIPA would still be entitled to the TCC revenues while the only significant O&M costs would be the reimbursement to NYPA of the estimated \$45 million of Cable Repair Costs, which LIPA is already obligated to pay. The additional TCC revenues from the extension are estimated to offset approximately \$30 million of the Cable Repair Cost, with a net cost to LIPA of approximately \$15 million over the remainder of the extended contract.

It should be noted that there are no significant changes to the other terms and conditions of the F&M Agreement and, a related O&M Agreement that dates from 1991 will remain unchanged and in effect until the expiration of the F&M Agreement.

LIPA staff recommends amortizing the Cable Repair Costs over the approximately ten-month period to coincide with the extended F&M Agreement to mitigate bill impacts to customers. Accordingly, LIPA Staff recommends that the Board authorize the treatment of the incurred Cable Repair Costs as regulatory asset to be amortized over a 10-month period.

### **Recommendation**

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

### **Attachments**

**Exhibit “A”** Resolution

**AUTHORIZATION TO EXECUTE AN AGREEMENT FOR A SHORT-TERM EXTENSION OF THE SOUND CABLE PROJECT FACILITIES AND MARKETING AGREEMENT AND TO ESTABLISH A REGULATORY ASSET FOR CERTAIN SOUND CABLE PROJECT REPAIR COSTS**

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**WHEREAS**, LIPA and its predecessor LILCO have paid for transmission service on the Sound Cable Project since 1991 and the current Facilities and Marketing Agreement (“F&M Agreement”) between LIPA and the New York Power Authority (“NYPA”) as amended is set to expire on November 30, 2022;

**WHEREAS**, PSEG Long Island has negotiated an extension of the F&M Agreement (“Extension Agreement”) under favorable terms and conditions which enable LIPA to continue to benefit from the TCC revenues during the approximately six-month planned cable outage from fall 2022 through spring 2023;

**WHEREAS**, LIPA anticipates receiving additional transmission congestion contract (“TCC”) revenues associated with the extension of the F&M Agreement;

**WHEREAS**, LIPA is contractual obligated to pay for certain repairs of the Sound Cable Project under the F&M Agreement; and

**WHEREAS**, LIPA is obligated to pay approximately \$25 million for certain recent repairs and a further approximately \$20 million for additional repairs under the F&M Agreement;

**NOW, THEREFORE, BE IT RESOLVED**, that consistent with the accompanying memorandum, the Chief Executive Officer or his designee is authorized to execute the Extension Agreement and such other documents and take such actions as may be necessary or appropriate to effectuate it; and

**BE IT FURTHER RESOLVED**, that, consistent with the accompanying memorandum, LIPA establish a regulatory asset for the repairs of the South Cable Project to the extent to which LIPA is liable for such repairs under the F&M Agreement, and amortize such regulatory asset over the period of 10 months that would remain in the term of the F&M Agreement including the extension authorized above.

Dated: July 27, 2022