

LONG ISLAND POWER AUTHORITY

MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING

HELD ON NOVEMBER 16, 2022

The Finance and Audit Committee of the Long Island Power Authority (“LIPA”) was convened at 8:51 a.m. at LIPA’s Headquarters, Uniondale, NY, pursuant to legal notice given on November 10, 2022, and electronic notice posted on the LIPA’s website.

The following LIPA Trustees were present:

Sheldon Cohen, Chair (in person)
Elkan Abramowitz, Committee Member (in person)
Laureen Harris, Committee Member (in person)
Valerie Anderson Campbell (via video conferencing)
Drew Biondo (in person)
Rev. Al Cockfield (in person)
Nancy Goroff (via video conference)

Representing LIPA, in person, were Thomas Falcone, Chief Executive Officer; Bobbi O’Connor, General Counsel & Board Secretary; Billy Raley, Senior Vice President of Transmission & Distribution; Donna Mongiardo, Vice President-Controller; Corey Horowitz, Risk Advisor; Cathy Widmark, Interim Director of Audit; Jen Hayen, Director of Communications; and Andrew Berger, Communications Assistant. Participating via video conferencing was Jason Horowitz, Assistant General Counsel and Assistant Secretary to the Board.

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

Representing PSEG ER&T was Steven Oster, Senior Director – 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 September 28, 2022 Committee meeting.

Upon motion duly made and seconded, the minutes of the September 28, 2022 meeting were approved unanimously.

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

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

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

Ms. Mongiardo presented the Review of Quarterly Financials Ended September 30 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 Billy Raley.

Mr. Raley presented the Discussion of Internal Audit Activities and then took questions from the Trustees.

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

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

Chair Cohen stated that the next item on the agenda is 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 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 (“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.”

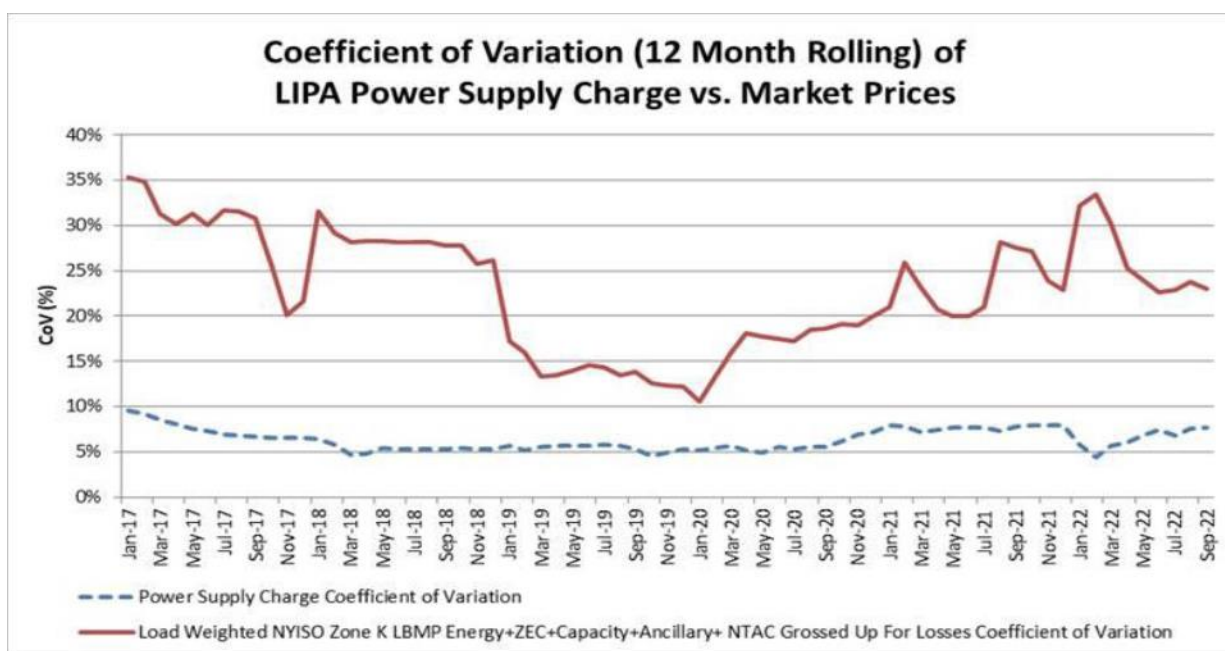
Compliance with the Policy

LIPA Staff recommends that, for the reasons set forth 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 hedged to create reasonable and stable rates. In general, actively hedging these cost components has proven to reduce the Power Supply Charge (“PSC”) volatility for LIPA’s customers compared to purchasing power and fuel in the open market.

As part of its biannual Hedge Program update, on November 16, 2022, Mr. Steven Oster from PSEG ER&T will present 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 indicates that the LIPA’s PSC volatility through September 2022 is approximately 8%, while market price volatility is nearly three times that amount at 23%.



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 November 1, 2022, 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.

- 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 requirements, 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 with the PRMC-approved LIPA Hedge Plan, which is part of the LIPA Policies, Controls and Procedures Manual for Power Supply Hedging Program (“Manual”).

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, 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.

Chair Cohen stated that the last item on the agenda is Consideration of Approval of the Director of Audit Services to be presented by Billy Raley.

Mr. Raley 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 (“LIPA”) is requested to approve a resolution appointing Catherine Widmark as LIPA’s Director of Audit Services, effective November 16, 2022.

Background

LIPA has been actively conducting a search to fill the Director of Audit Services position since February 2022 after Kathleen Mitterway, Senior Advisor for Audit retired from LIPA. At the conclusion of a robust recruiting process, Catherine Widmark was identified as the candidate best suited to satisfy LIPA’s business needs.

I recommend that Catherine Widmark be appointed to the position of Director of Audit Services. Ms. Widmark has almost 30 years’ experience in the fields of internal audit and finance, and is a seasoned auditing and controls professional, knowledgeable about risk aversion strategies, cost reduction options, financial, operational and compliance processes. Most recently, Ms. Widmark served as Vice President, Internal Audit and SOX Compliance at Pharmapacks LLC. She served in the same role for The Bountiful Company prior to that. A decisive and persuasive communicator with proven problem-solving, leadership, and planning abilities, I believe, based on her background and experience, Ms. Widmark is well-suited to lead LIPA’s internal audit functions as Director of Audit Services.

The Committee Members were afforded the opportunity to meet with and interview Ms. Widmark prior to the meeting.

Recommendation

Based on the foregoing, I recommend approval of the above-requested action.

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

**APPROVAL OF THE APPOINTMENT OF CATHERINE WIDMARK AS LIPA'S
DIRECTOR OF AUDIT SERVICES**

RESOLVED, that the Finance and Audit Committee hereby approves the appointment of Ms. Catherine Widmark as the Director of Audit Services for the Long Island Power Authority, effective on November 18, 2022 until the earlier of her resignation or removal.

Chair Cohen then entertained a motion to adjourn, which was duly made and seconded, after which the meeting concluded at approximately 9:50 a.m.
