

ANNUAL DISCLOSURE REPORT

of the

LONG ISLAND POWER AUTHORITY

(FISCAL YEAR 2022)

This Annual Disclosure Report does not constitute an offer to sell or solicitation of an offer to buy any securities. The information set forth herein has been furnished by the Authority and LIPA and includes information obtained from other sources, all of which are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice and nothing herein shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, LIPA, PSEG, PSEG Long Island, National Grid or Exelon since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party.

This Annual Disclosure Report contains statements which, to the extent they are not recitations of historical fact, constitute “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Authority’s and LIPA’s business and financial results could cause actual results to differ materially from those stated in the forward-looking statements.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Annual Disclosure Report.

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INTRODUCTION TO THE AUTHORITY AND LIPA

This Annual Disclosure Report for the year ended December 31, 2022 (together with the Appendices attached hereto, the “ADR”) is furnished by the Long Island Power Authority (the “Authority”) as required by the various Continuing Disclosure Certificates (the “Continuing Disclosure Certificates”) executed and delivered by the Authority relating to certain of its bonds. The ADR provides information relating to the Authority and its wholly-owned subsidiary, the Long Island Lighting Company (“LILCO” or “LIPA,” as described below), which does business under the names LIPA and Power Supply Long Island. The Authority, acting through LIPA, provides electric service in its Service Area (the “Service Area”) which includes Nassau County (“Nassau County”) and Suffolk County (“Suffolk County”) on Long Island (except for the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport, each of which has its own municipal electric system that supplies and distributes electricity to ultimate consumers within those municipalities) and a portion of the Borough of Queens of The City of New York known as the Rockaways.

Certain of the information contained in this ADR is in addition to that required by the Continuing Disclosure Certificates. Pursuant to the terms of the Continuing Disclosure Certificates, the Authority is under no obligation to update such additional information or include it in any future annual report.

Capitalized terms used but not defined herein have the meanings given to those terms in “Appendix B – Glossary of Defined Terms” attached hereto.

The Authority is a corporate municipal instrumentality and a political subdivision of the State of New York (the “State”) exercising essential governmental and public powers. The Authority was created by the State Legislature pursuant to the Long Island Power Authority Act, being Title 1-A of Article 5 (§ 1020 et seq.) of the Public Authorities Law of the State, as amended, including as amended by certain provisions of the LIPA Reform Act (defined below), (the “Act”).

The Authority became the provider of electric service in the Service Area on May 28, 1998 by acquiring LILCO as a wholly-owned subsidiary of the Authority through a merger. For the period prior to its acquisition by the Authority, LILCO was an investor-owned utility and is referred to herein as “LILCO.” For the subsequent period after its acquisition by the Authority, it is referred to herein as “LIPA.” LIPA is a stock corporation formed and existing under the Business Corporation Law of the State.

Following its acquisition by the Authority, LIPA retained LILCO’s electric transmission and distribution systems (the “T&D System”), certain agreements and contracts for power supply and transmission, an 18% ownership interest in Unit 2 of the Nine Mile Point nuclear electric generating station located in Oswego, New York (“NMP2”) and certain other assets and liabilities. (For a discussion of these other assets and liabilities, see “CERTAIN OTHER MATTERS – LIPA Assets and Liabilities” in this ADR). The term “System” means the assets of the Authority and LIPA used in furnishing electric service.

The remainder of LILCO’s assets (including all of its then-existing fossil-fueled generating units), its employees, and its entire gas supply system were transferred to certain wholly-owned subsidiaries of KeySpan Corporation (“KeySpan”). In August 2007, KeySpan was acquired by National Grid plc, a company organized under the laws of England and Wales (“National Grid plc”). Each subsidiary of KeySpan that acquired assets or employees of LILCO now does business under the name “National Grid”

(each such subsidiary is referred to herein as a “National Grid Sub” and collectively the “National Grid Subs”).

Relationship of the Authority and LIPA

LIPA is a State corporation and a wholly-owned subsidiary of the Authority. Pursuant to LIPA’s organizational documents, the Authority conducts and manages LIPA’s business and affairs. Accordingly, LIPA is controlled by the Authority. The Authority is governed by a Board of Trustees (the “Board”) as described herein.

The Authority and LIPA are parties to a Financing Agreement (the “Financing Agreement”) providing for their respective duties and obligations relating to the financing and operation of the retail electric business in the Service Area, which is included herein by specific cross-reference.

Pursuant to the terms of the Financing Agreement, the Authority is to issue all debt for the Authority and LIPA. This debt includes all Bonds and Subordinated Indebtedness issued and to be issued. The proceeds of all such debt are to be treated as loaned from the Authority to LIPA, which will repay such loans from the revenues it receives from its electric business. To secure the loans, LIPA has pledged all its revenues to the Authority, which has, in turn, pledged such revenues as security for such debt.

Pursuant to the terms of the Financing Agreement, LIPA conducts the electric business in the Service Area and provides service to customers in the Service Area. The Authority and LIPA are also parties to an Administrative Services Agreement described below under which the Authority provides personnel, personnel-related services and other services necessary for LIPA to provide electric service in the Service Area. See “LONG ISLAND POWER AUTHORITY - Management and Operation of the System.”

Proposed Changes to the Authority-LIPA Relationship and Resolution

Prior to its acquisition by the Authority, LILCO was an investor-owned utility. To effectuate the acquisition, the Authority adopted the Resolution (defined below) and purchased all the outstanding common stock of LILCO with the proceeds of the initial issuance of bonds under the Resolution. That acquisition was the subject of an Internal Revenue Service letter ruling which confirmed that the acquisition would not result in a federal tax liability to the Authority. The Authority’s staff has proposed to simplify the Authority’s operations by consolidating the Authority and its subsidiary, and has successfully sought a letter ruling from the Internal Revenue Service to confirm that there would be no federal tax liability to the Authority or LIPA as a result of the merger of LIPA into the Authority. The timing of the merger is not certain but is expected to be this year or next. In addition, in light of the proposed consolidation, the staff proposed amending and restating the Resolution (as so amended and restated, the “Amended and Restated Bond Resolution”), which Amended and Restated Bond Resolution was approved and adopted by the Authority’s Board on July 22, 2020. There are conditions to the effectiveness of such amendments as described below.

The Consolidation Amendments

In connection with effectuating the potential consolidation, the Amended and Restated Bond Resolution contains amendments that: (i) reflect the consolidation of LIPA with the Authority and the termination of agreements between the Authority and LIPA in connection with such consolidation; (ii) delete references to agreements between the Authority and LIPA; (iii) delete references to debt of LIPA which is no longer outstanding; (iv) provide for adjustments in flow of funds provisions related to

the foregoing; and (v) modify other provisions which would no longer be necessary upon the consolidation of LIPA into the Authority and the assumption of all liabilities of LIPA by the Authority (collectively, the “Consolidation Amendments”).

The Additional Amendments

In addition to the Consolidation Amendments, the Authority’s staff proposed other amendments unrelated to the proposed consolidation that are generally intended to update the Resolution by (i) amending the definition of Operating Expenses and related flow of funds provisions to permit Payments in Lieu of Taxes to be paid as Operating Expenses on the same basis as taxes, (ii) including an enhanced debt service coverage ratio in the Authority’s rate covenant (from 100% to 110% of Debt Service, and amounts under all Parity Contract Obligations, payable by the Authority in the applicable fiscal year), (iii) including a debt service coverage ratio as a condition to issuance of Bonds, and (iv) amending various other provisions of the existing Resolution, without regard to whether the proposed merger of LIPA occurs (collectively, the “Additional Amendments” and together with the Consolidation Amendments, the “Proposed Amendments”).

Effectiveness

The Proposed Amendments are subject to the consent or deemed consent of the holders of a majority in principal amount of all Outstanding Bonds. As of the date hereof, the holders of approximately 37.3% of the Outstanding Bonds have consented to the Proposed Amendments set forth in the Amended and Restated Resolution. However, such Proposed Amendments may become effective at a later date as a result of consents or deemed consents of holders of additional Bonds, consents solicited from other Bondholders, or the retirement or defeasance of Bonds which may reduce the principal amount of Bonds Outstanding for purposes of computing the percentage of Bondholders consenting to the proposed amendment.

The Amended and Restated Resolution will be effective upon the filing with the Trustee of consents (which have not been revoked), executed by Holders (or, to the extent provided by the Supplemental Resolution authorizing any series of Bonds, bond insurers or others deemed to be Holders or the underwriters of any series of Bonds), or upon the deemed consent of the Holders, of not less than a majority in principal amount of the Bonds then-Outstanding. The Amended and Restated Resolution provides that following its effectiveness, the Authority will mail notice of such amendment to the Holders of the Bonds as provided in the Resolution. The Resolution provides that, upon the filing of certain proofs with the Trustee as to such consent and the giving of required notice to the Holders of Bonds, the Amended and Restated Resolution and the Amendments set forth therein shall be deemed conclusively binding upon the Authority, the Trustee and the Holders of all Bonds.

Partial Effectiveness

The Authority’s Board also authorized staff to file an amended and restated Resolution reflecting only the Proposed Amendments as are consented to, in the event that all Proposed Amendments do not receive the consent of a majority of the holders of Bonds outstanding, or an amended and restated Resolution reflecting only the Additional Amendments, in the event that the consolidation is not accomplished. Certain of the Proposed Amendments may not require the consent of the Holders of Bonds. Notwithstanding inclusion in the Amended and Restated Bond Resolution, the Authority reserves the right to implement any such Proposed Amendments which do not require the consent of the Holders of Bonds in accordance with the terms of the existing Resolution.

System Operation by the Authority

To assist the Authority (acting through LIPA) in providing electric service in the Service Area, the Authority and LIPA have entered into operating agreements, the purpose of which is to provide the Authority and LIPA with the operating personnel and a significant portion of the power supply resources necessary for LIPA to provide electric service in the Service Area. Below is a summary of certain of LIPA's basic operating agreements.

T&D System management including, among other functions, the management of day-to-day operation and maintenance, customer service, billing and collection and meter reading

Commencing January 1, 2014, a wholly-owned subsidiary of Public Service Enterprise Group Incorporated ("PSEG") dedicated to the operations of the T&D System ("PSEG Long Island") became the service provider pursuant to the Amended and Restated Operations Services Agreement (the "2014 OSA"). The PSEG Long Island management company consists of 19 employees at the director level and higher. The PSEG Long Island service company consists of approximately 2,600 employees. PSEG Long Island is also the retail brand for electric service on Long Island. Further information about PSEG and PSEG Long Island can be found at <http://www.psegliny.com>. No information on that website is included herein by specific cross-reference.

On December 15, 2021, the 2014 OSA was further amended and restated, effective April 1, 2022 (the "OSA" or "reformed OSA"). The OSA has a base term of 12 years, expiring December 31, 2025. See "RECENT DEVELOPMENTS" and "THE OSA" below.

Each year, the Authority and PSEG Long Island, with involvement of the Department of Public Service (the "DPS," which is the staff arm of the New York Public Service Commission (the "PSC")), develop operating and capital budgets and related Performance Metrics for the services provided by PSEG Long Island. The Authority retains the ultimate authority and control over the T&D System assets and certain responsibilities, including: to determine all T&D System rates and charges; to review and approve the Authority's consolidated budget; to represent the Authority's interests in industry and regulatory institutions and organizations; to approve PSEG Long Island's appointment or replacement of its senior executive team, including the president/chief operating officer; and to review and approve power and fuel supply agreements. Additionally, the Authority has the right to undertake such actions, receive additional information, consult with the representatives of PSEG Long Island and make recommendations to PSEG Long Island in order to perform the Authority's oversight responsibilities and obligations. See "THE OSA" below.

Power supply (including capacity and related energy) from the oil and gas fired generating plants on Long Island owned by a National Grid Sub ("National Grid Generation LLC" or "GENCO") ("GENCO Generating Facilities")

LIPA and GENCO executed a Power Supply Agreement (the "PSA") for a term of 15 years that commenced in May 2013, which provides for the purchase of capacity and related energy from approximately 3,560 MW of on-Island generating facilities. The PSA provides this capacity for the term of the agreement and provides LIPA with the option to ramp down (i.e., cease purchasing capacity from) a portion of the PSA units. The PSA also provides for certain penalties related to guaranteed performance levels by GENCO, including unforced capacity ("UCAP") (i.e., capacity adjusted for forced outages) and efficiency levels (heat rate) of the generating facilities. See "THE SYSTEM – Power Supply" below. This summary of the PSA is not complete and reference is made to the PSA for full and complete statements of such agreement and all provisions. The PSA has been filed with the MSRB's EMMA and

is included by specific cross-reference herein. For convenience, a copy of the PSA can also be found on the Authority's website (<https://www.lipower.org/about-us/contracts-reports/>) under the caption "Major Contracts and Procurement Reports."

LIPA can also purchase energy on a least-cost basis from all available on-Island and off-Island sources, consistent with existing transmission interconnection and T&D System limitations. In addition to the PSA with GENCO, LIPA purchases approximately 1,740 MW of capacity from generating facilities on Long Island and elsewhere under various other power purchase agreements.

Power Supply and Fuel Management

Effective January 1, 2015, a PSEG Long Island affiliate, PSEG Energy Resources & Trade LLC ("PSEG ER&T"), provides the power supply and fuel management services to LIPA.

LIPA, PSEG Long Island and DPS

The LIPA Reform Act of 2013 (the "LIPA Reform Act") amended certain provisions of the Long Island Power Authority Act and established an office within the DPS to review and make recommendations to the Board, the Authority, and PSEG Long Island related to rates and charges, core utility functions including capital expenditures, the methods employed by PSEG Long Island for providing safe and adequate service, and PSEG Long Island's emergency response plan. The LIPA Reform Act also gives the DPS the responsibility to investigate and mediate customer complaints. Additionally, the DPS was given the power to undertake comprehensive and regular management and operations audits of LIPA and PSEG Long Island, as it does for investor-owned utilities in the State, every five years. The Authority bears the costs and expenses relating to the DPS's oversight role, which is approximately \$12 million annually, plus the actual cost of management and operations audits. Under this provision, the DPS conducted and concluded its last management and operations audit in June 2018. LIPA and PSEG Long Island have been in the process of implementing the audit recommendations pursuant to an audit implementation plan approved by the DPS and the Board. The next DPS management and operations audit commenced in the fourth quarter of 2022 and is ongoing. *The 2018 DPS Management and Operations Audit and the related Implementation Plan can be found on the Authority's website (<https://www.lipower.org/about-us/contracts-reports/>) under the caption "Management and Operations Audits."* Such information on the website is not included herein by specific cross-reference.

2022 FINANCIAL INFORMATION

The Authority's consolidated financial statements and required supplementary information are attached hereto as Appendix A.

RECENT DEVELOPMENTS

Tropical Storm Isaias, Options Analysis and OSA Reforms

The Task Force Reports

On Tuesday, August 4, 2020, Tropical Storm Isaias landed on Long Island and the Rockaways with rain and wind gusts up to 70 miles per hour. The resulting damage to the electrical system caused approximately 646,000 customer outages, making it the third-most damaging storm to affect the T&D System. The Authority currently estimates approximately \$300 million in response and restoration costs associated with Tropical Storm Isaias. On the afternoon of the storm, both PSEG Long Island's Outage Management System ("OMS") and telephone system failed. The OMS and its feeder systems are

complex, mission-critical information technologies used to report power outages, assess damage, estimate customer restoration times, dispatch trucks, and communicate with customers. After delays, PSEG Long Island redeployed the OMS in February 2022 and reported that it was functioning properly. At that time, the Authority was unable to confirm by independent testing that the OMS was functioning properly. For that reason, the Authority made a series of recommendations to PSEG Long Island relating to re-testing. The Authority expects to present its final report on OMS functioning at the Board meeting in June, which will document its findings and provide any additional recommendations.

On August 5, 2020, the Authority’s Chief Executive Officer initiated an independent review (the “Task Force”) of the circumstances and root causes that led to the lapses in PSEG Long Island’s storm response. The Task Force was charged with providing actionable recommendations and overseeing PSEG Long Island’s remediation activities. The Task Force made 85 recommendations related to storm response (the “Task Force Recommendations”) between September and November 2020. In addition, the Board of Trustees subsequently adopted 87 recommendations (the “Management Recommendations”) to improve 15 non-storm operational areas managed by PSEG Long Island.

At the May 19, 2021 meeting, the Board adopted a resolution requiring Quarterly Reporting of each of the 85 Task Force and 87 Management Recommendations. The Quarterly Reports are available on the Authority’s website at <https://www.lipower.org/reformedcontract/>. Those reports are not included herein by specific cross-reference.

The DPS Investigation

In addition to the Authority’s Task Force, on August 5, 2020, the Governor directed the DPS to conduct an investigation into utility performance across the State, including the performance of PSEG Long Island. On August 18, 2020, the DPS issued a Notice of Apparent Violations and Direction of Prompt Remedial Action letter to PSEG Long Island for its apparent failures to properly anticipate and/or respond to the weather emergency in accordance with its approved ERP.

On November 13, 2020, the DPS provided a recommendation (the “DPS Recommendation”) to the Board as a result of its ongoing investigation of PSEG Long Island’s storm response:

- evaluate options to terminate PSEG Long Island as the Authority’s service provider;
- declare PSEG Long Island’s poor performance during Isaias as a *first* failure of the Major Storm Performance Metric as defined in the 2014 OSA (which provides the Authority with the right to terminate the OSA without penalty if PSEG Long Island has a *second* failure of the Major Storm Performance Metric in 2021 or 2022); and
- seek to either terminate or renegotiate the 2014 OSA to enable greater oversight by the Authority and the DPS.

Options Analysis

Pursuant to the Board’s direction at the November 2020 meeting, the Authority’s Chief Executive Officer and staff developed the Phase I Options Analysis. The Phase I Options Analysis was the first of two reports detailing options to improve the management of the Authority’s assets. The Authority has conducted similar analyses on at least four prior occasions – in 1998, 2005, 2011, and 2013.

At the April 2021 meeting, the Board was presented with the Phase II Options Analysis, which provided further refinement of the alternatives outlined in the Phase I Analysis including: 1. Privatization; 2. Resetting the relationship with PSEG Long Island by re-negotiating the 2014 OSA; 3. Seeking a new service provider to improve operations; and 4. Bringing T&D System operations under the Authority's management.

OSA Reforms

As of December 15, 2021, PSEG Long Island and LIPA entered into the OSA, which became effective on April 1, 2022 upon approval by the New York State Attorney General and Office of the State Comptroller. The following is a brief summary of certain of the provisions of the OSA. For additional detail, see "THE OSA" below.

In order to provide stronger protections for Service Area customers, the OSA:

- increases the amount of PSEG Long Island's annual compensation at risk from \$10 million to \$40 million;
- subjects PSEG Long Island to up to 110 detailed Performance Metrics set annually by the Board with a recommendation by the DPS to ensure PSEG Long Island meets the Board's strategic direction for service to customers and industry best practices;
- includes both new and strengthened termination rights and automatic compensation reductions (i.e. default and gating Performance Metrics) for failures to meet minimum emergency response, customer satisfaction, cybersecurity, and reliability standards;
- provides a new DPS investigative process to reduce compensation for failures to provide safe, adequate, and reliable service to customers;
- requires PSEG Long Island to implement plans to fix known operational issues identified by Authority staff or the DPS, with oversight by the Board;
- strengthens PSEG Long Island's dedicated management team with new positions for Chief Information Officer, Chief Information Security Officer, Vice President for Business Services, Director of Human Resources and Director of Emergency Response;
- ensures that all Long Island employees report to managers dedicated to Long Island operations and links the compensation for all PSEG Long Island employees to Service Area performance;
- includes a Duty of Candor with a termination right for failure to timely and accurately disclose significant operational issues that impair PSEG Long Island's ability to provide reliable service, emergency response, cybersecurity, financial impairment, noncompliance with laws, or circumstances that may endanger public health, safety, and welfare;
- has new standards requiring greater long-term planning, transparency, and accountability for delivering projects and services on time and within budget;
- requires PSEG Long Island to demonstrate cost savings or improved service for hiring or retaining PSEG affiliates to perform services for LIPA;

- requires the separation of all LIPA information technology systems from those of PSEG affiliates pursuant to a plan approved by the Board on September 22, 2022;
- provides the Authority with new rights to independently test and validate the performance of mission-critical information technology systems, such as those that failed during Tropical Storm Isaias; and
- Lastly, the OSA eliminates PSEG Long Island's eight-year term extension option; instead, the OSA will expire on December 31, 2025, subject to extension upon mutual agreement.

For convenience, copies of the Task Force Reports, the various Board Resolutions, and the Options Analysis Reports can be found on the Authority's website at <https://www.lipower.org/reformedcontract/>. No statement on the Authority's website is included by specific cross-reference herein.

Management Options Upon OSA Termination in 2025

In approving the reformed OSA in December 2021, the LIPA Board of Trustees by resolution directed the Chief Executive Officer to complete a study by year-end 2023 to evaluate the best course of action in advance of the expiration of the OSA on December 31, 2025 and to release such study for public comment. The study shall consider, among other matters, PSEG Long Island's performance in 2022 and 2023, as well as a review of the benefits and considerations of exercising the five-year extension option in the OSA; competitively procuring a management contractor; and bringing T&D System operations under the Authority's management.

In approving the OSA on April 1, 2022, the Office of the State Comptroller required that exercise of the 5-year extension of the PSEG Long Island contract be subject to the approval of the Office of State Comptroller and New York State Attorney General and advised in writing that its approval would only be pursuant to a competitive procurement by LIPA.

Legislative Commission on the Future of LIPA

The State's 2022 budget enacted a Legislative Commission on the Future of LIPA (the "Commission") to investigate and report to the State Legislature on the establishment of the public power model for management of the operations of LIPA, whereby Authority management would directly operate the utility. The Commission will report to the State Legislature on the specific actions, legislation, and timeline necessary to restructure LIPA to bring T&D System operations under Authority management no later than December 31, 2025.

The Commission consists of eight members of the State Legislature appointed by legislative leaders in both houses and of both parties. The Commission is assisted by an advisory committee consisting of no more than fifteen members, including representatives of business, labor, local government, Indian nations and tribes, economic development, environment, energy, social justice, consumer, civic, and school districts or higher education.

The Commission is tasked with considering in its report (a) the method of governance of the public authority, (b) improved transparency, accountability, and public involvement, (c) improved reliability of the system, (d) the impact on electric rates, (e) improved storm response, (f) the powers required by the Authority to more effectively operate the utility, (g) the oversight role of the DPS and the PSC over the Authority's operation, (h) the impact on existing bonded indebtedness, (i) improved long-term energy

planning, (j) compliance with the goals of the CLCPA, (k) increased reliance on renewable energy sources to produce electricity, (l) taxation and PILOTs, (m) the special needs of communities that are or have been impacted by the siting of power generating facilities; and (n) any other matter relevant to the feasibility of establishing a public power model of management for the operation of the Authority.

The Commission held five public hearings between November 2022 and January 2023 and issued a draft report to members of the State Legislature on April 17, 2023. Among other things, the Commission's draft report leaves open for consideration, and lays out options, for two key items: (1) reforms to the Authority's governance structure, i.e., whether its board members are appointed, elected, or some combination thereof, and by whom; and (2) the most effective mechanism for ensuring that ServCo employees are held harmless in any transition in every respect. The Commission planned to issue a final report, including any legislation required to implement the public power model of management, by the end of May in time for its recommendations to be acted upon the current legislative session. However, the Commission recently revised its schedule such that further public hearings are expected to take place in September and the final report issued in November.

The Phase II Options Analysis presented to the Authority's Board on April 28, 2021, described above, found that the public power model of management of operations was feasible and financially attractive, with estimated annual savings of \$75 to \$80 million per year. The Phase II Analysis concluded that LIPA would need to hire up to 12 new employees, transition 2,600 ServCo employees to LIPA management, segregate certain information technology systems on shared platforms with PSEG Long Island's New Jersey-based affiliates, and transition certain services provided by PSEG affiliate companies (the majority of which are for information technology systems and services) to the Long Island service company or other vendors. As described above, the reformed OSA requires the separation of all LIPA information technology systems from those of PSEG affiliates pursuant to a plan adopted by the Board at the September 28, 2022 Meeting.

For convenience, copies of the Phase II Options Analysis can be found on the Authority's website at <https://www.lipower.org/reformedcontract/>. No statement on the Authority's website is included by specific cross-reference herein.

Board Policy on Fiscal Sustainability

The Board periodically reviews its policy on debt, access to the credit market and related matters (the "Board Policy on Fiscal Sustainability") first adopted in December 2015. At the September 28, 2022 meeting, the Board adopted revisions to the fiscal policy, including (i) maintaining the fixed obligation coverage ratio target of 1.40x on Authority debt and lease payments; and (ii) maintaining the fixed obligation coverage ratio target of 1.20x on Authority debt, UDSA debt and lease payments. These actions and others are intended to continue the substantial improvement the Authority has already made in its ongoing effort to reduce the Authority's debt-to-assets ratio from approximately 92% to a level below 70% by 2030.

Liquidity

The Board Policy on Fiscal Sustainability requires the Authority to manage its liquidity position to maintain cash on hand of at least \$100 million in its operating account and \$150 million in its Rate Stabilization Fund at each month-end, as well as having cash on hand and available credit of at least 150 days of operating expenses. At December 31, 2022, the Authority had approximately 309 days of cash on hand and available credit.

The Authority's short-term borrowing program provides resources to meet interim working capital needs, cash flow requirements due to the seasonality of sales, and cash flow requirements from unforeseen circumstances such as severe weather events. The Authority was authorized to issue short-term borrowings (including its revolving credit facility) up to \$1.2 billion.

Impacts from the Coronavirus and COVID-19 Pandemic

Authority Response

The Authority has taken steps to address the economic effects on customers of the pandemic of the Coronavirus and COVID-19.

On March 27, 2020, the Board approved staff proposals for temporary emergency modifications to the Authority's tariff to suspend normal collections activity. On May 28, 2020, the State Legislature passed a bill that amended Article 2 of the State's Public Service Law ("Article 2") to prevent residential disconnections during and including a 180-day period following the end of New York's COVID-19 state of emergency. Although not generally subject to the Public Service Law, the Authority is required by the State's Public Authorities Law to provide its customers the rights and protections provided in Article 2. In May 2021, an extension of the disconnection moratorium was signed into law. That extension expired on December 21, 2021. Commercial customer disconnections resumed in November 2021 and residential disconnects resumed in July 2022.

In April 2022, New York State's budget included \$250 million to eliminate pandemic-related utility arrears accumulated through May 1, 2022, for eligible low-income households (the "Phase 1 Forgiveness Program"). The State program provided approximately \$10 million towards an estimated \$25 million of arrears forgiveness distributed by the Authority to eligible customers on or before August 5, 2022. Amounts in excess of State funds were charged against the Authority's reserve for uncollectible expense.

In January 2023, the PSC approved additional relief for customers of utilities the PSC regulates (the "PSC Order"). Following the general parameters of the PSC Order, the Authority implemented a second phase of its residential arrears forgiveness program (the "Phase 2 Forgiveness Program") to address the unprecedented amount of past due balances that accumulated during the COVID-19 pandemic through May 1, 2022. Under the Phase 2 Forgiveness Program, all residential customers were eligible for forgiveness of balances owed through May 1, 2022, except for those residential low-income customers that participated in the Phase 1 Forgiveness Program. The arrears to be forgiven were capped at \$2,000 for any individual account. Under the Phase 2 Forgiveness Program, LIPA funded an estimated \$40 million in bill credits. Approximately 39,000 residential customers across Long Island and the Rockaways received bill credits from the Phase 2 Forgiveness Program. Residential customer terminations were suspended through mid-March 2023 while the program was being implemented. A similar program for LIPA's small commercial customers with demands that never exceeded 40 kW or that averaged less than 20 kW over an annual period was made available in February 2023. The bill credits for arrears forgiveness for small commercial customers benefited approximately 750 small commercial customers and totaled approximately \$1.2 million.

Beginning January 2021, any variance of accrued uncollectible expense from the amount in an approved LIPA budget began to be captured as a component of the Authority's Delivery Service Adjustment (or "DSA", which allows the Authority to reconcile certain projected costs to actual costs in each year). The Board approved modification of the DSA to capture budget variances related to

uncollectible expense during periods affected by a government-ordered or Board-authorized moratorium on service disconnections and for up to two years following the end of such moratorium.

In addition, the Federal Emergency Management Agency (“FEMA”) declared that federal emergency funds will be available for certain incremental worker health and safety costs during the recovery efforts related to the COVID-19 pandemic. LIPA has been approved for such public assistance; however, as no grant application had been finalized or approved as of December 31, 2022, LIPA’s Financial Statements do not include amounts for expected FEMA funds.

Integrated Resource Planning and Repowering Studies

The Authority and PSEG Long Island are currently in the process of developing the Authority’s next Integrated Resource Plan (the “IRP”), with a report expected to be released to the public by mid-2023. The IRP examines potential strategies within the Authority’s control to respond to evolving developments in both electricity supply and demand. Given recent changes in law and policy initiatives (e.g., the State’s Climate Leadership and Community Protection Act (the “CLCPA”)), as well as the need to plan for the expiration of major contracts, the IRP will provide options that will ultimately result in substantially altering the profile of the Authority’s current resource portfolio.

The CLCPA calls for 70% electric generation from renewable energy sources statewide by 2030, and a 100% zero-emissions electric system by 2040. Transitioning to a zero-emissions electric system means both adding new clean sources of energy and retiring older, fossil-fueled power plants. The CLCPA mandates target amounts of clean energy additions for specific technologies. In addition, the Governor has announced more ambitious targets for certain technologies, which have not been formally adopted to date. It is expected that the Authority’s shares of these target amounts would be 1,125 MW of offshore wind (through bundled products or renewable attributes) by 2035, 1,310 MW of distributed solar by 2030, and 750 MW of energy storage by 2030. The IRP will build on these minimum targets and suggest additional flexible resources to complement the intermittency of the wind and solar generation.

A primary objective of the IRP is to provide guidance as to the order, amount, and timing of fossil power plant retirements. The IRP is expected to identify additional generating units that could be retired in the next five to seven years, with particular focus on the legacy steam turbines that are still in operation at National Grid’s Barrett, Port Jefferson and Northport Generating Stations. Each of the steam turbines have been evaluated in recent years for potential repowering. Most recently a study of the Northport steam turbines completed in March 2020 concluded that: (i) repowering the Northport facility would result in increased cost to the Authority’s customers; and (ii) retirement of at least one unit would achieve cost savings for the Authority customers with no expected impact on T&D System reliability.

In August 2021, National Grid submitted amended compliance plans to New York State Department of Environmental Conservation (“DEC”) stating its plans to postpone the retirement of five LILCO-era combustion turbines, totaling 195 MW, until May 1, 2025 so that the units may continue to remain available to support near-term system reliability, as contemplated by the DEC regulations. (See “CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental – New York State Regulation of NOx Emissions from Power Plants.”)

Suffolk County Payments in Lieu of Taxes

The Authority is exempt from payment of real property taxes. However, by statute, LIPA makes payments in lieu of taxes (“PILOTs”) for each parcel of real property it acquired from LILCO. Beginning in calendar year 2015, the LIPA Reform Act capped LIPA’s PILOT payments to no more than 2% higher

than the prior calendar year. In 2017, the Authority received notices from Suffolk County claiming to enforce liens against certain of its properties allegedly for unpaid real estate taxes. The Authority has paid the full amount of PILOTs it is authorized by law to pay. Furthermore, Suffolk County lacks legal authority to enforce a tax lien on the Authority's property. The Authority has filed a legal action to negate any attempt by Suffolk County to enforce the alleged tax liens. LIPA has also filed suit against the towns in Suffolk County to ensure that they comply with the annual 2% limit on growth in such PILOT. After all initial pleadings were served, all sides filed motions for summary judgment.

On April 1, 2021, the Supreme Court, Suffolk County, issued a Decision and Order that found: (1) LIPA's T&D properties are not exempt from real-property taxation for tax years 2014/15 through 2019/20 by reason of LIPA's failure to timely challenge its unlawful assessment as non-exempt, taxable properties by the Town Assessors during those tax years; and (2) compelling LIPA to pay to Suffolk County alleged unpaid real property taxes levied against the T&D properties for tax years 2014/15 through 2019/20. A judgment was entered on October 8, 2021. By stipulation, the judgment included the 2020/21 tax year. LIPA filed an appeal on December 17, 2021. The appeal has been fully briefed by all parties and is awaiting an oral argument date from the appellate court. Enforcement of the judgment is stayed pending the determination of LIPA's appeal. LIPA estimates the potential exposure with penalties and interest to be approximately \$120 million, growing at a potential addition of up to \$30 million per year in the event of an adverse result on appeal. LIPA obtained regulatory approval from its Board to defer the recovery of these costs from its customers until the conclusion of the appeal process. The Authority does not believe this litigation will have a material adverse impact on its business or the affairs of the Authority or LIPA.

Power Plant Property Tax Litigation

The Authority has filed tax certiorari challenges against the County of Nassau, the Town of Huntington, the Town of Brookhaven, and the Village of Port Jefferson related to certain of the power plants subject to the PSA. Some of those municipalities and certain school districts challenged LIPA's right to file tax certiorari cases but the court confirmed LIPA's right to do so in three of those challenges. The fourth remained undecided, but was ultimately withdrawn. LIPA reimburses National Grid for property taxes assessed against the plants by the taxing jurisdictions during the term of the PSA. The property tax challenges in Nassau County are on the E.F. Barrett generating station in Island Park and Oceanside, and the Glenwood Generating Station in Glenwood Landing, and in Suffolk County on the Northport Power Station and the Port Jefferson Power Station.

In December 2018, the Authority settled with the Town of Brookhaven and the Village of Port Jefferson for the Port Jefferson Power Station, which will reduce the Authority's annual property tax payments to approximately half of their 2018 levels by 2027.

In September 2020, LIPA reached an agreement with the Huntington Town Board and the Northport-East Northport School District for similar reductions for the Northport plant. The settlement will reduce the Authority's annual property tax payments to 47% of 2020 levels by 2027. In addition, the Authority will also make a total of \$14.5 million and \$3 million in payments over seven years to the School District and Town, respectively, to help offset the impact of Authority's lower tax payments. In addition, in April 2021, the Authority amended the above-described settlements with the Village of Port Jefferson and the Town of Brookhaven to be equivalent to the settlement on the Northport Power Station.

In April 2022, the Nassau County Legislature approved a settlement with LIPA for the Authority's property tax challenges on the E.F. Barrett and Glenwood Landing generating stations on similar terms to those noted above. In July 2022, LIPA reached an agreement with the North Shore Central School District, whereby the school district withdrew its challenge to LIPA's right to file tax challenges for the Glenwood

Landing power plant, in exchange for three payments totaling \$3.25 million. In October 2022, LIPA entered into a similar settlement with the Island Park Union Free School District to withdraw its appeal of the court decision upholding LIPA's right to file tax challenges, in exchange for five payments totaling \$9 million.

These settlements completed the litigation that began in 2010 to reduce legacy power plant assessments and taxes. Collectively, the Authority estimates that the various settlements will produce customer savings in excess of \$550 million through 2028.

Recent Legislation

On December 24, 2020, the Governor signed into law a bill that amends the Act to provide the PSC with the ability to impose recommendations contained in a DPS comprehensive and regular management and operations audit in circumstances where the audit report indicates a finding of fraud, abuse or mismanagement by the Authority or a service provider. Prior to these amendments; (i) the DPS already possessed the power to undertake comprehensive and regular management and operations audits of LIPA and PSEG Long Island, as it does for all investor-owned utilities in the State, every five years, and (ii) the Authority was already obligated to implement DPS audit recommendations unless the Authority's Board makes a final determination, after notice and public hearing, that a recommendation is inconsistent with the Authority's sound fiscal operating practices, any existing contractual or operating obligations, or the provision of safe and adequate service. To date, the Board has not rejected any of the more than 130 audit recommendations resulting from the 2013 and 2018 audits, and the Authority and PSEG Long Island are implementing the most recent audit recommendations pursuant to an audit implementation plan approved by the DPS and the Board. The next DPS management and operations audit commenced in the fourth quarter of 2022 and is ongoing.

In August 2021, legislation was enacted to permit the issuance of additional restructuring bonds by UDSA in an amount not to exceed \$8 billion (inclusive of the approximately \$4.5 billion of restructuring bonds that were already issued at that time). Additional restructuring bonds may be issued to refund outstanding indebtedness of the Authority and UDSA for debt service savings, and to fund investment in T&D System resiliency, and in September 2022, UDSA issued approximately \$935.7 million of restructuring bonds for those purposes. The Authority and UDSA expect to additional UDSA restructuring bonds later this year. See also – "Legislative Commission on the Future of LIPA" above.

T&D System and Power Supply Updates

Seven major transmission lines connect the T&D System with the Con Edison system to the west, with Eversource (Connecticut Light & Power) ("ES-CL&P") and United Illuminating Company to the north, and Jersey Central Power & Light ("JCP&L") to the southwest. Four of those transmission lines experienced whole or partial outages in recent years. With the Sayreville to Levittown "Neptune" line (660 MW, which was de-rated to 375 MW while PSEG Long Island procured and installed a replacement transformer) returning to service, all four transmission lines have been restored.

In November 2021, the Board's Policy on Transmission and Distribution Operations was amended to require the Authority to mitigate the effects of climate change through multi-year programs that reduce the number and duration of outages after significant system disruptions. The Authority has taken several steps to implement this policy, including storm-hardening investments and expanded vegetation management programs.

In 2022, PSEG Long Island engaged a consultant to develop a climate change vulnerability report which explored, among other things, weather trends and the potential impact of higher temperatures and future sea level rise on load forecasts and the T&D System. The report's findings will be incorporated into the pending IRP. In 2023, the Authority and PSEG Long Island are conducting an expanded Climate Change Vulnerability Study based on the most recent available climate science and creating a Climate Resilience Plan for the Authority, expected to be released in 2024. The Authority expects its study and plan to include the scope of the climate change vulnerability study and climate vulnerability and resilience plans required in the PSC's June 16, 2022 Order to the investor-owned utilities to prepare such studies and plans. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY - Climate Change - *Climate Leadership and Community Protection Act and the State Energy Plan.*"

In November 2021, LIPA signed a five-year agreement with NYPA for capacity from their Richard M. Flynn Power Plant located in Holtsville, NY. The Plant had experienced a generator failure that required major repairs. LIPA determined that the Plant's capacity is needed to assure system reliability and entered into the contract to provide NYPA with the assured revenue stream that NYPA required to undertake the repairs.

THE OSA

The following is a summary of certain provisions of the OSA. This summary is not complete and reference is made to the OSA for full and complete statements of such agreement and all provisions. The OSA has been filed with the Municipal Securities Rulemaking Board's ("MSRB") EMMA and is included by specific cross-reference herein. For convenience, a copy of the OSA can also be found on the Authority's website (<https://www.lipower.org/about-us/contracts-reports/>) under the caption "Major Contracts and Procurement Reports." In addition, see "RECENT DEVELOPMENTS – Tropical Storm Isaias, Options Analysis and OSA Reforms" above.

Compensation Paid to PSEG Long Island and its Affiliates. Through 2021, the 2014 OSA provided for an annual fixed management services fee (approximately \$68.0 million in 2021) and an annual incentive compensation pool (approximately \$10.2 million in 2021), both indexed for inflation. The incentive compensation pool was earned based on favorable performance relative to approximately 26 Performance Metrics. Any revisions to the Performance Metrics included in the 2014 OSA were subject to mutual consent of LIPA and PSEG Long Island. PSEG Long Island's incentive compensation for 2020 was \$9.1 million, which PSEG Long Island waived in consideration of the resolution of disputes with the Authority following Tropical Storm Isaias. The 2021 incentive compensation was approximately \$9.4 million.

The reformed OSA effective April 1, 2022, provides for an annual fixed management services fee (approximately \$39.9 million in 2022), a variable compensation pool (approximately \$21.0 million in 2022) and a compensation pool subject to DPS reduction (approximately \$16.6 million in 2022), all indexed for inflation. The variable compensation pool is earned based on performance relative to up to 110 Scope Function-specific Performance Metrics set annually by the Authority (with a recommendation to the Authority's Board by DPS) and certain Gating Performance Metrics (as such terms are defined in the OSA). The compensation pool subject to DPS reduction is paid to PSEG Long Island unless the Board accepts a DPS recommendation to reduce the pool after a DPS determination that PSEG Long Island failed to follow its Emergency Response Plan or failed to provide safe, adequate and reliable service to LIPA customers.

Generally, costs and expenses (with no mark-up or profit) incurred by PSEG Long Island while providing operations services are treated as Pass-Through Expenditures and are paid by the Authority under the OSA rather than from management services fees.

In addition to management services fees, the Authority pays PSEG Long Island for services provided by PSEG affiliate companies as Pass-Through Expenditures. The majority of services provided by PSEG affiliates (approximately \$24.6 million in 2022) are for certain information technology systems and services, with other costs related to human resources, procurement, payroll, accounts payable, enterprise risk management, legal, treasury, and other miscellaneous services. The reformed OSA adds senior manager positions dedicated to the Authority's operations, including a Chief Information Officer, Chief Information Security Officer, Vice President of Business Services, Director of Human Resources, and Director of Emergency Services. These new positions are Pass-Through Expenditures paid for by the Authority. These new senior manager positions are primarily dedicated to services previously managed by PSEG affiliates. Under the OSA, LIPA and PSEG Long Island have further agreed to establish and maintain information technology systems that are separate and distinct from the systems, data, reports, and information of PSEG Long Island's affiliates based in New Jersey. The Authority's board approved a system separation plan in September 2022, with information technology system separation to be substantially complete by the end of 2024. Additionally, the reformed OSA requires PSEG Long Island to demonstrate cost savings or improved service for hiring or retaining PSEG affiliates to perform services for the Authority. The Authority expects these actions to significantly reduce the services provided by PSEG affiliate companies over time.

Additionally, a PSEG Long Island affiliate, PSEG ER&T, provides power supply and fuel management services to LIPA under a separate contract from the OSA at a cost of approximately \$19.1 million in 2022, indexed for inflation.

Performance and Gating Performance Metrics. The variable compensation pool paid to PSEG Long Island each year is determined by performance relative to Performance Metrics and Gating Performance Metrics. The goal of the Performance Metrics is to achieve the strategic direction defined by the Authority's Board of Trustees for service to customers and industry best practices. Prior to 2022, any revisions to the Performance Metrics included in the 2014 OSA were subject to mutual consent of the Authority and PSEG Long Island. Going forward, Performance Metrics are proposed annually by the Authority for recommendation to the Board by DPS after consideration of PSEG Long Island's comments. Additionally, Gating Performance Metrics are intended to discourage singularly poor performance. Failure to achieve Gating Performance Metrics, which relate to cost management, emergency preparation and response, customer satisfaction and reliability, can reduce the variable compensation pool by 15% to 100%, depending on the metric.

For 2022, the Authority and PSEG Long Island mutually negotiated and agreed to 96 performance standards (the "2022 Performance Metrics") distributed across all management services provided to the Authority and its customers. The performance standards generally either target the level of service established by Board policy or address identified gaps between that level of service and the current level of service. As described above, for 2023 and future years, performance metrics are set independently by the Board with the concurrence of the DPS rather than negotiated with PSEG Long Island. Metrics are designed to be achievable levels of performance that are objectively verifiable with budgeted funds to achieve this performance. These performance standards are intended to ensure that PSEG Long Island's compensation is tied to delivering meaningful results for the Authority's customers.

The Authority has evaluated each of the 2022 Performance Metrics and determined that 66 of the 96 performance standards were fully met, 7 were partially met, and 23 were not met. PSEG Long Island fully met 85% of transmission and distribution-related metrics, 71% of business service metrics, 67% of power supply and clean energy program metrics, 47% of customer service metrics, and 29% of information technology metrics. This resulted in Variable Compensation of \$14.8 million of the potential \$21.0 million for 2022 (approximately 71%), in addition to fixed and other compensation for providing operations services totaling \$56.7 million, or total compensation of \$71.6 million or 92% of the potential compensation. As further described above, PSEG Long Island affiliated companies were also paid \$19.1 million for power supply and fuel management services and \$24.6 million for information technology and other systems and services.

PSEG Long Island and ServCo Employees. Under the OSA, PSEG Long Island provides 19 of the 33 senior managers at the director level or higher and executes management services generally as an independent contractor for the T&D System on behalf of LIPA in accordance with the standards set forth in the OSA.

ServCo, a subsidiary service company of PSEG Long Island, provides 14 of the senior managers at the director level or higher (and currently five of the 19 PSEG Long Island senior manager positions) and substantially all the operations services under the OSA. ServCo consists of approximately 2,600 employees, including the legacy LILCO and National Grid employees that transitioned employment to ServCo upon the effectiveness of the 2014 OSA. The salary and benefit costs of ServCo employees are a Pass-Through Expenditures paid by the Authority. Upon the termination of the OSA, PSEG Long Island will transfer all Membership Interests in ServCo to LIPA or, at LIPA's direction, its designee, at no cost.

Management Services. Under the OSA, except for certain rights and responsibilities reserved to LIPA, PSEG Long Island assumes and undertakes the rights and responsibilities for management of the T&D System and the establishment of programs and procedures with respect thereto, including: all electric transmission, distribution and load servicing activities for the safe and reliable operation and maintenance of the T&D System; day-to-day operation of the T&D System; power supply and planning and implementation of clean energy programs; engineering activities; preparation of recommended capital plan; preparation of long- and short-range planning analyses and forecasts; customer services; maintaining information technology and cyber-security of the T&D System; finance, accounting, budgeting, longer-term financial forecasting and treasury operations related to the T&D System; and other general activities such as information technology, human resources, procurement, communications, environmental health and safety compliance, enterprise risk management, and implementation of emergency response and reporting. Substantially all operations services are provided by ServCo.

LIPA has policy-making and oversight responsibilities and obligations for the operation and maintenance of the T&D System consistent with the LIPA Reform Act and OSA. The OSA now also requires PSEG Long Island to adhere to Board recommendations related to operations services that are also recommended by DPS. LIPA's specific rights and responsibilities with respect to the T&D System include: the right to determine all T&D System rates and charges and establish policies that govern those rates and charges; the right to review and approve the consolidated budget; the right to review and make recommendations with respect to all planning studies and load forecasts; the right to approve all power supply procurements and wholesale contracts; the right and responsibility to establish the vision and strategic directions pursuant to which management will develop strategic plans; the right to guide the strategic planning and policy with respect to wholesale markets, integrated resource plan, and clean energy programs; the right to approve changes to LIPA's small generator interconnection process; the responsibility for financing the business and operations of the Authority and LIPA; the right to conduct governmental relations, external affairs, and communications related to the interests, operations, and

responsibilities of LIPA; access to and ownership of T&D System information systems; responsibility for compliance with any financing documents and administration of debt service for all debt of the Authority and LIPA; overall responsibility for the Authority's and LIPA's legal matters, including reporting and related legal compliance; and the right to approve (which approval shall not be unreasonably withheld or delayed) PSEG Long Island's decisions regarding the appointment or replacement of PSEG Long Island's President and Chief Operating Officer, the four most senior executive managers responsible for operations, customer care, power supply/wholesale marketing, and administration, the Chief Information Officer, the Chief Information Security Officer, the Director of Emergency Management, the Vice President of Business Services, the Vice President of Legal, the Director of Human Resources and any other Senior Manager who is a Vice President level, Managing Director level, or above.

Termination of OSA. The OSA contains customary events of default, including bankruptcy, payment failures and failure to perform material obligations under the agreement, as well as cure rights. The OSA may be terminated upon an event of default that has not been timely cured. If a bankruptcy-related event of default occurs under the OSA, the OSA terminates immediately without further action by the non-defaulting party. For payment defaults or, in the case of PSEG Long Island and certain of its affiliates only, credit support-related defaults, the non-defaulting party may terminate upon not less than 15 Business Days' written notice to the other party. For other events of default, generally, LIPA may terminate no later than 18 months after written notice and PSEG Long Island may terminate no earlier than 18 months after written notice. Immediately upon the expiration or any earlier termination of the OSA, PSEG Long Island will transfer the membership interests in ServCo and all corporate books and records to LIPA or, at LIPA's direction, its designee at no cost to LIPA or its designee. LIPA and PSEG Long Island will mutually agree upon such instruments, agreements and other documents as may be reasonably necessary to effect such transfer.

Additional LIPA Termination Rights. LIPA may also terminate the OSA at any time upon not less than six months' notice in the event (i) the T&D System is sold, transferred or assigned, in whole or in part, to a federal, state or municipal governmental entity or to a private entity (a "LIPA Privatization") or (ii) LIPA has determined to operate and maintain the T&D System with its own employees (a "LIPA Municipalization"). In addition, if a Change of Control (as defined in the OSA) of PSEG Long Island or certain affiliated entities occurs, LIPA may terminate the OSA upon not less than thirty days' notice. The OSA contains Default Metrics related to PSEG Long Island's performance on emergency preparedness and response, customer satisfaction, and cyber security. PSEG Long Island's failing any of the Default Metrics (as defined in the OSA) gives LIPA the right to terminate the OSA. Furthermore, the OSA also contains a Duty of Candor (as defined in the OSA), which gives LIPA the right to terminate the OSA if PSEG Long Island fails to fully and accurately respond to LIPA or DPS requests or to voluntarily disclose known matters that may materially impair its performance.

Additional Service Provider Termination Rights. Under the OSA, PSEG Long Island may terminate the agreement in the event of either a (i) LIPA Privatization, (ii) LIPA Municipalization or (iii) Change in Regulatory Law (as defined in the OSA). In the event of a termination of the OSA by PSEG Long Island as a result of a LIPA Privatization, the termination date would be the closing date of the sale, transfer or assignment of the T&D System. In the event of a termination of the OSA by PSEG Long Island by reason of a LIPA Municipalization, the termination date would be the effective date of LIPA's employment of the T&D System operating and maintenance personnel or LIPA's acquisition of PSEG Long Island service company, whichever first occurs. PSEG Long Island is required to provide LIPA with no less than six months' prior written notice of termination by reason of a LIPA Privatization or LIPA Municipalization unless PSEG Long Island receives less than six months' notice from LIPA of such event. If PSEG Long Island exercises its right to terminate the OSA by reason of a Change in Regulatory Law, the termination notice period would generally extend for 12 or 14 months. In the case of

a Change in Regulatory Law that subjects PSEG Long Island (or any of its affiliates that provides Operation Services under the OSA) to rate or other substantive regulation by the DPS or any other state utility commission, the OSA will automatically terminate without notice or further action of the Parties one day prior to the effective date of such Change in Regulatory Law, unless PSEG Long Island agrees in writing to waive its termination right relating thereto. Under the OSA, LIPA has the option to extend the effective date of any termination by reason of Change in Regulatory Law on a month-to-month basis for up to a maximum of six months upon payment of an extension fee calculated in accordance with the OSA. In addition, in the case of a termination of the OSA by PSEG Long Island by assertion of Federal Energy Regulatory Commission (“FERC”) jurisdiction over the OSA or PSEG Long Island, the OSA permits LIPA to submit to arbitration the question of whether a delay in the termination of the OSA would be in the public interest and fair and equitable to the LIPA and PSEG Long Island, and should, therefore, be permitted.

Service Provider as LIPA’s Agent. The OSA designates PSEG Long Island as LIPA’s agent to enter into (a) purchase, rental and other contracts on behalf of and for the account of LIPA to properly operate and maintain the T&D System, to maintain the records of LIPA, to make such additions and extensions to the T&D System and, as may be needed from time to time by LIPA, to enter into contracts for support and back office services related to LIPA, the T&D System, and/or LIPA’s assets provided that entering into such contracts is consistent with applicable law under the OSA, and (b) to enter into contracts under LIPA’s tariff with retail customers and wholesale customers/generators under LIPA’s tariff. The designation as agent enhances the financial benefits and relationship between the parties under the agreement, including the ability to achieve certain sales and use tax savings.

DPS Rate Proceeding and Budgeting. The OSA establishes a process for proceedings for rate proposals that seek to increase rates above 2.5% of aggregate revenues annually, for review by the DPS and recommendation to the Board. The Authority did not submit a rate proposal that would have increased rates in excess of 2.5% of aggregate revenues in 2019, 2020, 2021, 2022 or 2023. The OSA specifically acknowledges the Board’s sole right to set final and interim rates.

The OSA provides that in any DPS rate proceeding, LIPA will provide evidentiary and other support and submit its views regarding the LIPA portion of the rate plan, and PSEG Long Island will be responsible for the rest of the rate plan, and both parties may submit their own views on the filing. If the DPS proposes a draft recommendation to either party, the parties must work together to determine if the proposed recommendation is consistent with the OSA and LIPA’s statutory obligations. If the parties cannot agree on such a conclusion, but the recommendation is presented to the Trustees for approval, PSEG Long Island may present its views about the recommendation to the Trustees at any Board meeting prior to a vote. Upon receipt of a final recommendation from the DPS, the parties have 21 days to negotiate and finalize an updated budget, during which time the Board would not take final action on the DPS recommendation unless necessary to comply with bond covenants or applicable law. If agreement on the budget is not reached within 21 days, then the parties would submit the matter for resolution through expedited binding arbitration. See “RATES AND CHARGES – Authority to Set Electric Rates.”

Customer Rate Changes. The OSA allows either party to propose to the other, a rate change deemed necessary, upon the same basis as stated above. Following negotiations, PSEG Long Island will prepare a proposal within 30 days for LIPA’s review and within 30 days thereafter, the parties will engage in good faith discussions to agree on the rate change proposal. Following this process, the Authority can implement a change in rates or charges provided it is consistent with the OSA and the LIPA Reform Act.

Voluntary DPS Rate Filing. For any rate filing permitted, but not required under the LIPA Reform Act, the OSA sets forth that the process described above will be followed for a DPS proceeding.

Overall Cap on Certain Service Provider Liabilities. The OSA limits to \$40 million the total amount of damages and reductions in variable compensation and in the compensation pool subject to DPS reduction that can be sustained by PSEG Long Island in a year or from a single event or circumstance. Damages for willful misconduct and bad faith breach are not subject to the overall cap.

DERIVATIVES AND HEDGE ACTIVITIES

The Authority uses financial derivative instruments and physical hedges to manage the impact on its electric rates from changes in electric prices, fuel costs and interest rates.

Commodity Hedging

The Authority is exposed to volatile energy commodity prices in the normal conduct of its operations. The costs to either purchase and deliver fuel to produce electricity in power plants under contract to the Authority or to purchase power from other suppliers are recovered from the Authority's customers at cost through a power supply charge (the "Power Supply Charge"). An effective commodity hedging program provides the Authority's customers with greater stability in power supply costs.

The Authority manages the volatility of the Power Supply Charge using financial derivative and physical hedges according to a risk management program and hedging plan overseen by a Power Supply Risk Management Committee ("PRMC"). The Authority's Chief Executive Officer appoints the members of the PRMC consisting of at least three Authority staff, two of which must be drawn from Authority senior management. The PRMC has established, maintains, and monitors processes and controls in the conduct of Authority's Power Supply Hedging Program. The power supply commodity hedging program identifies price and volume targets for power supply commodities with the goals of stable and reasonable fuel and purchased power costs. The Authority has authorized PSEG ER&T to implement this risk management plan as the Authority's agent. As of March 31, 2023, the Authority had posted \$24.3 million cash collateral (includes initial and variable margin) to the Authority's clearing brokers for its power supply commodity hedge positions. The mark-to-market value as of March 31, 2023 for the Authority's power supply commodity hedge positions was positive \$30.6 million.

Interest Rate Hedging

The Authority manages a portion of its interest rate risk with derivative instruments. As of March 31, 2023, the Authority had four interest rate exchange agreements with a total notional amount of \$1.038 billion relating to its outstanding and anticipated future indebtedness and an aggregate mark-to-market value of approximately negative \$59 million.

The Authority monitors its interest rate derivative exposure regularly. The Authority is subject to collateral posting requirements on certain of its interest rate derivatives depending on the credit ratings of the Authority and, in certain cases, of the swap insurer Assured Guaranty Municipal Corp. (formerly "FSA") ("Assured"). The Authority has not had to post collateral for its interest rate derivatives. In the event that the Authority were required to post collateral, the Authority may post the collateral or provide alternative credit support in lieu of posting collateral and/or executing collateral documentation.

A downgrade of the Authority's senior lien debt below Baa2, BBB or BBB by Moody's, S&P, or Fitch, may require the Authority to execute collateral documentation related to one swap (with a mark-to-market at March 31, 2023 of positive \$22.6 million). Regarding a swap insured by Assured (with a mark-to-market at March 31, 2023 of negative \$84.2 million), the Authority may have to execute collateral

documentation if both the insurer's rating falls below A2 by Moody's and A by S&P, and the Authority's senior lien debt rating falls below A3 by Moody's or A- by S&P.

The swap counterparties can terminate the swaps following certain events related to the Authority, including payment defaults or other uncured events of default or termination events, bankruptcy, insolvency, bond-related events, or credit rating downgrades of the Authority and/or the swap insurer (if applicable). Under two of the Authority's swap agreements, the counterparty does not have the right to terminate until one of the Authority's senior lien credit ratings is downgraded below investment grade. Some counterparties may also terminate if, following a downgrade of the Authority and/or Assured below certain levels, the Authority does not provide credit support, post collateral or execute collateral documentation.

Under Governmental Accounting Standard Board ("GASB") Statement No. 53, *Accounting and Reporting for Derivative Instruments*, and GASB Statement No. 72, *Fair Value Measurement and Application*, the Authority records its derivatives at fair value. For a further discussion of these matters, and for a summary of certain interest rate exchange agreements, see Note 8 of Notes to Basic Financial Statements.

On July 27, 2017, the Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the London Interbank Offered Rate Rates ("LIBOR") after 2021 (the "FCA Announcement").

On October 23, 2020, the International Swaps and Derivatives Association ("ISDA") published the Fallback Protocol, which could be used by parties to a derivative transaction to amend existing transactions to make use of the fallback language. That supplement (effective since January 25, 2021) provides fallback language by amending the ISDA LIBOR definitions (including USD LIBOR) to include a fallback rate (USD Compound SOFR) in case of LIBOR discontinuation. The Fallback Protocol provides a mechanism to incorporate the fallback rate for legacy swaps that were executed prior to January 25, 2021, which can be implemented via adherence to the Protocol or bilateral agreements. On March 5, 2021, ICE Benchmark Administration Limited ("IBA") and the Financial Conduct Authority ("FCA") announced that the LIBOR cessation date for most USD LIBOR tenors, including 1-Month LIBOR, will be June 30, 2023. That announcement also triggered the fixing of the USD LIBOR-SOFR fallback spread adjustment. All transactions will remain in LIBOR until the LIBOR cessation date in 2023. The Authority has adhered to the Fallback Protocol. The remaining LIBOR swaps after June 30, 2023 will convert to each respective percentage of SOFR plus the relevant Protocol Spread.

RATES AND CHARGES

The Act and the Rate Covenant

The Act requires that any bond resolution of the Authority contain a covenant that it will at all times maintain rates, fees or charges sufficient to pay the costs of operation and maintenance of facilities owned or operated by the Authority; payments in lieu of taxes; renewals, replacements and capital additions; the principal of and interest on any obligations issued pursuant to such resolution as the same become due and payable; and to establish or maintain any reserves or other funds or accounts required or established by or pursuant to the terms of such resolution.

Rate Tariffs and Adjustments

LIPA's base retail electric rates generally reflect traditional rate designs and include fixed customer charges for all customer classes, seasonal energy rates for all customer classes except street lighting, and seasonally differentiated demand charges for non-residential customer classes (greater than 7 kW). Economic development and load retention incentives are provided to a small number of commercial customers. Miscellaneous service charges, pole attachment charges, and wireless rental charges are also assessed monthly. Besides the base delivery service charges, the Authority's electric rates include a Power Supply Charge, a PILOT payments recovery rider (as described below), a rider providing for the recovery of the Suffolk Property Tax Settlement, a Distributed Energy Resources ("DER") Charge to recover the costs of LIPA's customer-side efficiency programs, the DSA, the RDM, and the State Assessment charge to recover the cost of the Department of Public Service Assessment (authorized by Public Service Law Section 18-a and the LIPA Reform Act).

The DSA provides cost recovery for certain items that can vary significantly due to external factors, which items include, among others: debt service (variances in interest rates, capital expenditures), storm expenditures (variances from the annual budget for storm expenses in base rates), accrued bad debt expense (for up to two years following a government or Board-imposed moratorium on customer shut-offs for nonpayment), Service Provider pensions and OPEBs, and incremental expenses incurred during emergencies other than storms and approved by the Board. The DSA is calculated through the end of September each year, which allows for the bill impact to be known before annual budget approval and the adjustment to be implemented on the following January 1 of each year.

The RDM functions by comparing actual revenues with authorized revenues and crediting (or collecting) any differences due to (or from) customers. The RDM covers all sources of variances in delivery service revenues including any net lost revenues attributable to implementing energy efficiency or net metering programs, any revenue variances (positive or negative) caused by weather patterns, and revenue variances (positive or negative) that result from changes in economic conditions.

Modifications to the Tariff

On March 29, 2023, the LIPA Board of Trustees voted to modernize its standard electric rate for residential customers in 2024 with a new Time-of-Day Rate (the "TOD Rate"). Under this new standard rate, customers will have the option of a "Flat Rate" or a "Super Off-Peak Rate." With the TOD Rate and Super Off-Peak Rate, customers pay different rates for electricity based on when they use it. Electric rates are expected to be higher during weekdays from 3 p.m. to 7 p.m. ("peak" hours) but lower all other hours of the day and on weekends and holidays ("off-peak" and "super off-peak" hours).

Information on approved modifications to the Authority's Tariff is available in the "Approved Rulemaking" section of the website: <https://www.lipower.org/about-us/tariff/approved-rulemaking/>. Information on proposed but not yet approved modifications to the Authority's Tariff is available in the "Proposed Rulemaking" section of the website: <https://www.lipower.org/about-us/tariff/proposed-rulemaking/>. Such information on the website is not included herein by specific cross-reference.

Power Supply Charge

The Power Supply Charge recovers LIPA's fuel and purchased power costs. It also recovers the costs associated with LIPA's compliance with the State's CES, including costs incurred in complying with REC and ZEC requirements, and may recover costs associated with LIPA's compliance with the CLCPA described below. Effective January 1, 2022, the Power Supply Charge consists of the Market

Supply Charge, which recovers LIPA's bypassable costs (i.e., costs which are avoided by LIPA if customers switch to another commodity supplier) from its bundled customers, and the Local Supply Charge, which recovers LIPA's non-bypassable costs (i.e., costs to maintain reliability for all customers) from its bundled and retail choice customers. The Market and Local Supply rates are updated monthly, which is consistent with the process used by other major State electric utilities.

PILOTs

The Act requires the Authority to make payments in lieu of taxes, i.e., PILOTs, related to revenues and to property taxes. The Authority makes payments in lieu of taxes to municipalities on Authority-owned property it acquired from LILCO equal to the property taxes that would have been received by each such jurisdiction from LILCO if the acquisition by the Authority had not occurred. Part A of the LIPA Reform Act limits increases in PILOTs assessed by municipalities on those facilities to no more than 2% per calendar year, beginning in 2015, which is significantly less than the 6.6% rate of growth of property-based PILOTs over the ten years prior to the LIPA Reform Act. Such PILOTs are recovered in the Authority's base rates, which are adjusted annually for the actual amount of anticipated PILOT payments on Authority-owned property. Property tax expense reimbursed to National Grid related to the GENCO units, and property taxes in all other power purchase agreements, are recovered in the Power Supply Charge.

The Authority also makes PILOTs for certain State taxes (including gross receipts taxes) and local taxes (including transit station maintenance surcharges charged by the Metropolitan Transportation Authority of New York) which would otherwise have been imposed on LILCO. The PILOT payments recovery rider allows the Authority to recover PILOTs representing these gross receipts taxes and surcharges.

The Securitization Authority and Restructuring Charges

Part B of the LIPA Reform Act, also referred to herein as the Securitization Law (the "Securitization Law"), created the Utility Debt Securitization Authority ("UDSA") and authorizes the issuance of UDSA bonds to retire a portion of the Authority's existing debt and UDSA's existing debt, and to fund T&D System resiliency. The Securitization Law authorizes the Authority to adopt financing orders that create restructuring property and authorize the issuance of restructuring bonds. The financing orders are irrevocable as the time for any appeal to such financing orders has lapsed. The Securitization Law requires that the proceeds of the restructuring bonds be used by UDSA to purchase restructuring property created by a financing order from the Authority and to pay or fund upfront financing costs. It also requires that the Authority use the proceeds of the restructuring bonds it receives from its sale of the restructuring property to UDSA only to pay approved restructuring costs, which include the costs of repurchasing, redeeming, repaying or defeasing certain of the Authority's outstanding indebtedness and UDSA's outstanding indebtedness, along with system and upfront financing costs, and, if funds remain after the approved restructuring costs are paid, to refund or credit to consumers any such surplus, to the extent practical. As required by the LIPA Reform Act and each financing order, each restructuring charge will be adjusted at least annually and if determined to be necessary, semiannually or more frequently, to ensure that the expected collection of the restructuring charge is adequate to timely pay all scheduled payments of principal and interest on the related restructuring bonds and all ongoing financing costs when due.

The LIPA Reform Act mandates that the restructuring charges are irrevocable, non-bypassable consumption-based charges. "Non-bypassable" means that the restructuring charges will be collected from customers, as long as such customer is connected to the T&D System and is taking electric delivery

service in the Service Area, even if such customer also produces some of its own electricity or purchases electric generation services from a provider of electric generation services who is not the owner of the T&D System Assets and even if the T&D System Assets are no longer owned by LIPA. Certain customers that self-generate eligible renewable power will only pay restructuring charges based upon their “net-billed” consumption. The obligation of customers to pay the restructuring charges is not subject to any right of set-off in connection with the bankruptcy of LIPA or any other entity.

A restructuring charge is a Transition Charge (defined below) for purposes of the Authority’s Electric System General Revenue Bond Resolution (the “Resolution”) and amounts collected in respect thereof are not Revenues subject to the lien of the Resolution or the Authority’s Electric System General Subordinated Revenue Bond Resolution (the “Subordinated Resolution”). A restructuring charge can only pay debt service on the related restructuring bonds and related costs. All payments from or on behalf of customers, including all Revenues and Transition Charges, are initially deposited into an allocation account maintained by the Authority and allocated daily by the Authority among Revenues transferred to the Revenue Fund and the restructuring charges transferred to one of the collection accounts established under indentures relating to the UDSA restructuring bonds. UDSA issued approximately \$4.5 billion of restructuring bonds in several series effectively exhausting UDSA’s ability to issue restructuring bonds under the Securitization Law. However, as described above, in August 2021, legislation was enacted that made changes to the Securitization Law to permit the issuance of additional restructuring bonds in an amount not to exceed \$8 billion (inclusive of the approximately \$4.5 billion of restructuring bonds already issued prior to August 2021) to refund outstanding indebtedness for debt service savings and fund investment in T&D System resiliency. Restructuring bonds are not secured by the Trust Estate described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Payment of Revenues Pursuant to Financing Agreement.” Restructuring bonds are not obligations of the Authority, LIPA, PSEG Long Island or any of their affiliates and bonds and other obligations issued or incurred by the Authority and LIPA are not obligations of UDSA.

The Authority’s bills also recover the restructuring charges owed by the Authority’s customers to UDSA. Restructuring charges are collected by LIPA, as the initial Servicer, under servicing agreements between LIPA and UDSA. As Servicer, LIPA is responsible for monitoring the collateral securing the UDSA bonds, taking all necessary action in connection with adjustments to the restructuring charges and certain reporting requirements. However, in its role as T&D System manager under the OSA, PSEG Long Island performs several functions otherwise provided by LIPA including billing and collecting the restructuring charges from customers, meter reading and forecasting. For each issuance of restructuring bonds, UDSA and LIPA also signed an Administration Agreement under which LIPA, acting as Administrator, performs certain administrative and other duties on behalf of UDSA.

Authority to Set Electric Rates

The Board is empowered to set rates for electric service in the Service Area subject only to review and recommendation by the DPS under certain conditions. The LIPA Reform Act mandated that the Authority and PSEG Long Island submit to the DPS any rate proposal that seeks to increase rates above 2.5% of aggregate revenues annually, for review by the DPS and recommendation to the Board. The Board retains final rate-setting power to accept or reject any particular DPS recommendation associated with a rate proposal if the Board determines in its discretion the DPS recommendation is inconsistent with the Authority’s sound fiscal operating practices, any existing contractual or operating obligations, or the provision of safe and adequate service. The Authority did not submit a rate proposal that would have increased rates in excess of 2.5% of aggregate revenues in 2019, 2020, 2021, 2022 or 2023.

The Authority uses the “Public Power Model” of rate-setting, which makes use of the debt service coverage method in determining revenue requirements. For the Authority this entails an annual fixed obligation coverage ratio on Authority-issued debt and leases of 1.40x for Authority debt and leases and 1.20x for Authority and UDSA debt and leases. The Authority exceeded its target in 2022 by achieving a fixed obligation ratio of 1.45x. With UDSA’s restructuring bonds included, the coverage ratio achieved was approximately 1.29x. Depreciation expense, amortization of the acquisition adjustment and of other regulatory assets, and the difference between the accrual expense and actual required cash contributions to PSEG Long Island OPEBs, are non-cash expenses excluded from the Authority’s methodology for coverage calculation.

The Authority’s coverage ratio targets are codified the Board Policy on Fiscal Sustainability, which can be found on its website at <https://www.lipower.org/purpose/> under the caption “Board Policies.” Such information on the website is not included herein by specific cross-reference. Achieving these financial targets involves risks and uncertainties, and therefore the Authority’s actual results may differ from the targets. See “RECENT DEVELOPMENTS “– Board Policy on Fiscal Sustainability” and “Impacts from the Coronavirus and COVID-19 Pandemic.”

Comparative Rates

The table below sets forth LIPA’s 2022 average residential and commercial rates as compared with certain New York City metropolitan area electric utilities.

<u>Comparative Rates</u> *		
<u>Utility Name</u>	<u>2022 Average Residential Price</u> <u>(cents/kWh)</u>	<u>2022 Average Commercial Price</u> <u>(cents/kWh)</u>
Consolidated Edison Co-NY	28.57	26.04
Eversource (ES-CL&P)	25.48	20.53
Long Island Power Authority	25.22	22.54
Orange & Rockland Utilities	23.79	15.65
United Illuminating Company	23.55	20.49
Public Service Elec & Gas Co	17.43	13.37

Source: Form EIA-861M (formerly EIA-826) detailed data: <https://www.eia.gov/electricity/data/eia861m/>

* Subject to change as 2022 data has not been finalized.

BILLING AND COLLECTIONS

The following table sets forth information relating to the annual net charge-offs for LIPA, including net charge-offs of customers as part of LIPA’s annual charge-off reconciliation process, prepared in accordance with the metrics provided for in the 2014 OSA for all years. The write-off rate was substantially reduced by temporary actions taken to provide customers relief due to the impact of the COVID-19 pandemic. See “RECENT DEVELOPMENTS – Impacts from the Coronavirus and COVID-19 Pandemic.”

Net Charge-Offs as a Percentage of Total Billed Retail Electricity Service Revenues

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Electric Revenues Billed (\$000).....	3,659,782	3,614,157	3,812,469	4,046,947	4,554,610
Net Charge-Offs (\$000).....	19,479	17,974	13,928	11,271	25,003
Percentage of Revenue Billed.....	0.53%	0.50%	0.37%	0.28%	0.55%

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Under the OSA, PSEG Long Island must bill and collect such fees, rates, rents and charges for the use and services of the T&D System as established by the Authority under the Resolution and the Act.

Since LIPA owns the System, the Financing Agreement contains covenants as to the operation and maintenance of the System, and the Resolution contains covenants of the Authority to enforce the Financing Agreement and assigns to the Trustee certain of the Authority's rights and interests under the Financing Agreement, including the right to bring actions and proceedings to enforce the Financing Agreement.

Pledge of Trust Estate

The Resolution pledges the Trust Estate for the payment of the Bonds and all Parity Obligations, subject to the provisions of the Resolution, the Act and the Financing Agreement permitting certain applications of the Trust Estate and subject to the prior payment of Operating Expenses.

The Resolution authorizes the application of Revenues to certain purposes free and clear of the lien of the pledge. These applications include payment of Operating Expenses from the Operating Expense Fund prior to the deposit of Revenues in the Debt Service Fund. In addition, amounts on deposit in the Rate Stabilization Fund may be used for any lawful purpose of the Authority or LIPA, and amounts retained in the Revenue Fund may be used for any lawful purpose of the Authority or LIPA, as determined by the Authority.

The principal items in the Trust Estate pledged by the Resolution include:

- (i) all payments received by the Authority from LIPA under the Financing Agreement, and all rights to receive the same;
- (ii) all Revenues and all right, title and interest of the Authority in and to Revenues, and all rights of the Authority to receive the same;
- (iii) the proceeds of sale of Bonds until expended for the purposes authorized by the Supplemental Resolution authorizing such Bonds; and
- (iv) all funds, accounts and subaccounts established by the Resolution, including securities credited thereto and investment earnings thereon.

The Authority covenants in the Resolution that it will not, and will not permit LIPA to, issue any bonds, notes or other evidences or indebtedness or otherwise incur any indebtedness, other than Bonds or Parity Obligations, secured by a pledge of or other lien or charge on the Trust Estate which is prior to or of equal rank or priority with the pledge made by the Resolution, and that it will not create or cause to be created any lien or charge on the Trust Estate which is prior to or of equal rank or priority with the pledge made by the Resolution.

Payment of Revenues Pursuant to Financing Agreement

Under the Financing Agreement, LIPA transfers to the Authority all its right, title and interest in and to the Revenues, including all right to collect and receive the same, subject to the provisions of the Financing Agreement and the Resolution providing for the application of Revenues, and consents to the assignment by the Authority to the Trustee of its interest therein.

Revenues are defined in the Resolution to mean all revenues, rates, fees, charges, surcharges, rents, proceeds from the sale of LIPA assets, proceeds of insurance, and other income and receipts, as derived in cash, directly or indirectly from any of LIPA's operations, by or for the account of the Authority or LIPA including but not limited to all payments received by the Authority or LIPA with respect to any guaranty of performance under any System Agreement and all dividends received by the Authority as a result of ownership of any stock or other evidence of an equity interest in LIPA; provided, however, that Revenues shall not include (i) any Transition Charge, (ii) any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project, or (iii) any federal or State grant moneys the receipt of which is conditioned upon their expenditure for a particular purpose unless the Authority determines that such moneys constitute Revenues. Revenues also do not include any amounts, or amounts from any sources, as may be specified from time to time by Supplemental Resolution; provided, however, that at such time the applicable additional Bonds tests of the Resolution will be satisfied (whether or not the tests are then required to be met for other purposes) without regard to such amounts.

Transition Charge means any rates, fees, charges or surcharges relating to the T&D System or the customers thereof established by irrevocable rate order or other action or instrument, and applicable to or by the Authority or LIPA, in conjunction with the issuance of debt or other securities under a separate resolution, indenture or similar instrument (other than the Resolution) to the extent such rates, fees, charges or surcharges are pledged or otherwise encumbered or conveyed as security for such debt or other securities (a "Transition Charge"). Each financing order contains a finding that the applicable restructuring charge is a Transition Charge for purposes of the Resolution. See "RATES AND CHARGES – The Securitization Authority and Restructuring Charges."

Funds

The Resolution establishes the following Funds: the Construction Fund; the Revenue Fund; the Operating Expense Fund; the Debt Service Fund; the Parity Contract Obligations Fund; the Subordinated Indebtedness Fund; the LIPA Unsecured Debt Fund; the PILOTs Fund; and the Rate Stabilization Fund, all to be held by or on behalf of the Authority except for the Debt Service Fund, which is to be held by the Trustee.

Flow of Funds

The Authority is required by the Resolution, as promptly as practicable after receipt thereof by LIPA, to deposit all Revenues in the Revenue Fund. Amounts on deposit from time to time in the Revenue Fund shall be withdrawn and deposited in this order of priority:

FIRST: to the Operating Expense Fund, the amount determined by the Authority from time to time to be deposited to pay, or to be set aside therein as a reserve for the payment of, Operating Expenses;

SECOND: (A) to the Debt Service Fund, the amounts required to pay or provide for the payment of the Principal Installments and Redemption Price of and interest on Bonds and Parity Reimbursement Obligations; and

(B) to the Parity Contract Obligations Fund, the amount determined by the Authority to be required to be deposited therein to pay or provide for the payment of Parity Contract Obligations;

THIRD: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST and SECOND, to the Subordinated Indebtedness Fund, the amount determined by the Authority to be required to be deposited therein to pay or provide for the payment of Subordinated Indebtedness;

FOURTH: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST, SECOND or THIRD above, to the LIPA Unsecured Debt Fund, the amount determined by the Authority to be required to be deposited therein to pay or provide for the payment of Outstanding LIPA Unsecured Debt;

FIFTH: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST, SECOND, THIRD or FOURTH, to the PILOTs Fund, the amount determined by the Authority to be required to be deposited in such Fund to pay or provide for the payment of PILOTs; and

SIXTH: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST, SECOND, THIRD, FOURTH or FIFTH, to the Rate Stabilization Fund, the amount determined by the Authority to be deposited therein to provide for any payments or deposits from Revenues thereafter.

Any moneys remaining in the Revenue Fund may be used for any lawful purpose of the Authority or LIPA, as determined by the Authority, including, but not limited to, the purchase or redemption of any bonds, notes or other obligations of the Authority or LIPA.

Rate Covenant

The Authority covenants in the Resolution to establish and maintain System fees, rates, rents, charges and surcharges sufficient in each Fiscal Year so that Revenues reasonably expected to be produced in such Fiscal Year will be at least equal to the sum of:

- (i) 100% of Debt Service, and amounts under all Parity Contract Obligations, payable by the Authority in such Fiscal Year;
- (ii) 100% of the Operating Expenses payable in such Fiscal Year;
- (iii) 100% of the amount necessary to pay all PILOTs payable in such Fiscal Year; and
- (iv) 100% of the amount necessary to pay other Required Deposits, all other payments required pursuant to the Resolution and the Financing Agreement, and all other payments required for the System, for such Fiscal Year.

If at any time such fees, rates, rents, charges and surcharges are or will be insufficient to meet the Rate Covenant, it will not constitute an Event of Default if and to the extent the Authority promptly takes action reasonably expected by the Authority to cure or avoid any such deficiency or to cause the same to be cured or avoided. In addition, the failure in any Fiscal Year to comply with the covenant in clauses (iii) and (iv) above (the “non-debt service and operating expense rate covenant”), will not constitute an Event of Default if the Authority retains a Rate Consultant and a Consulting Engineer to review System fees, rates, rents, charges and surcharges and review the System Budget and complies with the following sentence. If the Rate Consultant (relying upon a Certificate of the Consulting Engineer) is of the opinion that a schedule of fees, rates, rents, charges and surcharges for the T&D System which would provide funds to meet the requirements specified in the non-debt service and operating expense

rate covenant is impracticable at that time and the Authority therefore cannot comply with the non-debt service and operating expense rate covenant, then the Authority will fix and establish such schedule of System fees, rates, rents, charges and surcharges as is recommended in such Certificate by the Rate Consultant to comply as nearly as practicable with the non-debt service and operating expense rate covenant, and in such event the failure of the Authority to comply with the non-debt service and operating expense rate will not constitute an Event of Default.

For the Rate Covenant, at any time, (i) Revenues include any amounts withdrawn or expected to be withdrawn thereafter in any Fiscal Year from the Rate Stabilization Fund which were either (a) on deposit therein prior to such Fiscal Year or (b) proceeds of Bonds or Subordinated Indebtedness issued to fund the Shoreham Credits, (ii) Revenues do not include any proceeds from the sale of LIPA assets or proceeds of insurance, and (iii) Debt Service, Parity Contract Obligations, PILOTs and other Required Deposits will not include any amounts expected by the Authority to be paid from any funds, other than Revenues, reasonably expected by the Authority to be available therefore (including without limitation the anticipated receipt of proceeds of sale of Bonds or Subordinated Indebtedness, or moneys not a part of the Trust Estate, expected by the Authority to be used to pay the principal of Bonds, Parity Contract Obligations, Outstanding LIPA Unsecured Debt or Subordinated Indebtedness, other than proceeds of Bonds or Subordinated Indebtedness issued to fund the Shoreham Credits), which expectations, if included in a resolution of the Authority or Certificate of an Authorized Representative, will be conclusive.

In addition, the Authority covenants in the Resolution to review, or cause LIPA to review, the adequacy of System fees, rates, rents, charges and surcharges at least annually. Except to the extent required by law, the Authority covenants not to permit LIPA to furnish or supply or cause to be furnished or supplied any product, use or service of the System free of charge (or at a nominal charge) to any person, firm or corporation, public or private, unless the Authority determines that other adequate consideration has been, or is expected to be, received in connection therewith, and to cause LIPA to enforce or cause to be enforced the payment of any and all amounts owing to LIPA for use of the System in accordance with the Financing Agreement.

Additional Bonds Test

There is no limit or test for issuing additional Bonds under the Resolution.

Subordinated Indebtedness; Acceleration of Subordinated Indebtedness

There is no limit or test for issuing Subordinated Indebtedness under the Resolution.

Subordinated Indebtedness is subject to acceleration prior to maturity upon the occurrence of certain events. An acceleration of Subordinated Indebtedness would not cause an acceleration of the Bonds or affect the priority of the application of Revenues to the payment of the Bonds. In such an event any amounts then available under the Resolution after the payment of Operating Expenses and Debt Service on any Bonds and Parity Contract Obligations could be required to be applied to the payment of the Subordinated Indebtedness.

Other Agreements

The Authority sometimes executes agreements in connection with the incurrence of Bonds issued under the Resolution. In addition, the Authority may execute agreements to directly reflect the incurrence of senior, subordinated or unsecured debt under the Resolution, which may be done as a direct placement

with the lender(s). Those agreements typically contain covenants, events of default, remedies, priority rights, and other similar terms.

The Authority's current agreements generally include the following covenants, among others: (i) a requirement that the Authority maintain an amount not less than \$150,000,000 in the Rate Stabilization Fund; (ii) a rate covenant substantially the same as that described above under " – Rate Covenant," but such that Revenues are reasonably expected to be at least equal to 110% of such amounts; and (iii) the Authority or LIPA will not issue additional debt (other than certain refunding debt) unless the Authority can provide (a) a certificate of the Authority establishing that the Revenues for any twelve consecutive months within the eighteen (18) months preceding the issuance satisfied certain requirements set forth therein or (b) a certificate of a Rate Consultant establishing that the Revenues for the Fiscal Year of issuance and the next five (5) full Fiscal Years are projected to satisfy certain requirements set forth therein. The terms of all such agreements including, without limitation, those described herein are subject to amendment, waiver or termination in accordance with the agreements and there is no guarantee that any such terms will be in effect or enforced by a counterparty at any time.

See "INTRODUCTION TO THE AUTHORITY AND LIPA - Relationship of the Authority and LIPA - *Proposed Changes to the Authority-LIPA Relationship and Resolution*" above.

For convenience, copies of such agreements can be found on the Authority's website (<https://www.lipower.org/investors/>) under the caption "Official Statements & Bond Resolution." Such information on the website is not included herein by specific cross-reference.

LONG ISLAND POWER AUTHORITY

The Authority is a corporate municipal instrumentality and a political subdivision of the State created by the Act. LIPA is a wholly-owned subsidiary of the Authority, which was formed and exists under the Business Corporation Law of the State.

The Act

Pursuant to the Act, the Authority has all of the powers necessary or convenient to carry out the purposes and provisions of the Act including, without limitation, to (i) acquire real or personal property; (ii) enter into agreements or contracts consistent with the exercise of its powers; (iii) borrow money, issue notes, bonds or other obligations and secure its obligations by mortgage or pledge of its property; (iv) create or acquire one or more wholly-owned subsidiaries; (v) set its rates and charges; and (vi) make inquiries, investigations and studies necessary to carry out its objectives.

The Authority may enter into agreements to purchase power from the Power Authority of the State of New York ("NYPA"), the State, any State agency, any municipality, any private entity or any other available source (excluding Canada unless negotiated through NYPA) at such price as may be negotiated. The Authority is specifically authorized to provide and maintain generating and transmission facilities and enter into management agreements for the operation of all or any of the property or facilities owned by it. Finally, the Authority may transfer any of its assets to one or more private utilities or municipal gas or electric agencies for such consideration and upon such terms as the Authority may determine to be in the best interest of the gas and electric ratepayers in the Service Area. The Act permits the Authority to file a petition under Chapter 9 of Title 11 of the United States Bankruptcy Code or take other similar action for the adjustment of its debts. LIPA as a business corporation may file a petition under Chapter 7 or Chapter 11 of Title 11 of the United States Bankruptcy Code.

The Act requires that any resolution authorizing the issuance of bonds contain a covenant by the Authority that it will at all times maintain rates, fees or charges sufficient to pay, and that any contracts entered into by the Authority for the sale, transmission or distribution of electricity shall contain rates, fees or charges sufficient to pay, the costs of operation and maintenance of the facilities owned or operated by the Authority, PILOTs, renewals, replacements and capital additions, the principal of and interest on any obligations issued pursuant to such resolution as they become due and payable, and to establish or maintain any reserves or other funds or accounts required or established by or pursuant to the terms of such resolution.

Trustees

The Authority is governed by the Board. The Board supervises, regulates and makes policy for the Authority. The Board appoints a Chief Executive Officer, who is responsible for the Authority's overall management and operation. The hiring of all employees other than the Chief Executive Officer, Chief Financial Officer, General Counsel, and Chief Audit Executive is under the jurisdiction of the Chief Executive Officer.

The Board consists of nine Trustees, five of whom are appointed by the Governor, two by the Temporary President of the State Senate and two by the Speaker of the State Assembly. The Trustees serve for staggered four-year terms. As of the date hereof, there are no vacancies on the Board; however, seven of the nine Trustees terms have expired but the Trustees continue to serve until a replacement is appointed. The Board Chair is appointed by the Governor. As of the date hereof, the Governor has not appointed a Board Chair and the Vice Chair serves as the Acting Chair. The LIPA Reform Act requires that all Trustees reside in the Service Area and have relevant utility, corporate board or financial experience. Trustees are not compensated for their service but are reimbursed for reasonable expenses.

Pursuant to the Public Authorities Law and as set forth in the Authority's By-laws, five (5) Trustees of the Authority constitute a quorum for the transaction of any business or exercising any power of the Authority and the Authority only has the power to act by a vote of five (5) Trustees.

Pursuant to the Act, the Trustees and the officers of the Authority are not subject to any personal or civil liability resulting from the exercise, carrying out or advocacy of the Authority's purposes or powers. The By-laws and other instruments of the Authority and LIPA provide for the indemnification of the Trustees, officers and employees of the Authority and the directors, officers and employees of LIPA.

Strategic Direction by the Board

The Board has defined the purpose and vision of the Authority, as well as its expectations for the strategic outcomes that management will deliver in all the important aspects of providing service to customers, including reliability, resiliency, customer experience, clean energy, affordability, information technology, cyber security, and financial performance. For each policy, the Board has specified objectives and related reporting requirements by management that allow the Board to monitor the Authority's performance relative to its strategic direction. Some of the elements of the Board's policies include:

Reliability and Resiliency

- Top 10% reliability among peer utilities;
- Improve circuit conditions that cause repeated customer outages;
- Invest in system resiliency to reduce outages and restoration times from severe weather; and
- Independently verify and validate PSEG Long Island's emergency restoration planning.

Customer Experience

- Deliver top 25% customer satisfaction in J.D. Power studies;
- Continual improvement in ease of customer interaction, as measured by customer surveys; and
- Invest in technology to enhance the convenience of billing, payments, appointments, emergency restorations, etc.

Information Technology and Cybersecurity

- Deploy modern grid management technology and data analytics benchmarked to the top 25% of utilities;
- Protect digital infrastructure and customer data, as measured by an annual independent assessment of cybersecurity practices; and
- Clearly communicate customer information collection policies;

Clean Energy

- 70% renewable energy by 2030;
- Zero-carbon electric grid by 2040; and
- Encourage beneficial electrification of transportation and buildings (i.e., electric vehicles and cold climate heat pumps).

Customer Affordability

- Maintain regionally competitive electric rates;
- Prioritize investments to balance cost and service quality; and
- Maintain affordable electric bills for low-income customers and disadvantaged communities.

Fiscal Sustainability

- Achieve AA-category credit ratings by reducing LIPA's debt-to-assets ratio from 90%+ to 70% or less by 2030;
- Maximize grants and low-cost funding sources;
- Develop budgets and financial plans that maximize customer value and aggressively manage costs;
- Provide LIPA's customers and investors with timely, transparent, accurate, and useful information to evaluate LIPA's financial performance and plans.

The Board's strategic direction serves as the basis for the annual work plans presented by Authority management, as well as the Performance Metrics adopted by the Board to determine PSEG Long Island's variable compensation pool. The Authority generally reviews its Board Policies annually. More information about the Board's Policies and management's work plans can be found on the Authority's website at <http://www.lipower.org/purpose/>. The Authority's Performance Metrics for PSEG Long Island for 2022 and 2023 can be found at <http://www.lipower.org/about-us/contracts-reports/>. Such information on the website is not included herein by specific cross-reference. Achieving the results specified in the Board's Policies involves risks and uncertainties, and therefore the Authority's actual results may differ.

In addition to the above, the Board is committed to advancing social and environmental justice on Long Island and in the Rockaways. In 2022, the Authority committed to fund a New York Clean Transportation Prize Award of up to \$10 million for innovative projects that expand access to clean,

electric transportation and lower vehicle emissions in historically disadvantaged communities. The Authority also created a community college scholarship program to support education and training in careers related to the electric industry for students from disadvantaged communities and expanded financial assistance to low- and moderate-income customers to maintain bill affordability.

Management and Operation of the System

Administrative Services Agreement. The Authority and LIPA are parties to an Administrative Services Agreement, which sets forth the terms and conditions under which the Authority will provide personnel, personnel-related services, and other services (including management, supervisory, payroll and other services) necessary for LIPA to provide electric service in the Service Area. Except for services of the type and nature provided to LIPA by outside independent agents, attorneys, and consultants and for any other services provided under agreements approved by the Authority, LIPA will meet its personnel and personnel-related needs exclusively through the Administrative Services Agreement. The Administrative Services Agreement may be amended to reflect the changing needs of the Authority and LIPA.

Under the Administrative Services Agreement, the services provided by the Authority include, but are not limited to: (i) performance of LIPA's duties and obligations and enforcing its rights under any existing and future contracts between LIPA and any other person; (ii) coordination of services for which LIPA contracts; (iii) coordination of negotiations and studies authorized by LIPA for any project for the supply of Power and Energy or the provision of transmission capacity to LIPA; (iv) reviewing invoices; (v) disbursement of all funds of LIPA; (vi) preparation of construction and operating budgets on behalf of LIPA; (vii) provision or coordination of all other accounting matters and preparation of billings to, and collection from, LIPA's customers; (viii) coordination of all other matters arising under any agreements relating to any project that LIPA might undertake; (ix) securing information from any persons required to fulfill LIPA's obligations under any agreements arising from the Administrative Services Agreement, the agreements referred to in clauses (i) and (viii), and any project LIPA might undertake; (x) provision or coordination of rate matters; and (xi) provision or coordination of such other services as LIPA determines are required to carry out its business in an economical and efficient manner.

Board Leadership and Senior Management. The Board leadership and senior management of the Authority, along with information covering their background and experience, are listed below. The Authority's staff encompasses approximately 70 positions.

Mark Fischl is the Vice Chair of the Board. At the May 19, 2021 Board meeting, former Chair Ralph Suozzi announced that he was not seeking reappointment to the Board. Vice Chair Fischl will continue to preside over the Authority's Board meetings until a new Chair is designated by Governor Hochul. Mr. Fischl is the President of Pinnacle Real Properties LLC, a real estate consulting and development advisory firm that focuses on redeveloping downtown areas and industrial properties. Prior to joining Pinnacle, Mr. Fischl spent 13 years with RGE, a real estate firm located on Long Island. At RGE, Mr. Fischl managed commercial properties as well as certain environmental issues. While at RGE, Mr. Fischl assisted the acquisition of almost one million square feet of space. Mr. Fischl spent six years as President of the American Platform Tennis Association.

Thomas Falcone is the Chief Executive Officer and Interim Chief Financial Officer of the Authority, the third largest publicly-owned electric utility in the United States as measured by customers. Mr. Falcone joined the Authority in January 2014 as Chief Financial Officer and became Chief Executive Officer in September 2015. Mr. Falcone also serves as Interim Chief Financial Officer while the Authority executes its search for a new Chief Financial Officer. During his tenure, the Authority has reduced power

outages by 26 percent, signed agreements for over 1,000 MW of clean and distributed energy, reformed and strengthened its management services contract with PSEG Long Island, obtained four credit-rating upgrades, and invested over \$5.7 billion in the T&D System, while keeping electric rate adjustments below the rate of inflation. Mr. Falcone is the board chair of the Large Public Power Council and a board member of the American Public Power Association, the Association of Edison Illuminating Companies, and the Advanced Energy Research and Technology Center at Stonybrook University. Mr. Falcone serves on the Climate Action Council, the 22-member board that adopts the State plans to achieve New York's ambitious greenhouse gas reduction targets, including a zero emissions electric system by 2040 and an 85% reduction in state-wide emissions by 2050. Mr. Falcone also participates in the Energeia Partnership, a think-tank organization focused on challenges facing Long Island. Prior to joining the Authority, Mr. Falcone was an investment banker and advisor to publicly-owned utilities and state and local governments. In that role, Mr. Falcone raised more than \$25 billion for public utilities and infrastructure investments across the country. Mr. Falcone received a Bachelor of Science in Economics from the Wharton School of the University of Pennsylvania.

Mujib Lodhi, Chief Operating Officer, is responsible for developing and executing corporate strategy, work plans, performance metrics, and the business process optimization process. Mr. Lodhi also manages information technology, customer experience, and clean energy customer programs. Mr. Lodhi joined the Authority in October 2018 and previously served as Chief Information Officer, Senior Vice President of Customer Experience, and Interim Chief Financial Officer. Prior to the Authority, Mr. Lodhi spent over two decades as the Chief Information Officer for large utilities across the United States including Riverside Public Utilities, Washington Suburban Sanitary Commission, and District of Columbia Water and Sewer Authority. Mr. Lodhi has received over a dozen CIO awards for leveraging technology and improving business performance and has authored papers on advanced data analytics with IBM research scientists. Mr. Lodhi holds a B.S. from the University of Indianapolis in Management Information Systems. He has also completed graduate coursework in Leadership from Nyack College, the Management Development Program from Harvard's Graduate School of Education and Leadership, and the Strategic Management Program from Cornell University.

Bobbi O'Connor, General Counsel and Secretary to the Board of Trustees, joined the Authority in November 2013 and previously served as Assistant General Counsel for commercial transactions, Deputy General Counsel, Vice President of Policy, Strategy, and Administration, and most recently Chief Administrative Officer. Prior to joining the Authority, Ms. O'Connor was a partner in the business and finance department of an international law firm where her practice involved advising clients on securities law matters, with a particular focus on representing utility clients. Ms. O'Connor received a Bachelor of Arts degree in Psychology from Loyola College of Maryland and a Juris Doctor from Hofstra University School of Law.

Billy Raley, Senior Vice President of Transmission and Distribution, is responsible for overseeing PSEG Long Island transmission and distribution operations, including the design, planning, operation, maintenance, and construction of the T&D System, regulatory compliance, emergency planning and response, and interconnection of generation resources. Mr. Raley joined the Authority in March 2021 and has over 35 years of experience in the utility industry, including utility operations, project management, construction, maintenance, storm restoration, and nuclear generation. Previously, Mr. Raley was the Lead Director at PricewaterhouseCoopers' Global Capital Projects and Infrastructure Practice. Mr. Raley has also held numerous leadership positions at Progress Energy, Georgia Power, and the Southern Company. Mr. Raley received a Bachelor of Science in Electrical Engineering from the Georgia Institute of Technology. Mr. Raley is a member of the Institute of Electrical and Electronics Engineers and has served on the Association of Edison Illuminating Companies committee and numerous other national committees.

Rick Shansky, Senior Vice President of Power Supply and Wholesale Markets, leads the Authority's power supply planning, procurement and generation portfolio management. Mr. Shansky also manages the Authority's participation in wholesale power markets and oversees the day-to-day procurement of power and fuel to serve the energy needs of LIPA's customers. Mr. Shansky has 40 years of electric utility experience and has held several management positions at the Authority since joining in 2008. Previously, Mr. Shansky held positions at Con Edison and LILCO in the areas of energy management, resource planning, fuel and purchased power, and generation planning. Mr. Shansky has a Bachelor of Science in Electrical Engineering from Rensselaer Polytechnic Institute and a Master of Science in Energy Management from the New York Institute of Technology. Mr. Shansky is also a licensed Professional Engineer in the State.

THE SYSTEM

Service Area

The Service Area consists of Nassau and Suffolk Counties in Long Island (except for the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport, each of which has an individually owned municipal electric system that supplies and distributes electricity to ultimate consumers within those municipalities) and a portion of Queens County in the City of New York known as the Rockaways. According to Bureau of Census data, the population of the Service Area was approximately 3.0 million as of July 1, 2021, which represents a slight increase since July 1, 2016. As of December 31, 2022, the Authority had approximately 1.2 million customers in the Service Area, which was a small increase from December 31, 2017.

Long Island is a significant regional economy that benefits from its proximity to Manhattan, but also generates its own income, employment, and regional output. Long Island has a highly skilled labor force, close proximity to New York City, over 20 colleges, universities, and core research institutions, such as Brookhaven National Laboratory, Cold Spring Harbor Laboratory, and the technology and science developmental centers at Stony Brook and Farmingdale Universities that specialize in the areas of biotechnology, computer sciences, wireless and internet technologies, and energy. Long Island also has a highly desirable suburban lifestyle that attracts many individuals to live, work, and vacation within the area.

The Long Island economy benefits from high average personal income and a service-based economy. According to 5-year estimate data published by the United States Bureau of the Census, Nassau and Suffolk Counties had median household incomes of \$126,576 and \$111,660 (in 2021 dollars), respectively, compared to a national median of \$69,021.

The table below shows Long Island's unemployment rate as compared with the national and State unemployment rates for the periods shown (as described above under "RECENT DEVELOPMENTS – Impacts from the Coronavirus and COVID-19 Pandemic," United States, State and Service Area unemployment rates were severely impacted by COVID-19):

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Service Area Unemployment – Average Annual

Year	US ^[1]	NY ^[1]	Nassau-Suffolk ^[1]
2018	3.9%	4.1%	3.7%
2019	3.7%	3.9%	3.4%
2020	8.1%	9.8%	8.1%
2021	5.3%	7.0%	4.5%
2022	3.6%	4.3%	2.9%

Sources:

^[1] Bureau of Labor Statistics: <http://www.bls.gov/data/> (not seasonally adjusted data)

In the year ending December 31, 2022, approximately 54.1% of LIPA’s annual retail revenues were received from residential customers, 44.3% from commercial customers and 1.6% from street lighting, public authorities and certain others. The largest customer in the Service Area (the Long Island Rail Road) accounted for less than 1.7% of total sales and 1% of revenue. In addition, the ten largest customers in the Service Area accounted for approximately 7.2% of total sales and 6.0% of revenue.

The Transmission and Distribution System

The T&D System is an integrated electric system consisting of overhead and underground facilities, equipment, land parcels, easements, contractual arrangements, and other assets used to provide the transmission and distribution of electric capacity and energy to and within the Service Area. The T&D System includes seven transmission interconnections owned in part or under contract that link the T&D System to neighboring utilities.

Transmission Facilities

LIPA’s transmission facilities provide for the delivery of capacity and energy from transmission interconnections and on-Island generating stations to LIPA’s electric distribution system. As of December 31, 2022, the transmission system consists of approximately 1,400 miles of overhead and underground lines with voltage levels ranging from 23 kilovolts (“kV”) to 345 kV.

The on-Island transmission system has been constructed following standards similar to those employed by other major electric utilities in the Northeast and includes underground cables as well as wood poles, steel poles, and lattice steel towers. Many of the existing transmission structures support distribution circuits and/or connections for telephone, cable television, or fiber optics.

In accordance with the latest North American Electric Reliability Corporation (“NERC”) standards, 41 LIPA-owned transmission substations are part of the Bulk Electric System (“BES”). The combined capability of LIPA’s BES and non-BES transmission substations is approximately 9,100 million volt-amperes (“MVA”). The transmission system also includes LIPA-owned transformation equipment at 12 generating sites under contract with LIPA that is used to step up the generation voltage to transmission voltage levels, and five substations that interconnect to independent power producers (“IPPs”) or other generation.

Distribution Facilities

The distribution system comprises 13 kV and 4 kV facilities and a combination of overhead and underground equipment. There are 156 distribution substations throughout the Service Area that step the voltage down from transmission to distribution levels. The combined capability of LIPA’s distribution

substations is approximately 8,800 MVA. As of December 31, 2022, the distribution system also includes approximately 14,045 circuit miles of overhead and underground line (9,014 overhead and 5,031 underground), and approximately 193,163 line transformers with a total capacity of approximately 13,767 MVA. A portion of the poles on which LIPA's distribution facilities have been installed are owned by Verizon Communications and used by LIPA under a joint-use agreement pursuant to which the parties aim to maintain parity.

Reliability

LIPA and PSEG Long Island undertake programs intended to maintain and/or improve the reliability and quality of electric service within the Service Area. For the distribution system, these programs are focused on several major areas: (i) circuit reconfiguration and reinforcement; (ii) pole replacement; (iii) system automation; (iv) tree trimming; (v) targeted system enhancements; and (vi) circuit conversion and reinforcement projects to serve new customer loads. For the transmission system, the improvement program is focused on: (i) transmission system reliability; (ii) substation reliability improvements; (iii) transmission breaker replacements; and (iv) a structure inspection program. These program elements are a key part of efforts to limit both the frequency and duration of customer outages.

Over the five-year period from 2018 through 2022, LIPA's customers experienced an average of 15.2 months between interruptions and average interruption duration of 76.7 minutes. Based on data provided by the PSC for all other State utilities (other than Consolidated Edison Company of New York, Inc. ("Con Edison"), which is primarily an underground utility), the average time between interruptions during the five-year period from 2017 through 2021 was 10.9 months and the average duration of an interruption was 120.3 minutes. These statistics indicate that LIPA's system-wide frequency and duration of outages were among the most favorable for overhead utilities in New York. These statistics exclude outages due to major storms, consistent with the PSC standards. The PSC is expected to release 2023 data for the other State utilities later this year.

The average period between interruptions for a customer served by LIPA during 2022 was approximately 17.6 months. For those LIPA customers affected by an interruption during 2022, the average length of interruption was approximately 82.2 minutes. The average outage duration for each customer served was 56.0 minutes for 2022. These statistics compare to an average time between interruption of 17.7 months, an average interruption of approximately 80.5 minutes, and an average outage duration for each customer served of 54.7 minutes for a LIPA customer during 2021.

Beginning in 2016, the Authority and PSEG Long Island began several initiatives to improve the reliability and resiliency of the T&D System, including adopting new tree-trimming standards and a new multi-year storm hardening initiative. Since that time, the average outage duration for each customer served has declined from 75.5 minutes in 2016 to 56.0 minutes in 2022 (approximately 25.8%). The number of customers experiencing multiple sustained outages (4 or more outages per year) has declined from 70,248 in 2016 to 19,762 in 2022 (approximately 71.9%), while the average number of momentary interruptions experienced by customers has declined from 3.92 in 2016 to 1.67 in 2022 (approximately 57.4%).

Long Island experiences seasonal conditions typical of the northeast United States. Summers are usually hot with high temperatures over 90°F. Winters include snow and icing conditions that can be damaging to overhead power lines. In addition, the Service Area experiences severe storms, including hurricanes, which can be damaging due to Long Island's coastal location.

Customer Satisfaction

The Authority and PSEG Long Island placed a significant focus on improving customer satisfaction beginning in 2014. The Board has selected the J.D. Power Electric Utility Residential Customer Satisfaction Study and the J.D. Power Electric Utility Business Customer Satisfaction Study as the primary metrics to measure accomplishment in this area, supported by other indicators of customer service and satisfaction. The Board has established an objective to be among the top 25% of Large East region peer utilities and the Authority has established Performance Metrics for PSEG Long Island to consistently drive to top quartile performance. To date, this objective has not been achieved. See “RECENT DEVELOPMENTS – Tropical Storm Isaias, Options Analysis and OSA Reforms” above.

Transmission Interconnection Facilities

The geographic location of the Service Area restricts the number of transmission interconnections between LIPA’s T&D System and other systems in the region. Seven major transmission lines connect the T&D System with the Con Edison system to the west and with Eversource (Connecticut Light & Power) (“ES-CL&P”) and United Illuminating Company to the north and Jersey Central Power & Light (“JCP&L”) to the southwest. These interconnections are summarized in the table that follows.

Service Area Transmission Interconnections

Name	Off System Terminal Locations	Summer Capacity (MW)	Interconnecting Utility	Voltage ^[2]
Dunwoodie to Shore Road (Y-50)	Westchester County, NY	656	Con Edison ^[1]	345 kV
East Garden City to Sprain Brook (Y-49)	Westchester County, NY	637	Con Edison ^[8]	345 kV
Northport to Norwalk Cable (NNC)	Norwalk, CT	436	ES-CL&P ^[1,3]	138 kV
Jamaica to Lake Success	Queens, NY	240	Con Edison ^[1]	138 kV
Jamaica to Valley Stream	Queens, NY	268	Con Edison ^[1]	138 kV
Shoreham to New Haven (CSC)	New Haven, CT	330	United Illuminating ^[7]	138 kV ^[4]
Sayreville to Levittown (Neptune)	Sayreville, NJ	660	JCP&L ^[5]	345 kV ^[6]

^[1] These utilities own the portion of the interconnections not owned by LIPA.

^[2] Kilovolt or “kV.”

^[3] ES-CL&P = Eversource (CL&P).

^[4] This cable carries high voltage direct current, which is converted and delivered to the LIPA system at 138 kV.

^[5] JCP&L = Jersey Central Power & Light. JCP&L is a wholly-owned operating subsidiary of First Energy.

^[6] This cable carries high voltage direct current, which is converted and delivered to the LIPA system at 138 kV.

^[7] United Illuminating Company is a subsidiary of Eversource.

^[8] Owned by NYPA.

The Con Edison cable extending approximately 18 miles from Dunwoodie to Shore Road (the “Y-50 Cable”) was placed in operation in August 1978 and is jointly owned by LIPA and Con Edison. Con Edison’s share of the power flowing across the Y-50 Cable is delivered to Con Edison via the two 138 kV cables to Jamaica from Valley Stream and Lake Success, respectively.

The East Garden City to Sprain Brook interconnection (the “Y-49 Cable”), installed in 1991, is another major transmission interconnection. The Y-49 Cable comprises submarine and land-based portions totaling approximately 23 miles. This line is owned entirely by NYPA; however, most of the capacity of the Y-49 Cable is used by LIPA under the terms of a contract with NYPA. The Y-49 Cable

contract was set to expire in November 2022 but was extended to May 2023, pending completion of NYPA’s reconducting of cable for the Long Island’s onshore portion. The line outage for replacement started in October 2022 with completion expected by the end of May 2023.

The cable from Northport to Norwalk Harbor (the “NNC”), which was installed in 2008 to replace the original cable installed in 1969, extends approximately twelve miles under the Long Island Sound from the Northport generating station in Suffolk County, New York to Norwalk Harbor, Connecticut. LIPA owns that portion of the line from Northport to the New York-Connecticut state boundary.

The high voltage direct current (“HVDC”) cable from Shoreham to New Haven (the “Cross Sound Cable” or “CSC”) was constructed under a firm transmission capacity purchase agreement (the “CSC Agreement”) signed between LIPA and Cross Sound Cable Company, LLC (“CSC LLC”) in 2000 under which LIPA agreed to purchase up to 330 MW of transmission capacity. The CSC is owned by CSC LLC. The CSC Agreement, as amended, expires in 2032. The CSC became operational in June 2004.

In September 2005, LIPA signed a 20-year firm transmission capacity purchase agreement with Neptune Regional Transmission System LLC (“Neptune”) to permit LIPA to import power from New Jersey over an undersea HVDC transmission cable (the “Neptune Cable”) capable of carrying 660 MW of electricity. The Neptune Cable is owned by Neptune, runs from Sayreville, New Jersey under the Atlantic Ocean and connects with LIPA at its Newbridge Road substation in Levittown. The cable became operational in July 2007.

Capital Improvements

The following table sets forth actual capital expenditures for 2021 and 2022, as well as budgeted 2023 capital expenditures by category (and in thousands of dollars).

	<u>2021 Actual</u>	<u>2022 Actual</u>	<u>2023 Budget</u>
Transmission and Distribution	\$492,627	\$533,481	\$632,449
Information Technology	\$58,246	\$48,917	\$91,334
FEMA-Storm Hardening	\$39,845	\$5,573	\$7,620
Customer Operations & Other	\$81,976	\$37,264	\$80,235
NMP2	\$4,992	\$28,298	\$5,960
Support & Administration	\$15,687	\$18,318	\$44,430
Total	\$693,372	\$671,851	\$862,028

In 2022, the Board Policy on Fiscal Sustainability shifted the Authority’s strategic focus from achieving a certain level of debt-funded financing for the capital program to achieving AA-category credit ratings by reducing LIPA’s debt-to-assets ratio from 92 percent to 70 percent or less by 2030. Further, the policy committed LIPA to maintain a fixed-obligation coverage ratios of no less than 1.40x on LIPA-issued debt and lease payments; and 1.20x on the combination of LIPA-issued debt, UDSA-issued.

Loads

The Service Area is characterized by customer usage patterns and weather conditions that result in peak usage during the summer and relatively low annual load factors. The table below shows LIPA’s peak demand as experienced and after adjustments for weather-normalization, customer outages, and emergency demand relief for the period 2018 through 2022.

Year	Peak Demand (MW)	Weather Normalized (MW)
2018	5,206	5,147
2019	5,269	5,114
2020	5,203	5,018
2021	4,984	5,059
2022	5,025	4,888

LIPA's service provider prepares load growth forecasts annually. PSEG Long Island's estimate of annual peak demand within the Service Area shows an average annual increase of 1.3% over the five-year period from 2023 to 2027 (prior to adjustment for various demand side programs such as energy efficiency and renewables). This would result in an increase in LIPA's summer peak demand, prior to the effects of cogeneration, NYPA supplied load and demand side management, to approximately 5,631 MW in 2027 on a weather-normalized basis. After adjustment for various demand side programs such as energy efficiency and behind-the-meter renewables, LIPA's summer peak demand is expected to decline moderately over the 2023 to 2027 period. See "POWER SUPPLY – Market Energy Purchases" below.

Power Supply

During 2022, LIPA's 18% interest in NMP2 and its rights to the capacity of the GENCO Generating Facilities provided approximately 3,791 MW of generating capacity. Purchases, including on-Island IPPs and off-Island purchases from other suppliers, provided approximately 1,753 MW of additional capacity. In aggregate, these resources provided approximately 5,543 MW in 2022.

Reliability rules applied by the NYISO require LIPA to supply at least 99.5% of its forecast peak load to satisfy its Locational Capacity Requirement ("LCR") from on-Island installed capacity ("ICAP") resources (the "On-Island Requirement"). LIPA's portfolio of capacity resources currently exceeds the LCR requirement. As part of the Integrated Resource Plan, LIPA is currently examining whether the projected capacity surplus will enable the shutdown of additional older fossil-fired units.

Outstanding Requests for Proposals

In December 2015, the Authority issued a Request for Proposals ("RFP") for Renewable Capacity and Energy (the "2015 Renewable RFP"). Responses to the 2015 Renewable RFP were received on June 22, 2016 and evaluation results were presented to the Board with the selection of two projects at the July 26, 2017 Board meeting. The Long Island Solar Calverton project, a 22.9 MW solar generation facility has an executed power purchase agreement. Commercial operation occurred in August 2022. The power purchase agreement for Riverhead Solar 2, a 36 MW solar project, remains under review and has not been executed.

In May 2020, the Board approved a 20 MW Feed-In tariff program ("FIT V") called Solar Communities, which benefits low- and moderate-income residential customers. The initial enrollment period ended September 30, 2020 and resulted in 47 applications totaling 60.9 MW. Awards were made to five projects which total 13.99 MW. Of those, two have power purchase agreements (3MW) and three are in active development. As of June 30, 2022, the program is closed for new applications.

On April 30, 2021, PSEG Long Island issued the 2021 Request for Proposals for Bulk Energy Storage to solicit bids for development of bulk energy storage on Long Island ("Bulk Energy Storage RFP"). Five projects totaling 329 MW were selected for contract negotiation in September 2022. Such negotiations remain in progress, along with required environmental reviews.

Existing Capacity and Energy Resources

The table below sets forth historical annual peak demands and energy requirements for the period 2018 through 2022.

Historical Loads and Resources

	2018	2019	2020	2021	2022
Annual Peak Demand (Summer) (MW) ^[1]	<u>5,206</u>	<u>5,269</u>	<u>5,203</u>	<u>4,984</u>	<u>5,025</u>
Capacity (MW) ^[2]					
Nuclear ^[3]	233	232	233	232	231
Purchased Capacity:					
GENCO					
GENCO Steam	2,344	2,357	2,351	2,337	2,326
GENCO Other	1,347	1,345	1,341	1,267	1,234
Other LIPA Contracts					
Purchased Capacity ^[4]	<u>1,838</u>	<u>1,824</u>	<u>1,720</u>	<u>1,619</u>	<u>1,753</u>
Total Purchased Capacity	<u>5,529</u>	<u>5,525</u>	<u>5,412</u>	<u>5,223</u>	<u>5,312</u>
Total Capacity	<u>5,762</u>	<u>5,757</u>	<u>5,645</u>	<u>5,455</u>	<u>5,543</u>
Annual Reserve Margin:					
MW ^[5]	556	488	442	471	518
Percent	10.7%	9.3%	8.5%	9.5%	10.3%
Energy (MWh)					
Retail Requirements	20,773,082	20,104,072	19,823,364	19,951,342	19,884,053
Total Energy Requirements ^[6]	<u>20,773,082</u>	<u>20,104,072</u>	<u>19,823,364</u>	<u>19,951,342</u>	<u>19,884,053</u>
Generating Resources:					
Nuclear ^[3]	1,822,388	2,021,035	1,842,557	2,022,272	1,785,169
Purchased Energy:					
National Grid PSA					
Steam	4,300,133	3,640,286	4,707,168	5,754,569	4,423,440
Other	229,886	140,050	205,446	235,093	239,830
Total National Grid PSA	<u>4,530,019</u>	<u>3,780,336</u>	<u>4,912,614</u>	<u>5,989,662</u>	<u>4,663,270</u>
Other Purchased Energy	<u>11,996,408</u>	<u>12,608,919</u>	<u>11,806,690</u>	<u>10,764,781</u>	<u>12,173,518</u>
Total Purchased Energy	<u>18,348,815</u>	<u>18,410,290</u>	<u>18,561,861</u>	<u>18,776,714</u>	<u>18,618,957</u>
Total Energy	<u>20,773,082</u>	<u>20,104,072</u>	<u>19,823,364</u>	<u>19,951,342</u>	<u>19,884,053</u>

^[1] Includes LIPA retail sales and Long Island Choice. BNL Hydro & Recharge NY excluded. Reduced for Load modifiers.

^[2] Summer Rating ("ICAP").

^[3] The actual generation attributable to LIPA's 18% ownership interest in NMP2.

^[4] Includes on- and off-Island resources under contract at time of peak. Including but not limited to the resources of the contract.

^[5] Equal to Capacity less Demand.

^[6] Amounts shown for 2018 through 2022 include sales for resale, Long Island Choice, Grumman Campus, Recharge NY and BNL Hydro. Not reduced for Load Modifiers.

Power Supply Agreement

Pursuant to the PSA, GENCO supplies LIPA with the capacity of the GENCO Generating Facilities. These steam, combustion turbine, and internal combustion generating units operate using oil, natural gas, or both. The purchased energy section of the table above provides historical generation levels for the GENCO Generating Facilities for 2018 through 2022. The PSA provides for approximately 3,900 MW on-Island capacity for the term of the agreement and provides LIPA with the option to ramp-down all or a portion of the PSA units. In 2022, under the PSA, LIPA purchased capacity and related energy from approximately 3,560 MW of on-Island generating facilities.

Under the PSA, LIPA pays GENCO certain fixed and variable rates for the generating capacity supplied by GENCO. LIPA and GENCO have agreed to a formula for the adjustment of these charges through the term of the PSA. These rates are subject to the jurisdiction of FERC. The current rates were accepted for filing by FERC in May 2013. GENCO may request a rate reset under certain conditions.

GENCO's annual capital expenditures must be approved by LIPA. LIPA pays for approved GENCO capital expenditures through the depreciation accruals and return on investments in the rates for capacity charged under the PSA. The PSA also provides for certain penalties related to guaranteed performance levels by GENCO, including unforced capacity (i.e., capacity adjusted for forced outages) and efficiency levels (heat rate) of the generating facilities.

Nine Mile Point Nuclear Unit 2

LIPA owns an 18% interest in Nine Mile Point Nuclear Unit 2 ("NMP2"), which is located on the Lake Ontario shoreline approximately six miles east of Oswego, New York. The other 82% is owned by Constellation Energy Generation, LLC ("Constellation").

NMP2 is one of two General Electric boiling-water-reactor units at the Nine Mile Point site. The other, Nine Mile Point Nuclear Unit 1, is entirely owned by Constellation. NMP2 began commercial operation in August 1988 at a rated net electric capacity of about 1,140 MW. It was upgraded to its current capacity of approximately 1,300 MW in 2014. Its operating license from the Nuclear Regulatory Commission ("NRC") extends through October 31, 2046.

NMP2 is operated by Constellation. LIPA is responsible for 18% of the unit's operation and maintenance, capital, and fuel costs, and is entitled to 18% of the electric energy produced and capacity provided by the unit. An operating agreement between Constellation and LIPA specifies the mutual obligations of the two parties. NMP2's annual business plan and its operating and capital budgets are developed by Constellation, and submitted to LIPA for its review.

Inasmuch as the unit was originally designed and constructed with a closed-loop circulating-water system with a natural-draft cooling tower, it is in compliance with the federal Clean Water Act § 316(b).

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Nuclear Plant Matters" herein for additional information pertinent to NMP2.

Other Power Supply Agreements

In addition to the generation subject to the PSA with GENCO described above, LIPA purchases approximately 1,740 MW of capacity from generation facilities on Long Island and elsewhere under various power supply agreements.

The table below contains a summary of existing power supply agreements.

Summary of Power Supply Agreements ^[1]

Unit Name	Summer Capacity (MW)	Contract Expiration	Unit Type ^[2]	Primary Fuel Type
GENCO				
Steam Turbine	2,274	2028	ST	Natural Gas ^[3, 4]
Internal Combustion/Simple Cycle	1,231	2028	IC/SC	Natural Gas/Oil ^[4]
Huntington Resource Recovery	24.5	2027	ST	Refuse
Babylon Resource Recovery	16.0	2027	ST	Refuse
Hempstead Resource Recovery	73.0	2027	ST	Refuse
Islip Resource Recovery	8.0	2027	ST	Refuse
J-Power Shoreham	85.9	2023	SC	Oil ^[4]
National Grid Glenwood Landing	82.5	2027	SC	Natural Gas ^[3,4]
National Grid Port Jefferson	82.27	2027	SC	Natural Gas ^[3,4]
J-Power Edgewood	83.2	2023	SC	Natural Gas ^[4]
Marcus Hook ^[6]	685.0 ^[1b]	2030	CC	Natural Gas
Calpine Bethpage 3	74.8 ^[9]	2025	CC	Natural Gas ^[4]
Hawkeye Greenport	52.6	2023	SC	Oil ^[4]
J-Power Pinelawn	73.0	2025	CC	Natural Gas ^[3,4]
Caithness	302.4 ^[1b]	2029	CC	Natural Gas ^[3,4]
Village of Freeport	10.0 ^[1b]	2034	SC	Natural Gas
NYPA Hydro Sale for Resale (BNL)	15.0 ^[1b]	2025	HY	Water
NYPA Flynn	150.0	2026	CC	Natural Gas ^[3]
Long Island Solar Farm (LISF)	31.5 ^[1a]	2031	SL	Solar
Eastern Long Island Solar Project (ELISP)	11.2 ^[1a]	2032	SL	Solar
Fitzpatrick	N/A ^[5]	2023	ST	Nuclear
South Fork Wind Farm	130.0 ^[7]	2043	OSW	Wind
Long Island Energy Storage-East Hampton	5.0	2038	BAT	N/A
Long Island Energy Storage-Montauk	5.0	2039	BAT	N/A
Shoreham Solar Commons	24.9	2038	SL	Solar
Kings Park Solar 1	2.0	2039	SL	Solar
Kings Park Solar 2	2.0	2039	SL	Solar
Riverhead Solar Farm	20.0	2039	SL	Solar
Long Island Solar Calverton ^[7]	22.9	2052	SL	Solar
Calpine Energy Services, L.P.	155.0 ^[8]	2024	CC	Natural Gas/Oil
Manchester Street, LLC	190.0 ^[8]	2024	CC	Natural Gas/Oil

^[1] Summer capacity based upon summer 2022 Dependable Maximum Net Capacity ("DMNC") test results. Test results may not reflect final Capacity Resource Interconnection Service Adjusted ICAP totals used for NYISO capacity supply purposes.

(a) LISF and ELISP are based on nameplate ratings.

(b) Represents portion of plant capacity sold to LIPA.

^[2] CC = Combined Cycle; ST = Steam; Cogen = Cogeneration; IC = Internal Combustion; SC = Simple Cycle; PS = Pumped Storage; HY = Hydro; SL = Solar; OSW = Offshore Wind; BAT = Battery.

^[3] Also capable of burning oil.

^[4] LIPA is responsible for fuel procurement.

^[5] Energy only contract.

^[6] LIPA has a long term transmission contract with Neptune Regional Transmission System (660 MW, expires 2027), which is used to deliver capacity associated with the Marcus Hook facility identified above, as well as deliver energy purchases from PJM (a regional transmission organization operating a transmission grid running from Illinois to New Jersey and south to Virginia, respectively).

^[7] Facility has not achieved Commercial Operation. Capacities shown are projected Project Capacities from respective Power Purchase Agreements.

^[8] Capacity Purchase Agreement for May 1, 2023 through April 30, 2024 NYISO Capability Year represents portion of plant capacity sold to LIPA.

^[9] Out of period test will be performed during the NYISO testing period March 1, 2023 through May 31, 2023.

Short-Term Capacity Purchases

In addition to the resources described above, LIPA relies on short-term, firm capacity purchases from the NYISO “Rest of State” market to meet a portion of its total statewide capacity requirements. LIPA is also allocated additional Long Island and “Rest of State” capacity resources from the NYISO on a monthly basis as part of its market excess purchase obligation as a load serving entity in New York. LIPA anticipates the need to continue to make additional capacity purchases. Such purchases are accomplished through solicitations, auctions and/or bilateral arrangements. PSEG ER&T, a PSEG Long Island affiliate, estimates the requirement and timing of these capacity purchases on LIPA’s behalf.

Market Energy Purchases

In addition to energy purchased under the terms of the agreements described above, LIPA routinely purchases energy in the day-ahead and real-time markets operated by the NYISO, ISO-NE and PJM (described below). These purchases are generally made when the price of energy from these sources is below the incremental cost of generation from LIPA’s contracted resources.

The tables below summarize estimated demand and energy requirements for the period shown. During this period, annual peak demands and energy requirements, after adjustment for various demand side programs, are estimated to decrease at annual compound rates of approximately 1.6% and 2.2%, respectively. The estimated demand and energy requirements in the tables below incorporate the effects of LIPA’s Long Island Choice program and reflect the results of resource planning assessments conducted by PSEG Long Island. Such information is not intended to represent resource-specific power supply expansion plans adopted by the Authority. The information in the table below is presented on an unforced capacity basis to conform to the requirements of NYISO. ICAP is a measurement of a generating unit’s maximum output under certain defined test conditions without considering the impact of forced outages. UCAP is a related measure that takes a generating unit’s ICAP and reduces it based on the proportion of a generating unit’s historic output that was not available due to forced outages. Historical data throughout this ADR has been presented on an ICAP basis to be consistent with prior years. It is anticipated that the Authority will migrate to the UCAP basis as such information becomes available.

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Estimated Capacity Requirements and Resources (UCAP)
(MW)

	2023	2024	2025	2026	2027
<u>System Demand</u>					
Net LIPA Load ^[1]	4,951	4,870	4,782	4,746	4,768
plus: Transmission Loss Adjustment ^[2]	50	50	50	50	50
net: LIPA Load with Losses	5,001	4,920	4,832	4,796	4,818
Required Reserve Margin ^[3]	392	385	378	376	410
Total Capacity Requirement	<u>5,393</u>	<u>5,305</u>	<u>5,210</u>	<u>5,172</u>	<u>5,228</u>
<u>Resources (UCAP)</u>					
Nine Mile Point 2	218	218	218	218	218
GENCO ^[4]	3,336	3,353	3,282	3,282	3,282
Additional Contract Generation ^[5]	950	847	742	742	520
UCAP Net Purchases/(Sales) ^[6]	<u>889</u>	<u>887</u>	<u>968</u>	<u>930</u>	<u>1,208</u>
Total Capability	<u>5,393</u>	<u>5,305</u>	<u>5,210</u>	<u>5,172</u>	<u>5,228</u>
Reserve Margin	<u>107.83%</u>	<u>107.83%</u>	<u>107.83%</u>	<u>107.83%</u>	<u>107.83%</u>

^[1] Based on 2022 Gold Book. Zone K Net Peak Load reflects reductions for Energy Efficiency, Renewables & Load Modifiers.

^[2] NYISO Off-Island Transmission Loss Adjustment factor for LIPA.

^[3] NYISO Required Reserves estimated 107.83% UCAP (120.00% ICAP equivalent) (as of April 2023).

^[4] National Grid covered under the PSA. Barrett unit 2 UCAP estimated based on out of period test.

^[5] Includes Combined Cycle units - Pinelawn Power, Calpine Bethpage 3 & Caithness; Fast Track GT's - Glenwood Landing, Port Jefferson, Shoreham, Edgewood, Greenport, Freeport, NYPA Flynn; IPP's - Hempstead Resource Recovery, Huntington Resource Recovery, Babylon Resource Recovery, Islip Resource Recovery, LI Solar Farm, South Fork Off-Shore Wind.

^[6] UCAP purchases, including Marcus Hook, Manchester Street, Westbrook Energy Center, Granite Ridge Energy Center and Fore River Energy Center, net of short-term UCAP sales. Manchester Street, Granite Ridge Energy Center, and Fore River Energy Center UCAP values are estimated based on historical performance.

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Estimated Energy Requirements and Resources ^[1] (GWH)

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Energy Requirements					
Total Energy Requirements ^[2]	19,566	19,744	20,070	20,133	20,346
Resources ^[3]					
NMP2	2,044	1,932	2,044	1,927	2,044
GENCO ^[4]	3,665	2,243	1,926	1,215	1,020
Contracted Power Purchase Agreements ^[5]	4,175	4,045	3,588	2,720	2,007
Non-Dispatchable IPP Resources	1,032	1,035	1,032	1,032	711
BNL HYDRO and Recharge NY	525	525	525	525	525
Existing Load Modifiers ^[6]	447	467	466	465	465
Future Resource Additions ^[7]	1	611	610	578	577
Net Economy ^[8]	7,677	8,887	9,879	11,672	12,998
Total Resources	<u>19,566</u>	<u>19,744</u>	<u>20,070</u>	<u>20,133</u>	<u>20,346</u>

^[1] Based on final 2023 LIPA Budget.

^[2] LIPA's estimated Total Energy Requirements including Long Island Choice customers. Source: LIPA Forecast of Electric Requirements, Sales and Peak Loads as of August 31, 2022.

^[3] Includes the estimated GWh output of both the existing and future resources expected to be under contract to LIPA during each year of the projected period and spot market energy purchases. Values based upon final 2023-2027 LIPA Operating Budget.

^[4] Generating units covered under the PSA.

^[5] Power purchase agreements under contract (including emergency generators in Montauk and East Hampton). When contracts expire, it is assumed the energy is available in the Net Economy market.

^[6] Reflects existing load modifiers. Includes solar Feed In Tariffs (FIT1, FIT2, FIT3, FIT5) and Fuel Cells. Also includes BP Solar, EnXco, Invenergy Shoreham Solar, BQ Indian Head, AES Riverhead (20MW), Nextera Calverton, Montauk and East Hampton Battery.

^[7] Reflects the estimated energy output from the Resource Additions and Load Modifiers expected to be placed into service during the projected period: including South Fork Off-Shore Wind, Future Behind-The-Meter Battery Storage, and other projected resource additions.

^[8] Short term purchases net of short-term sales.

Cybersecurity

The Board has adopted an Information Technology and Cyber Security policy to maintain a robust information security program for its systems and assets, including those managed by PSEG Long Island. This multi-faceted program delineates the strategic objectives, management structures, business processes, and technology capabilities to implement safeguards to minimize and manage risk to acceptable levels.

This policy provides the Board's expectations and direction for the Authority and PSEG Long Island in protecting the Authority's digital infrastructure and data. Key provisions of this policy include:

- Conducting quarterly internal vulnerability assessments and annual third-party vulnerability assessments and penetration testing of all information and operational technology systems and promptly mitigating the vulnerabilities; and

- Maintaining a level of 3 or higher on the National Institute of Standards and Technology Cyber Security Framework (NIST CSF), as evaluated annually through an independent assessment.

In addition, cybersecurity was a particular area of focus for the Authority in the recent contract negotiations relating to the OSA. As a result, the Authority has established a cybersecurity default metric in the OSA for PSEG Long Island to achieve and maintain NIST CSF Tier 3. The default metric provides LIPA with the right to terminate the contract should PSEG Long Island fail to maintain compliance. In addition, pursuant to the terms of the OSA, PSEG Long Island is obligated to comply with any safety and security policies and procedures of the Authority and all requirements of applicable law regarding data security, cybersecurity, and information security. PSEG Long Island has reported maintaining robust cybersecurity practices for LIPA's systems and assets.

Consistent with these policies, the Authority works with PSEG Long Island, CENG, GENCO, and other power suppliers, the State, and other interested parties to ensure that information management and security practices are in place to safeguard and protect data, information, and assets from inappropriate use, improper disclosure, and unauthorized release.

To date, the Authority is not aware of any significant cyber incidents that impacted the PSEG Long Island operations; however, PSEG Long Island has informed the Authority of several cybersecurity incidents with third-party vendors. In the first incident, a vendor informed PSEG Long Island that its IT systems were affected by ransomware, resulting in a service interruption. Indicator of Compromise (IOC) information was shared with PSEG, which PSEG Long Island processed and blocked on PSEG Long Island systems. The vendor took action to isolate the affected systems and improve its security posture. PSEG Long Island reported that it received an attestation from the vendor verifying that PSEG Long Island data was not impacted.

In another incident, a third-party payment processor informed PSEG Long Island of a ransomware attack that exploited a vulnerability in a web-based application on their system. PSEG Long Island responded by disabling the network connection with the vendor, patching the vulnerability, and processing customer payments through an alternative process. In addition, the vendor validated the affected systems, provided an attestation that no customer data was impacted, and implemented further cybersecurity measures.

PSEG Long Island also reported a cyber-attack on Suffolk County Government and severed the connection until additional details could be verified. After receiving an attestation from Suffolk County about the system's overall health and remediation status, PSEG Long Island is working on the closeout activities and resuming connectivity.

In yet another incident, a vendor providing engineering services to PSEG Long Island reported unauthorized access to data on some of their systems. PSEG Long Island informed LIPA that the vendor had access to data classified as Critical Energy Infrastructure Information (CEII), which included data about PSEG Long Island and other Transmission Owners. PSEG Long Island is continuing to assess the potential impact.

PSEG Long Island also reported a vendor providing wireless products with an exposed publicly facing website that collected diagnostics data about their products from customers for troubleshooting. The vendor confirmed that the sensitivity of the data on the website was low and some of the sensitive network information was encrypted. PSEG Long Island reported that the vendor verified that there was

no anomalous access to their website. PSEG Long Island took corrective actions to share files in the future with a different secure file-share method.

PSEG Long Island reported that one of its vendors providing system emergency response services for overflow call center storm support experienced a cyber-attack, resulting in an outage. The vendor took containment and remediation measures, and PSEG Long Island severed its connections. PSEG Long Island is awaiting the final attestation and report from the vendor.

Fuel Supply

LIPA procures the fuel used at the GENCO Generating Facilities and certain non-GENCO facilities under the terms of its generation agreement(s). PSEG ER&T provides fuel management services for both the GENCO generating facilities and certain non-GENCO units.

The fuel used for generation will depend on generation plant fuel capability, fuel supply, fuel price, transportation cost and availability, and environmental constraints. All the GENCO steam units are dual fuel (can burn either natural gas or low sulfur residual oil). Dual fuel units can switch fuels based on overall most favorable economics.

The natural gas distribution system on Long Island shares natural gas delivery interconnections with neighboring gas utilities and interstate gas pipelines. Con Edison and two National Grid Subs have signed an agreement that provides for use of their joint systems to allow the parties to receive gas from interstate pipelines connected to their systems.

Oil is stored on site or at locations accessible by each generation facility with the capacity to burn oil. Existing oil storage capacity plus an active oil management program is employed by the applicable service providers for continuous fuel oil supply to the GENCO Generating Facilities and certain other non-GENCO generating units.

Constellation is responsible for procurement of all fuel for NMP2, and LIPA reimburses Constellation for 18% of these fuel costs.

Overview of Regulatory Framework as it Applies to LIPA

LIPA's Provision of Transmission Service to Third Parties

As a corporate municipal instrumentality and political subdivision of the State, the Authority, and, indirectly, LIPA, are not considered “public utilities” under the Federal Power Act (“FPA”) and therefore are largely exempt from FERC regulation under Part II of the FPA. Notwithstanding this exemption, the Authority and LIPA are subject to the authority of FERC to order interconnection of its facilities under Section 210 of the FPA, and the authority of FERC to order “transmitting utilities” to provide transmission services under sections 211 and 212 of the FPA as amended by the 2005 Energy Policy Act (as defined below). Further, FERC applies its “open access” principles from Order No. 888 and its progeny to non-jurisdictional utilities, through a reciprocity requirement (described below).

On April 24, 1996, FERC issued Order No. 888. As that order was modified on rehearing, it (i) requires all public utilities to have a tariff on file with FERC that provides open access transmission services to other entities under comparable terms and conditions of transmission service that the public utility provides to itself and its affiliates and (ii) contains a reciprocity provision that requires non-jurisdictional utilities (including municipal and consumer-owned utilities such as LIPA and the

Authority) that purchase transmission services under FERC filed open access tariffs and that own or control transmission facilities to provide open access service to the transmitting utility on rates, terms and conditions that are comparable to the service that the non-jurisdictional utility provides itself. In 1998, FERC reviewed LIPA's Open Access Transmission Tariff ("OATT"), including its rates for transmission service, and found that the OATT represents an acceptable reciprocity tariff subject to the condition that LIPA adopt a code of conduct and maintain an Open Access Same-time Information System ("OASIS"). While LIPA has retained a reciprocity OATT, transmission service over LIPA's system occurs primarily through its participation in the NYISO, including offering of transmission service under terms set forth in the NYISO OATT and engagement in the NYISO regional transmission planning process.

The rates that LIPA charges for wholesale transmission service, including the calculation of any stranded cost charge, are not subject to direct regulation by FERC under Sections 205 or 206 of the FPA. LIPA's rates for wholesale transmission service are set by the Authority and incorporated for informational purposes into the NYISO OATT.

On July 21, 2011, FERC issued Order No. 1000 to expand upon certain regional planning principles of Order No. 890. Order No. 1000 establishes a framework for developing large regional transmission planning groups, requires sharing information between such regional transmission planning groups to enable the development of needed "interregional" transmission facilities, and requires the regional transmission planning groups to develop methodologies for allocating the costs of new transmission facilities identified through such regional and interregional transmission planning efforts. Public utilities and the NYISO developed changes to their planning processes to integrate the Order 1000 reforms (as described below).

As part of the Energy Policy Act of 2005 (the "2005 Energy Policy Act"), Congress amended the FPA to include a new Section 211A, which grants FERC limited discretionary authority (but does not mandate the exercise of such authority) to order "unregulated transmitting utilities" to provide "open access" transmission service. The term "unregulated transmitting utility" is defined as an entity that owns or operates facilities used for wholesale transmission service in interstate commerce and is an otherwise exempt entity under Section 201(f) of the FPA. LIPA meets this definition and will be an unregulated transmitting utility should FERC ever apply Section 211A to LIPA. FERC has never asserted its FPA Section 211A authority over LIPA.

While FERC may apply the terms of Section 211A to LIPA and other unregulated transmitting utilities case-by-case, it is unclear whether such application would fundamentally change LIPA's provision of wholesale transmission service. LIPA already provides open access transmission service to third parties on a comparability basis through its participation in the NYISO as described below. Further, LIPA maintains its own reciprocity OATT, voluntarily complies with FERC's Standards of Conduct and OASIS requirements and operationally and administratively ensures comparability in interconnection service to generators.

New York Independent System Operator

General

The investor-owned utilities in the State, with NYPA and LIPA (collectively, the "Transmission Owners"), are members of an independent transmission system operator called NYISO. NYISO is a not-for-profit corporation formed to provide for non-discriminatory open-access

transmission over electric transmission systems belonging to the Transmission Owners, to maintain the reliability of the combined systems and to administer electric power markets within the State. Customers of NYISO pay non-transmission-related charges to NYISO and pay the Transmission Service Charge (“TSC”) to the Transmission Owners under the NYISO OATT. LIPA participates in the NYISO under provisions designed to protect the Authority’s tax-exempt status and which recognize that the Authority, not FERC, is the entity with jurisdiction to set LIPA’s rates. LIPA remains the entity responsible for billing and collecting its TSC for its transmission facilities under rates set by the Authority under State law. Further, LIPA retains ownership and operational control over its transmission facilities while coordinating the scheduling, maintenance and use of LIPA’s transmission system with the NYISO.

In addition to its transmission-related responsibilities, the NYISO provides power pooling and power coordination functions. Operational features of the NYISO include: (i) the establishment of a day-ahead and real-time bid-based spot energy market; (ii) the implementation of congestion pricing for transmission services; (iii) the creation and administration of transmission congestion contracts; (iv) the administration of a capacity market; (v) markets for certain ancillary services; and (vi) long-term planning for reliability, economic and public policy matters. A significant feature of the NYISO’s tariffs is its administration of an electric power market that uses a locational based marginal pricing structure.

LIPA receives payments for use of its transmission system by third parties through the billing and collection of its TSC and contractual payments under certain grandfathered transmission agreements between LIPA and third parties. For non-grandfathered contracts, LIPA directly bills the TSC, a per kilowatt-hour charge, to transmission customers withdrawing energy from the LIPA System, and collects the TSC revenue directly from the customers. LIPA’s TSC is developed based upon a formula rate, which was approved by LIPA’s Board in September 2003.

As a condition of LIPA’s participation in the NYISO and to recognize LIPA’s non-jurisdictional status, the NYISO OATT includes provisions that allow the NYISO to file, on LIPA’s behalf, LIPA’s TSC for inclusion in the NYISO OATT on an informational basis only. FERC limits its review of LIPA’s TSC to a comparability review by which it only reviews whether the TSC rates that LIPA is charging are applied to all transmission customers, including LIPA itself, on a comparable basis.

NYISO Compliance with Orders 890, 1000 and 2222

Order 890, as modified on rehearing, required the NYISO to adopt a transparent, regional transmission planning process that includes all stakeholders in the State and neighboring, interconnected regions. LIPA voluntarily participated in developing the NYISO’s compliance filings covering implementation of most elements of Order 890. During 2007 and 2009, FERC approved NYISO proposals covering the development, cost-recovery and cost-allocation of reliability and economic transmission upgrade projects. These proposals included provisions recognizing the Authority’s role in transmission planning for the Service Area and its jurisdiction over LIPA’s rates. Most of the other changes to the OATT included in Order No. 890 do not substantially affect the provision of transmission service by the NYISO because of its “financial transmission rights” rather than “physical transmission rights” structure.

[Remainder of page intentionally left blank]

As part of the Order 890 process, FERC also approved changes to the New York Independent System Operator/Transmission Owner Reliability Agreement (the “NYISO/TO Reliability Agreement”), which permits the NYISO to require transmission owners to make transmission reliability upgrades subject to certain transmission owner rights and conditions. The NYISO/TO Reliability Agreement provides cost-allocation and cost-recovery assurance to the transmission owners regarding the construction of reliability projects identified as part of the NYISO’s planning process.

As part of developing this NYISO/TO Reliability Agreement, LIPA sought and gained inclusion of several key terms intended to protect LIPA’s status as a non-jurisdictional utility and its ability to maintain and issue tax-exempt debt. These conditions include: (i) a provision that LIPA does not have to build a project if the construction or use of such project would violate the tax-exempt status of its bonds; (ii) clarification that LIPA’s execution of the NYISO/TO Reliability Agreement is not considered a waiver of LIPA’s non-jurisdictional status under the FPA; and (iii) procedures by which LIPA may withdraw from the NYISO/TO Reliability Agreement upon 90-days’ notice subject to any specific obligation it may have already incurred prior to the date of withdrawal. On January 25, 2010, the Board approved a resolution authorizing the execution and implementation of the terms of the NYISO/TO Reliability Agreement by LIPA.

Order 1000 (as described above) required modifications to the NYISO regional transmission planning process, including the adoption of new cost allocation procedures for projects addressing transmission needs caused by public policy requirements and measures for allocation of costs for inter-regional (i.e., inter-ISO) projects. Under Order 1000, NYISO has adopted changes to its OATT that incorporate the assessment of transmission needs driven by public policy requirements into the NYISO transmission planning process. As part of these changes, the NYISO proposed, and FERC has approved, language detailing the process by which the Authority exercises its statutory responsibility for transmission planning within the Service Area to identify transmission needs on the LIPA transmission system that may be driven by public policy requirements and integrating such transmission needs into the NYISO’s public policy requirements planning process.

Since 2015, FERC has approved multiple projects outside of Long Island under the public policy planning process and related processes for cost allocation and recovery among all regions of the state including Long Island. These include the “AC Transmission” projects designed to reduce congestion over the Central East interface, of which Long Island was allocated 3.6% of revenue requirements, and “Western Transmission” projects designed to unbottle NYPA hydroelectric energy and improve imports from Ontario, of which Long Island was allocated 6.93%. Long Island was allocated 8.55% of the “TOTS” projects through a settlement agreement that predated FERC’s acceptance of the public planning process. Long Island will also be allocated a load ratio share (approximately 12.5%) of certain projects required pursuant to New York State’s Accelerating Renewable Energy Growth and Community Benefit Act (“AREG&CBA”) to unbottle renewable energy. In February 2023, the PSC approved a series of local transmission upgrades in three upstate regions. These projects were selected to reduce congestion in areas where existing renewable generation is curtailed and additional renewable generation is planned, posing a risk for greater curtailment absent system upgrades. The PSC continues to review projects pursuant to the AREG&CBA.

In March 2021, the PSC approved a Public Policy Transmission Need for one or more ties from Long Island to New York City or Westchester County to address the public policy requirements of offshore wind integration pursuant to the CLCPA. NYISO has solicited and is in the process of reviewing developer proposals to meet this need. In 2021, LIPA challenged the cost allocation

associated with these projects. In May 2022, the PSC issued an order agreeing with the substantive arguments in LIPA's filing and ruling that the cost allocation formula associated with the transmission need identified in the March 2021 Order is to be based entirely on a statewide volumetric load ration share (i.e., approximately 12.5% to be incurred by LIPA).

Order 1000 also includes requirements for interregional planning between regions. FERC has approved a joint NYISO, PJM and ISO-NE interregional planning coordination program. As approved, any interregional planned project must be jointly identified by both ISOs and there must be an agreed-upon allocation of costs between both ISOs.

Order 2222 required the NYISO to remove barriers to the participation of distributed energy resource aggregations in the capacity, energy, and ancillary service markets operated by Regional Transmission Organizations and Independent System Operators (RTO/ISO markets). In response, the NYISO submitted their compliance filing which FERC accepted in its Order on June 17, 2022. Many of the requirements for meeting this Order are now being developed with a goal to allow aggregations to register and participate in the wholesale markets by the 4th quarter of 2023. Remaining components for full compliance of Order 2222 will not be achieved until December 31, 2026.

Generator Interconnection Rule

FERC has established rules requiring all public utilities that own, operate or control transmission facilities to file standard procedures and standard agreements governing interconnection services for "large" generators producing over 20 MW (Order No. 2003 & Order No. 2003-A - Large Generator Interconnections) and for "small" generators producing less than 20 MW (Order No. 2006, Order No. 2006-A & Order No. 2006-B - Small Generator Interconnections). The NYISO OATT includes Large Generation Interconnection Procedures and a Large Generation Interconnection Agreement consistent with Order Nos. 2003 and 2003-A and Small Generation Interconnection Procedures and a Small Generation Interconnection Agreement consistent with Order Nos. 2006, 2006-A and 2006-B. As LIPA is not a "public utility" under the FPA, it has no direct obligation to comply with the Commission's interconnections procedures. However, as part of its participation in the NYISO, LIPA voluntarily complies with the NYISO's generator interconnection procedures for interconnections at the transmission system level. LIPA continues to administer the interconnection process for all generators connecting to its distribution facilities under its own tariff and procedures. LIPA also has adopted revisions to its own generator interconnection procedures to be complementary to the NYISO process.

In Order No. 845, "Reform of Generator Interconnection Procedures and Agreements," and the related rehearing order, Order No. 845-A, FERC adopted changes primarily focused on facilitating the integration of renewable resources and otherwise streamlining the interconnection review and authorization process. Most notably, as a part of this proceeding, FERC has adopted a rule permitting interconnection customers to exercise an option to build any required interconnection facilities and stand-alone network upgrades to the transmission provider's system. NYISO submitted two compliance filings to FERC to revise its governing interconnection rules in accordance with these orders, which FERC partially accepted on February 20, 2020 and in full on June 4, 2020. LIPA has been monitoring the NYISO's development of rules in compliance with these FERC orders and participates in the proceedings.

PJM Independent System Operator and Allocation of PJM Regional Transmission Expansion Project Costs

LIPA has contracted with Neptune to purchase 660 MW of transmission capacity over an undersea extra-high voltage cable installed between Sayreville, New Jersey and Levittown, New York. Beginning in June 2010, LIPA also has a contract with Marcus Hook LLP to purchase 91% of the capacity of the Marcus Hook generating facility in Pennsylvania.

PJM, a regional transmission organization operating a transmission grid running from Illinois to New Jersey and south to Virginia, allocates the costs of “Regional Transmission Expansion Plan” projects (“RTEP”) based on cost allocation protocols. These costs are allocated to merchant transmission facilities, such as Neptune, which have obtained firm transmission withdrawal rights under the PJM Tariff. Neptune passes through to LIPA any RTEP charges assessed to the firm transmission withdrawal rights for capacity over the Neptune Line.

In late 2019, FERC rejected a PJM compliance filing that had allocated certain upgrades to the local transmission owner leaving some facilities within the Service Area that impact Neptune service open to reallocation and allocating a large share of costs to Neptune by default, and through contract with Neptune to LIPA. LIPA has been disputing the cost allocation of these facilities at FERC and in the U.S. Court of Appeals. In August 2022, the DC Circuit for the Court of Appeals issued an opinion agreeing that PJM’s formula for allocating system upgrades is unjust and unreasonable. The proceeding is ongoing as the PJM transmission owners are considering revisions to the cost allocation methodology.

In January 1, 2020, PJM had also implemented a separate Border Transaction Rate for Firm Point to Point transmission service, significantly increasing the price of firm point to point transactions to the Neptune Line. FERC had accepted these rates subject to refund while considering the justness and reasonableness of the proposed rates. LIPA and other impacted merchant transmission providers disputed these rates in proceedings before FERC. A settlement agreement was reached in October 2021 with a schedule that phases in moderate increases in firm point to point transactions to the Neptune Line.

New York State Reliability Council

The New York State Reliability Council, LLC (“NYSRC”) determines the reliability rules that the NYISO and all market participants must operate under and monitors the NYISO’s compliance with the reliability rules. The NYSRC provides reliability guidance consistent with the reliability regulation adopted by Congress in 2005 in Section 215 of the FPA, discussed above under “THE SYSTEM—Overview of Regulatory Framework as it Applies to LIPA - *LIPA’s Provision of Transmission Service to Third Parties.*”

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

General

The electric utility industry has been, and will be, affected by several factors which will affect the business, operations and financial condition of both public and private electric utilities, including the Authority and LIPA. Such factors include, (i) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (ii) changes resulting from

“self-generation,” energy efficiency, conservation and demand-side management programs to the timing and use of electric energy, (iii) changes in state and national energy policy, (iv) new requirements to obtain increasing portions of overall electric energy supply from renewable generating resources, (v) imposition of requirements to reduce emissions of greenhouse gases, (vi) issues relating to the ability to issue tax-exempt obligations, (vii) service restrictions on the ability to sell to non-governmental entities electricity from generation projects financed with outstanding tax-exempt obligations, (viii) changes in current and projected future load requirements, (ix) changes in installed capacity requirements, and (x) increases in costs. These factors (and other factors) could affect the financial condition of any electric utility and likely will affect individual utilities in different ways. In addition, the ramifications from the COVID-19 pandemic will have negative effects on all sectors of the United States economy, including the utility sector. See “RECENT DEVELOPMENTS – Impacts of the Coronavirus and COVID-19 Pandemic.”

The Authority cannot predict what effects these factors will have on the business, operations and financial condition of the Authority or LIPA, but the effects could be significant. The sections of this caption briefly discuss certain of these factors. However, these discussions are not comprehensive or definitive, and these matters are subject to change after the date of this ADR. Extensive information on the electric utility industry is, and is expected to be, available from legislative and regulatory bodies and other sources in the public domain.

Competition

In New York and many other states, there have been legislative and regulatory actions to promote competition in the supply of power by requiring the separation of power supply services and costs from electric transmission and distribution services and costs.

The Authority has taken several actions to promote an orderly transition to greater competition in power supply and retail customer choice in the power supply markets in the Service Area. The Authority fosters wholesale competition by offering Open Access Transmission Service to generators that wish to provide power to the NYISO or to other wholesale customers. This service is offered on a comparable basis to the regulated transmission utilities in the State that are also members of the NYISO. Retail choice (sometimes called customer choice, retail wheeling, or retail open access) refers to a process by which retail customers choose among competitive suppliers for electric capacity, energy, and ancillary services. The delivery of capacity and energy is provided by the owner and operator of the local transmission and distribution system.

Under current law, customers may purchase energy from third party providers. In 1998, the Authority adopted a retail choice program (called “Long Island Choice”), which offers electric customers the opportunity to choose an electric energy supplier other than LIPA. The program is available to all customers in the Service Area. The enabling legislation for the New York State budget passed April 1, 2019, included the repeal of the sales tax exemption under New York Tax Law §1105-C on the sale of transportation, transmission, or distribution of gas and electricity where it is sold separately from the commodity. As a result, effective June 1, 2019, non-residential customers purchasing from energy service companies must now pay sales tax on the unbundled delivery portion of their bill. This change resulted in declining customer participation in retail choice programs statewide, including the Authority’s Long Island Choice program. As of February 2023, other suppliers were selling electricity to 14 customers in the Service Area representing a total coincident peak load of 2.8 MW. The Authority cannot make a prediction as to the effect, if any, new or revised State or

federal laws addressing retail and commercial competition will have on ongoing implementation of retail competition.

On May 20, 2020, the Board approved a proposal to allow Community Choice Aggregation (“CCA”), a program that enables a municipal government to enroll customers within its jurisdiction in Long Island Choice and engage an energy service company to supply their energy. A customer whose municipal government chooses CCA will be enrolled by default, unless the customer chooses to “opt-out” of the CCA and remain a full-service Authority customer. Several municipal governments in the Service Area have taken steps to form CCAs. The Authority cannot predict how many customers will enroll. A customer’s choice of an energy service company to supply their energy under Long Island Choice does not have an adverse financial impact on the Authority.

The DPS conducted a stakeholder collaborative proceeding to examine the potential benefits and challenges of retail competition on Long Island.^[1] In that proceeding, the Authority proposed changes to the Long Island Choice rate structure for purposes of simplification and transparency, which received a positive recommendation from the DPS, were adopted by the Board, and became effective on January 1, 2022. The modified rate structure will continue to ensure that the Authority recovers all its unavoidable power supply costs on an equitable basis from both bundled service customers and retail choice customers. As modified, the Authority’s Power Supply Charge consists of the Market Supply Charge, which recovers LIPA’s bypassable costs from its bundled customers, and the Local Supply Charge, which recovers LIPA’s non-bypassable costs from its bundled and retail choice customers.

New York State Electric Utility Industry Regulation

General. Legislation is regularly introduced in the State Legislature, which could affect the operations of the Authority. The Authority cannot predict which of such legislation might be enacted into law, what form any of such legislation, if enacted, might take or what impact any of such legislation if enacted might have on the Authority’s operations.

NYISO. For a description of the NYISO and its present activities, see “THE SYSTEM – New York Independent System Operator” herein.

Reforming the Energy Vision and the Clean Energy Standard. In April 2014, the PSC commenced its REV initiative to transform the State’s energy industry and regulatory practices. Reports and additional REV information are available from the DPS, which is the staff arm of the PSC, at <http://www.dps.ny.gov/>. Information on that website is not included herein by specific cross-reference. See “CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY - Climate Change - *Climate Leadership and Community Protection Act and the State Energy Plan*” for additional information relating to REV and certain other State energy initiatives.

In addition, in January 2016, the PSC approved the 10-year \$5.3 billion Clean Energy Fund (the “CEF”) to be managed by NYSERDA under the direction of the PSC. The CEF has four portfolios: market development (to reduce costs and accelerate customer demand for energy efficiency and other behind-the-meter clean energy solutions, and increase private investment); innovation and research (to invest in cutting-edge technologies that will meet increasing demand for clean energy); NY Green

^[1] DPS Matter No. 15-02754, *In the matter of examining the potential benefits of retail competition on Long Island*.

Bank (to partner with private financial institutions to accelerate and expand the availability of capital for clean energy projects) and NY-Sun (to provide long-term certainty to the State's growing solar market and to lower the costs for homeowners and businesses investing in solar power).

While the Authority is not a regulated utility subject to the PSC's jurisdiction, it has been monitoring, and expects to continue to monitor, the REV proceeding closely and review and evaluate orders put forth by the PSC and implemented by the investor-owned utilities to develop and recommend a plan of action by the Authority consistent with REV goals and objectives. The Authority cannot predict the outcome of the REV proceeding or related proceedings or their impact on the business, operations or financial condition of the Authority.

See also – RECENT DEVELOPMENTS - “Legislative Commission on the Future of LIPA.”

Environmental

Electric utilities are subject to rapidly changing environmental regulations. Federal, state and applicable local standards and procedures, which regulate the environmental impact of electric utilities, are subject to change in interpretation and enforcement. These changes may arise from continuing legislative, regulatory and judicial actions regarding such standards and procedures. There is no assurance that the facilities owned or under contract to LIPA will remain subject to the regulations currently in effect, will always be able to comply with future regulations or can always obtain all required operating permits. An inability to comply with environmental standards could cause additional capital expenditures to comply, reduced operating levels, or the complete shutdown of individual electric generating units (“EGUs”), including NMP2 and units under contract to LIPA under the PSA, if not in compliance.

The United States Environmental Protection Agency (“EPA”), the states and local jurisdictions may enact new laws and regulations governing emissions from many types of power plants and significantly affect demand for electricity. State regulation of electric utility emissions may change significantly. The changes could affect the cost of purchased power from combustion turbines and other types of plants. If enacted, new laws and regulations may change existing cost assumptions for electric utilities. While it is too early to determine if any new requirements will be imposed, in what form, or what their effect will be, the changes may have a material impact on the cost of power generated at affected EGUs. See also “ENVIRONMENTAL MATTERS” herein.

Cross-State Air Pollution Rule

On March 15, 2023, the U.S. Environmental Protection Agency (EPA) finalized its Good Neighbor Plan, which is the federal implementation plan of the Cross-State Air Pollution Rule (CSARP) (2011, with updates in 2016 and 2021) that addresses interstate transport of ozone precursor emissions, such as nitrogen oxides gases (NOx) emitted by power plants and industry. CSARP required each target state to submit a State Implementation Plan (SIP) containing adequate provisions to prohibit emissions from within the state from significantly contributing to nonattainment or interfering with maintenance of EPA's 2015 Ozone National Ambient Air Quality Standards (NAAQS) in other states. NYS DEC submitted a SIP in 2018 and an amendment in 2019. In March 2023, EPA finalized its disapproval of New York's interstate transport SIP and issued the Good Neighbor Plan as the backstop. The Good Neighbor Plan targets significant reductions in emissions of NOx from power plants and industrial facilities, including solid waste combustors and incinerators. The rule revised and expanded the ozone season cap-and-trade program established under the 2021 update to CSARP to 22 states

starting in the 2023 ozone season (May through September) and will introduce declining emissions budgets starting in 2024. The Authority does not expect significant impacts on its generation resources or financial condition from the implementation of the Plan.

New York State Regulation of NO_x Emissions from Power Plants

In December 2019, DEC adopted regulation 6 NYCRR Subpart 227-3, titled “Ozone Season Oxides of Nitrogen (NO_x) Emission Limits for Simple Cycle and Regenerative Combustion Turbines.” The regulation significantly lowers allowable NO_x emissions from simple cycle and regenerative combustion turbines starting in 2023. The regulation provides several compliance options, including the ability to average a facility’s emissions with nearby electric storage or renewable generation facilities. The regulation governs legacy combustion turbines totaling 1,345 MW in capacity that the Authority has under contract with National Grid under the PSA. The Authority and National Grid evaluated the available compliance options and submitted an initial compliance plan to DEC in March 2020 and updated it in the Summer of 2021. The current plans are to retire approximately 195 MW of units that are subject to the new NO_x limits and retrofit approximately 315 MW of units with emissions control technology.

Regulation of CO₂ emissions from Power Plants

The federal and state governments have increased focus on regulating CO₂ and other GHG emissions from power plants. EPA’s authority to regulate GHG emissions stems from a 2007 United States Supreme Court decision that determined that GHG emissions are “air pollutants” under the federal Clean Air Act (“CAA”). EPA has begun regulating the energy sector by: (i) mandating GHG reporting as of 2011; (ii) establishing a nationwide New Source Performance Standard (“NSPS”) for CO₂ emissions from new fossil-fired EGUs pursuant to CAA § 111(b); and (iii) addressing GHGs from existing EGUs pursuant to CAA § 111(d) as discussed below.

On August 3, 2015, the EPA issued the Clean Power Plan final rule (“CPP”). The CPP intended to regulate CO₂ emissions from existing fossil fuel-fired EGUs, specifically coal-, oil-, and gas-fired steam generating units and natural gas combined cycle units. On July 8, 2019, the EPA repealed the CPP, stating that the CPP exceeded EPA’s authorities under the CAA. EPA proposed to change its legal interpretation underlying the CPP to conclude that the CAA’s use of the term “best system of emission reduction” must involve technological or operational measures that apply to an individual point source as opposed to the approach taken in the CPP that would have involved a shifting of the balance of coal, gas, and renewable-generated power at the grid-wide level, which EPA stated constitutes energy policy as opposed to environmental policy. At the same time, the repealed CPP was replaced by the Affordable Clean Energy (“ACE”). The ACE rule was focused on potential upgrades to coal plants and would have been unlikely to materially affect energy and capacity prices in the NYISO wholesale market and the Eastern Interconnection. On January 19, 2021, the D.C. Circuit court vacated the ACE rule and remanded it to the EPA for further proceedings consistent with its opinions. The United States Supreme Court just reviewed the extent of EPA’s regulatory authority to potentially reshape the country’s electricity grids and unilaterally decarbonize any sector of the economy in the case *West Virginia v. EPA*, and released its determination on June 30, 2022, which determination the Authority and PSEG Long Island will evaluate for its impact. Given these developments, the timing and substance of federal regulation of CO₂ applicable in the State is not certain.

DEC's GHG standards for new power plants, adopted in June 2012, are more stringent than the NSPS finalized by EPA on August 3, 2015. Specifically, new power plants must achieve a standard of 925 pounds of CO₂ equivalent per MW gross electrical output or 120 pounds CO₂ equivalent per million BTU of input. The standards are set at a level that permits the construction of natural gas plants with back-up fuel oil, but the standards are too low to permit the construction of new coal-fired power plants in the State. On May 9, 2019, DEC adopted final regulations setting a CO₂ emission limit for existing power plants in the State of 1,800 pounds of CO₂ equivalent per MW gross electrical output or 180 pounds CO₂ equivalent per million BTU of input. All the power plants owned by or under contract to the Authority are expected to be within this limit.

In addition, effective December 31, 2020, DEC revised its regulations implementing the Regional Greenhouse Gas Initiative ("RGGI") program, a CO₂ cap-and-trade program that applies to EGUs within the eleven RGGI states in the Northeast and Mid-Atlantic region. The new regulations implement the decision of the RGGI states to further reduce the cap by 2.275% each year until 2030 to achieve an overall reduction of 30% from 2020 to 2030. It is expected that power companies will comply with these caps by purchasing new allowances at auction at slightly higher prices and using allowances banked in previous compliance periods. Beginning in 2021, RGGI states implemented the Emissions Containment Reserve (the "ECR") that will withhold allowances from circulation to secure additional emissions reductions if prices fall below an established trigger price. The ECR triggers only if emission reduction costs are lower than projected.

The State's CLCPA described below addresses GHG emissions by requiring that 100% of the State's electricity to be zero emissions by 2040. The impact of compliance with the Federal and State climate change policies on LIPA cannot be ascertained at this time.

See below under " - Climate Change - *Climate Leadership and Community Protection Act*" herein for a description of certain State initiatives intended to transform the State's energy industry and regulatory practices.

Climate Change

In recent years, state, national and international scientific reports about the contribution of human activities, largely the release of polluting gasses from burning fossil fuels (coal, oil and gas) to the changing of the Earth's climate have raised concerns among policymakers and the general public about the risks of climate change, which include greater vulnerability of the energy system to increased severity and frequency of weather events and other climate change impacts. Some, including New York City, have declared a climate emergency. Policies proposing to reduce and prevent climate change risks generally include measures to reduce emissions of CO₂ and other GHG into the atmosphere with the goal of eliminating or neutralizing such emissions entirely within decades.

Climate Vulnerability Study and Impact of Climate Change on the T&D System

In 2022, PSEG Long Island engaged a consultant to develop a climate change vulnerability study that explored, among other things, weather trends and the potential impact of higher temperatures on load forecasts, future sea level rise, and T&D System impacts. The study was prepared in parallel with the ongoing Integrated Resource Plan, and pertinent findings, such as impact on the load forecast, are being incorporated into the IRP. In addition, Governor Hochul signed legislation that requires New York investor-owned electric utilities to develop Climate Change Vulnerability Studies that assess the vulnerability of each utility's infrastructure, design specifications, and procedures to climate change.

The utilities are then required to incorporate these learnings into Climate Change Resilience Plans that detail how the utility will incorporate climate change into its planning, design, operations, and emergency response. While not covered by the legislation, the Authority plans to take a consistent approach to resilience planning. In 2023, the Authority expects to complete an expanded Climate Change Vulnerability Study that will include consideration of potential impacts of extreme weather events. The Authority will incorporate these findings into the development of long-term Climate Change Resilience Plans.

Climate Leadership and Community Protection Act

Governor Cuomo in his 2019 State of the State Address introduced the Green New Deal plan. That plan was largely incorporated into the CLCPA, which came into effect on January 1, 2020, and became one of the most comprehensive and transformational efforts to address the climate crisis in the nation. On April 8, 2020, the Energy Planning Board amended its State Energy Plan (the “SEP”), which was released in 2015 and coordinates state agencies that impact energy policy, in light of the enactment of the CLCPA. As amended, the SEP sets the following clean energy and climate targets for the State to meet: (i) a 40% reduction in greenhouse gas (“GHG”) emissions from 1990 levels by 2030; (ii) 70% of electric generation from renewable energy sources by 2030 (“70x30 goal”); (iii) 185 trillion BTU increase in on-site energy savings from 2015 baseline by 2025; (iv) zero emissions electric system by 2040; (v) minimum 85% reduction in GHG emissions from 1990 levels by 2050, with a goal of 100% reduction; (vi) 9,000 MW of offshore wind by 2035; (vii) 6,000 MW of distributed solar by 2025; (viii) 3,000 MW of energy storage by 2030; and (ix) 40% goal, and a minimum target of 35%, of overall benefits from investments in clean energy and energy efficiency to be realized by disadvantaged communities. Furthermore, the amended SEP adds a new initiative to establish a sustainable electric generation facility cessation mitigation program, calling on state entities to advance strategies to mitigate the impact of power plant closures on hosting communities. Governor Hochul has subsequently announced expansions to some of those targets, although the SEP has not been formally amended to reflect this expansion. In December 2021, Governor Hochul announced a goal of 10,000 MW of distributed solar by 2030. In the April 2022 State of the State address, Governor Hochul announced a doubling of the State’s energy storage goal to 6,000 MW by 2030.

While some regulatory actions pursuant to CLCPA have taken place, the full impact of the CLCPA on the State’s economy will be detailed in regulations over the coming years. In December 2020, DEC issued the statewide emissions limits established by the CLCPA, these being 245.87 and 61.47 mln metric tons of CO₂e in 2030 and 2050, respectively. As required by CLCPA, the emissions accounting is based on GHG global warming potentials (GWP) over 20-year time horizon, which increases the global warming contribution of shorter-lived GHGs such as methane when compared to GWP integrated over 100-year, another typically used time horizon.

The Authority’s Chief Executive Officer is a statutory member of the 22-member Climate Action Council, formed pursuant to the CLCPA to develop a road map for statewide implementation. In December 2021, the Climate Action Council issued a draft Scoping Plan to accomplish the economic transition called for in CLCPA. After reviewing public comments, the Climate Action Council approved the final version of the Scoping Plan in December 2022; next steps include consulting with DEC on implementation of GHG reduction measures and future regulatory and policy action to achieve CLCPA goals. In May 2022, in accordance with CLCPA requirements, the PSC issued an order directing New York State Utilities to work with DPS staff in developing a proposal for reporting GHG emissions that is consistent with CLCPA and DEC accounting. The Authority intends to coordinate

with DPS and DEC staff in establishing a reporting framework for GHG inventory of its emissions that is compatible with CLCPA accounting.

The CLCPA, through Sections 7(2) and (3) as described below, requires all State agencies, including the Authority, to consider the impacts of their final agency actions on GHG emissions and disadvantaged communities. Pursuant to Section 7(2) of the CLCPA, all State agencies must consider whether their administrative approvals and decisions “are inconsistent with or will interfere with the attainment of the statewide greenhouse gas emissions limits” established by the DEC pursuant to the CLCPA. CLCPA Section 7(3) requires all State agencies to ensure that their decisions will not “disproportionately burden disadvantaged communities” and to “prioritize reductions of greenhouse gas emissions and co-pollutants in disadvantaged communities.” The CLCPA also requires various State agencies, including the Authority, to “promulgate regulations to contribute to achieving the statewide greenhouse gas emissions limits established” by the DEC, although such regulations will not limit DEC’s authority to regulate and control GHG emissions pursuant to CLCPA. To this end, the Board has updated the Authority’s policy on Resource Planning and Clean Energy and its policy on Diversity, Equity, and Inclusion to incorporate the achievement of LIPA’s share of CLCPA clean energy, energy efficiency, electrification and environmental justice goals into the Authority’s policies while upholding commitments to reliability and affordability. Accordingly, the Authority is incorporating appropriate standards into its planning activities, the evaluation of requests for resource proposals and other decisions of the Authority. Through its procurement of the State’s first offshore wind farm and several utility-scale solar facilities, as well as the Bulk Energy Storage RFP initiated in April 2021 described above, the Authority is positioning itself to achieve its share of the State’s climate goals.

The implementation of CLCPA will fundamentally change the existing generation supply portfolio for the State and Long Island over the next two decades. NYISO’s 2021 Comprehensive Reliability Plan noted while the State will be in position to achieve the 70x30 goal and meet reliability requirements, achieving zero-emissions in the electric system by 2040 may require additional transmission capacity, a review of current reliability frameworks, and changes to wholesale electricity market design, to address tightening resource adequacy margins across the New York grid and the risk of extreme weather events driven by climate change. The Authority cannot predict with specificity at this time the various effects these developments will have on the business, operations and financial condition of the Authority or LIPA.

Reforming the Energy Vision, Clean Energy Standard, the Zero-Emissions Credit Requirement

The PSC commenced its Reforming the Energy Vision (or “REV”) initiative to transform the State’s energy industry and regulatory practices in April 2014. Reports and additional REV information are available on the DPS website at <http://www.dps.ny.gov/>. Information on that website is not included herein by specific cross-reference.

In January 2016, the PSC expanded the scope of its REV proceeding to include consideration of a clean energy standard (“CES”). In August 2016, the PSC issued an Order Adopting a Clean Energy Standard and has subsequently modified the CES in October 2020 (as modified, the “CES Order”). The PSC has also issued subsequent CES implementation orders. The CES is divided into a Renewable Energy Standard (“RES”) and a Zero-Emissions Credit (“ZEC”) requirement. In the CES Order, the PSC requires each load-serving entity (“LSE”) within its jurisdiction to serve its retail customers (the CES Order assumes Authority participation as well) by procuring new renewable resources, evidenced by the procurement of qualifying Renewable Energy Credits (“RECs”) at incrementally

larger percentages for the years 2017 through 2030, with sufficient lead time for the load-serving entities to incorporate the changes into their planning processes.

The LSEs can meet their incremental obligations by purchasing “Tier 1” RECs from the New York State Energy Research and Development Authority (“NYSERDA”), by purchasing qualified RECs from other sources. Resources eligible to produce Tier 1 RECs will be resources that came into operation after January 1, 2015, and that meet the eligibility criteria set forth in the CES Order. In November 2022, NYSEDA filed a petition with the PSC for a revised tier 1 methodology whereby there is a load share approach, similar to how ZECs and tier 2 are modeled. The PSC approved the revised approach in April 2023. The first year using this new load share approach would be 2025.

The PSC’s October 15, 2020 Order (CES Modification Order) established a new Tier 4 program within the Clean Energy Standard (CES) in response to NYSEDA’s CES White Paper. The new Tier 4 will increase the penetration of renewable energy into New York City (NYISO Zone J), which is particularly dependent on polluting fossil fuel-fired generation.

In response to the CES Modification Order, NYSEDA issued a Tier 4 solicitation in January 2021. The solicitation generated robust competition, including seven different projects with 35 total alternative bid variants. After the vetting and scoring process, Governor Kathy Hochul announced two recommended contract awards in September 2021 – the Clean Path NY project (CPNY) and the Champlain Hudson Power Express project (CHPE). These projects will deliver wind, solar, and hydropower to New York City.

The contracts were submitted to the PSC for approval and public comment on November 30, 2021. The contracts for CHPE and CPNY and the accompanying petition are available on the DPS website under Case Number 15-E-0302. Information on that website is not included herein by specific cross-reference. The PSC approved the contracts by Order of April 14, 2022, subject to limited contract clarification and similar requirements as laid out in the Order. NYSEDA has projected total program payments for the purchase of Tier 4 RECS from the projects to be between \$5.9 and \$11.6 billion over the 25-year Tier 4 contract period. Based on the Authority’s 12.5% share of the State’s load, the Authority’s cost obligation could range between \$739 million and \$1.45 billion over the 25 years. However, Tier 4 program costs could be reduced as a result of federal tax credits or through the voluntary purchase of Tier 4 RECs.

On October 15, 2020, the PSC issued an Order establishing a new “Tier 2” REC program aiming to maximize the contributions and potential of New York’s existing renewable resources to ensure their continued operations and delivery of renewable energy into the state. Eligible generators include existing non-State-owned run-of-river hydropower and existing wind resources located within the state that entered commercial operation prior to January 1, 2015. Funding for the competitive Tier 2 program, which is capped at a total of \$200 million across the three proposed annual solicitations, would be recovered through a new Tier 2 REC obligation imposed on all jurisdictional LSEs. At their March 29, 2021 meeting, the Authority’s Board of Trustees authorized staff to execute an agreement with NYSEDA for the purchase of Tier 2 REC’s. Based on LIPA’s 12.5% share of the State’s load, LIPA’s maximum cost obligation was estimated to be \$25 million. On April 30, 2021, NYSEDA released the rate for the 2021 compliance year. The rate was \$0.02/MWh, which is much lower than was first anticipated. On November 1, 2021, NYSEDA and the DPS further revised downward the tier 2 rate to be \$0.004/MWH. For 2023, the estimated annual cost is now forecast to be \$78,000. As no awards were made in the last solicitation, it is expected that 2023 will be the last year for the

approved Tier 2 program with a RFP to be issued in the third quarter). An RFI was issued to gather stakeholder input on Tier 2.

The PSC also proposed that each LSE, including the Authority, preserve the environmental values or attributes of qualified zero-emissions nuclear-powered electric generating facilities by purchasing an amount of ZECs in proportion to the electric load energy served by the LSE in relation to the total electric load energy served by all LSEs in the State. The Authority purchases its load-proportional share of ZECs from NYSERDA and receives its share of ZEC revenues through its ownership interest in NMP2. The net cost of ZECs to the Authority was \$56 million for the full calendar year 2021. Costs will increase with the projected social cost of carbon as determined by the State and the federal government or decrease with forecasted wholesale market prices, as outlined in the CES Order.

The Authority and PSEG Long Island are also participating in the State's Offshore Wind Master Plan, which involves efforts to license and procure sufficient offshore wind resources to meet the State's goal of 9,000 MW of offshore wind by 2035. LIPA expects to meet a portion of its share of the State's goal by purchasing 130 MW from the proposed South Fork Offshore Wind Farm, and the remaining portion by purchasing Offshore Wind RECs ("ORECs") from NYSERDA, which serves as the OREC procurement agent on behalf of participating LSEs. With the two recent NYSERDA offshore wind awards interconnecting into the T&D System (880 MW and 1260 MW interconnecting to Holbrook and Barrett, respectively) and with additional NYSERDA offshore wind awards expected to also interconnect to LIPA's T&D System, studies are underway to examine the need for transmission reinforcements and flexible resources (e.g., peaking plants and energy storage) to enable the reliable and cost-effective integration of offshore wind into the local and regional power grid. In March 2021, the PSC issued an order designating a public policy transmission need associated with integrating offshore wind into the LIPA and Con Edison systems. The NYISO has received and is in the process of evaluating proposals from prospective developers to fulfill that need (see discussion of FERC Order 1000 above).

The Authority's tariff provides for net metering of certain residential and nonresidential customer-generators of renewable power, such as solar, wind, farm waste, micro-combined heat and power, fuel cells, micro-hydroelectric and hybrids. The net meters measure only the net electricity provided to or by the customer-generator using the T&D System. On March 9, 2017, the PSC adopted the first phase of its net metering successor plan (*see* Order on Net Energy Metering Transition, Phase One of Value of Distributed Energy Resources, And Related Matters, New York Public Service Commission Case 15-E-0751 (the "Phase One Order")), which provides a new mechanism for utility compensation of certain distributed energy resources interconnected after March 9, 2017. Under the Phase One Order, large commercial customers are compensated with a value stack comprising values for energy, capacity, environmental, and demand reduction costs. Notwithstanding the fact that the Authority is not subject to PSC jurisdiction, the Authority implemented the PSC's net metering successor plan within the Service Area, including value stack compensation for large commercial customers, on January 1, 2018. Under Phase Two, the PSC has ordered the investor-owned utilities to establish a Customer Benefits Contribution ("CBC") charge, payable by new net metered systems connecting after January 1, 2022, to recover the costs of certain programs that benefit customers and support state policy goals, such as the cost of low-income customer discounts and energy efficiency incentives. The LIPA Board adopted a similar CBC in December 2021. LIPA's CBC includes a two-year phase-in, which began on January 1, 2022 and will be complete on January 1, 2024.

While the Authority is not a regulated utility subject to the PSC's jurisdiction, it has been and expects to continue to monitor the REV and CLCPA proceedings closely and review and evaluate orders put forth by the PSC and implemented by the investor-owned utilities to develop and recommend a plan of action by the Authority consistent with the State's goals and objectives. The Authority cannot predict the activities of the Climate Action Council or the impact of related DEC regulations that will be promulgated or new related PSC proceedings on the business, operations, or financial condition of the Authority.

Nuclear Plant Matters

Zero Emissions Credit PSC Program

In an Order issued on August 1, 2016 in Case 15-E-0302, "Proceeding to Implement a Large-Scale Renewable Program and a Clean Energy Standard," the New York Public Service Commission directed the establishment of a ZEC Program. Under this program, revenue above that provided by the energy, auxiliary-services, and capacity markets of the New York Independent System Operator is provided to the nuclear units at the Ginna, Fitzpatrick, and Nine Mile Point Sites in recognition of the societal benefits provided by their production of electricity with no emissions of carbon dioxide. This incremental revenue is intended to reduce the possibility of the retirement of these units before the expirations of their current operating licenses.

With specific regard to the Nine Mile Point Site, the program specifies that a ZEC payment be made to Constellation by the New York State Energy Research and Development Authority for every MWH of electric energy produced at the site (Units 1 and 2 combined), up to a maximum of 9,206,000 MWH per year. The ZEC revenue attributable to NMP2 is split between Constellation and LIPA in proportion to their respective ownership shares. Since the program's inception on April 1, 2017, ZEC revenue has been sufficient, when combined with market revenue, to provide Constellation a positive return on cash flow at Nine Mile Point. The ZEC Program, as currently constituted, is set to expire on March 31, 2029.

Spent Fuel

Under the Nuclear Waste Policy Act of 1982, the Department of Energy ("DOE") was to develop, construct, and operate a system for the disposal of spent nuclear fuel and high-level radioactive waste. The system was to include interim storage capability and a permanent geological repository. A deadline of January 1, 1998 was set for DOE to begin moving spent fuel from nuclear power plants, and a fee of \$1.00/MWH was collected from nuclear-plant operators to cover the department's costs for spent-fuel disposal. LIPA reimbursed Constellation's predecessor for its share of these payments. However, with the cancellation of DOE's plans for a permanent geologic repository at Yucca Mountain in Nevada, DOE is unlikely to accept any spent nuclear fuel from commercial nuclear power plants in the near term, and collection of the disposal fee was suspended in May 2014.

Until a permanent repository is built, spent nuclear fuel from NMP2 in excess of the capacity of its spent-fuel pool is being stored in dry casks at an on-site Independent Spent Fuel Storage Installation ("ISFSI"). Constellation is being reimbursed for the ongoing ISFSI costs of NMP2 by DOE from funds previously paid for NMP2's fuel disposal. Constellation in turn is forwarding or otherwise crediting 18% of these reimbursements to LIPA.

Decommissioning

Federal regulations require reactor operators to certify that sufficient funds will be available for decommissioning the radioactively contaminated portions of nuclear-plant sites. The option that LIPA adopted for assuring the availability of sufficient funds for its share of decommissioning costs is the maintenance of external sinking funds that are segregated from its assets and outside its administrative control. These “trust funds” currently have a combined balance sufficient under NRC regulations to meet the present value of its decommissioning-cost obligation.

Liability for Nuclear Accidents

The Federal Price-Anderson Act currently requires licensees of commercial nuclear power plants to maintain \$450 million in private insurance for each reactor site (not each reactor) for indemnification for offsite damage in the event of a nuclear accident at the site. Constellation maintains this coverage for the Nine Mile Point site, and LIPA reimburses Constellation for its proportionate share of the cost. The Act further stipulates that in the event offsite damage from an incident at any U.S. commercial nuclear power plant site exceeds the amount of that site’s private insurance coverage, each reactor licensee is retroactively liable for a prorated share of the excess. This liability is limited to \$138 million per reactor per incident, payable at no more than approximately \$20 million per reactor per incident per year. LIPA’s maximum liability under this provision is approximately \$25 million, payable at no more than approximately \$4 million per incident per year.

Fukushima Daiichi

Following the March 11, 2011 earthquake and tsunami that led to the catastrophic failure of the Fukushima Daiichi Plants in Japan, the NRC issued new requirements on March 12, 2012 that required upgrades to NMP2. NMP2 has been brought into full compliance with these requirements.

ENVIRONMENTAL LIABILITY

As discussed in “CERTAIN OTHER MATTERS —Guarantees and Indemnities,” National Grid and LIPA have signed Liabilities Undertaking and Indemnification Agreements which, taken together, provide, generally, that environmental liabilities are to be divided between National Grid and LIPA based on whether they relate to Transferred Business (defined below) or Retained Business (defined below). In addition, to clarify and supplement these agreements, National Grid and LIPA have also contracted to allocate between them certain liabilities, including environmental liabilities, arising from events occurring prior to the 1998 acquisition of LILCO and relating to the business and operations to be conducted by LIPA Parties after the 1998 acquisition (the “Retained Business”) and to the business and operations to be conducted by National Grid after the 1998 acquisition (the “Transferred Business”). For a complete description of specific actual and potential environmental liabilities of LIPA and National Grid, see “Legal Proceedings” in Note 16 of Notes to the Authority’s Basic Financial Statements for the years ended December 31, 2022 and 2021, which are included herein by specific cross-reference.

The Authority and LIPA are subject to several federal, State and local environmental laws and regulations governing the installation, operation and maintenance of electric transmission and distribution systems.

REGULATION

The operations of the Authority and LIPA are subject to regulation by various State and federal agencies, discussions of which appear in other parts of this ADR. The principal agencies having a regulatory impact on the Authority and LIPA and the conduct of their activities are:

New York State

DPS. See “INTRODUCTION TO THE AUTHORITY AND LIPA - LIPA, PSEG Long Island and DPS” above for a description of the DPS’s role and relationship with LIPA and PSEG Long Island.

Public Authorities Control Board (“PACB”). The Authority is required by the Act to obtain certain approvals of the PACB. The PACB consists of five members appointed by the Governor of the State. One member is appointed upon the recommendation of the Majority Leader of the State Senate, one upon the recommendation of the Speaker of the State Assembly, one upon the recommendation of the Minority Leader of the State Senate and one upon the recommendation of the Minority Leader of the State Assembly. The two members of the PACB appointed by the Governor upon the recommendations of the Minority Leaders of the Senate and the Assembly do not vote. The unanimous vote of the voting members of the PACB is required to authorize action by the PACB.

Pursuant to the Act, the Authority may not undertake any “project” without PACB approval. A “project” of the Authority is defined by the Act to mean an action undertaken by the Authority that: (i) causes the Authority to issue bonds, notes or other obligations, or shares in any subsidiary corporation; (ii) significantly modifies the use of an asset valued at more than one million dollars owned by the Authority or involves the sale, lease or other disposition of such an asset; or (iii) commits the Authority to a contract or agreement with a total consideration of greater than one million dollars and does not involve the day-to-day operations of the Authority. The Act provides that the PACB shall only approve a proposed project of the Authority upon the PACB’s determination that: (i) the project is financially feasible; (ii) the project does not materially adversely affect overall real property taxes in the Service Area; (iii) the project is anticipated to result generally in lower utility rates; and (iv) the project will not materially adversely affect overall real property taxes or utility rates in other areas of the State.

New York State Comptroller. Pursuant to the Act, the Authority must obtain the written approval of the Comptroller of any private sale of bonds or notes of the Authority and the terms of such sale. By letter dated July 22, 1999, the Comptroller set forth his determination that pursuant to Section 1020-cc of the Act (which subjects all Authority contracts to “the provisions of the State Finance Law relating to contracts made by the State”) Authority contracts for goods and services that exceed \$50,000 in amount must be approved by the Comptroller before such contracts become effective. The LIPA Reform Act amended Section 1020-cc of the Act to exempt from this requirement, among other things, contracts between the Authority’s service provider and third parties. In addition, the Comptroller’s office periodically conducts audits of the Authority to examine the Authority’s policies, procedures, controls and other financial and management practices.

Utility Intervention Unit. Under the LIPA Reform Act, the Utility Intervention Unit, within the Department of State, is empowered to participate in rate proceedings and hold regular forums in the Service Area.

Department of Environmental Conservation. DEC is the principal agency of the State government regulating air, water and land quality. Before any federal license or permit can be issued for any activity involving a discharge into navigable waters, DEC must certify that the discharge will comply with the State water quality standards (or waive certification). Certain aspects of DEC's regulatory authority over pollutant discharge permits, air quality permits and hazardous waste regulation arise from delegation of such authority to the State by federal legislation. Furthermore, DEC is charged with promulgating by January 1, 2024 and then enforcing the rules and regulations to achieve statewide GHG emissions reductions and other goals and targets established by the CLCPA reflecting the scoping plan to be prepared by the Climate Action Council by January 1, 2023. Subsequently, DEC in consultation with the Climate Action Council, will report on the implementation of the GHG reduction measures and make recommendations for future regulatory and policy actions to achieve the CLCPA goals.

Federal

Nuclear Regulatory Commission. The NRC regulates the construction and operation of nuclear power plants. An operating license is required for operating any nuclear power plant. In addition, the NRC prescribes various operating standards and other rules.

Federal Energy Regulatory Commission. FERC regulates the rates, terms and conditions of: (i) the sale for resale of electric power by "public utilities"; and (ii) the provision of transmission service in interstate commerce by public utilities. Neither the Authority nor LIPA is a "public utility" under the FPA and therefore, FERC does not exercise direct jurisdiction over rates for service over LIPA's facilities under either FPA Sections 205 or 206. Although the rates, terms and conditions under which the Authority provides transmission service are not currently subject to general FERC jurisdiction, FERC may order the Authority to provide wheeling transmission service to individual customers meeting the requirements of Sections 211 and 212 of the FPA on rates, terms and conditions comparable to those of the Authority for the Authority's own use of its system. Further, FERC may apply the provisions of FPA Section 211A (under which FERC may order unregulated transmitting utilities to provide "open access" transmission service) to LIPA, in which case LIPA would become subject to FERC jurisdiction with respect to the provision of wholesale transmission service at rates comparable to the rates it charges itself, on terms and conditions that are comparable and not unduly discriminatory or preferential.

FERC has never applied FPA Section 211A to LIPA. Since the enactment of this provision, FERC has taken a conservative approach to its implementation and has only asserted jurisdiction in very limited instances, none of which have involved an unregulated transmitting utility participating in an organized market, such as LIPA's existing participation in the NYISO.

While the Authority and LIPA are non-jurisdictional entities with respect to the establishment of rates, terms and conditions of service for the sale of energy and provision of transmission service, FERC has jurisdiction over municipal utilities such as LIPA with respect to compliance with reliability standards and prohibitions against market manipulation. Under FPA Section 215, all users, owners and operators of the bulk power system, including LIPA, must comply with reliability standards issued by NERC, which FERC has approved as the Electric Reliability Organization responsible for overall adoption and enforcement of the reliability standards. In the Northeast, implementation of the NERC reliability standards is largely delegated to, and undertaken by, the Northeast Power Coordinating Council ("NPCC"). There are now over 100 federal reliability standards covering transmission and generation operations conducted by, or on behalf of LIPA. In addition to NERC standards and NPCC

standards and criteria, the NYISO and State market participants must comply with NYSRC Reliability Rules for planning and operating the State Power System. NYSRC Reliability Rules are consistent with and more stringent and specific than associated ERO standards and NPCC standards and criteria. This is permitted by federal legislation in FPA Section 215. The NYSRC Reliability Rules include local rules that apply to New York City and Long Island that are more stringent than other NYSRC Rules. These Local Rules are more stringent because of the need to protect the reliable delivery of electricity for specific electric system characteristics and demographics relative to these zones. These conditions include unique circumstances and complexities related to the maintenance of reliable transmission service, and the dire consequences that would result from failure to provide uninterrupted service.

Separately, FPA Section 222 prohibits “any entity” (including otherwise non-jurisdictional entities such as LIPA) from engaging in the use of any manipulative or deceptive device or contrivance as part of its purchase or sale of electric energy or transmission service. FERC has implemented FPA Section 222 by issuing an anti-market manipulation rule set forth in 18 C.F.R. §1.c.2 and applied such rule to non-jurisdictional entities participating in wholesale energy markets. Violations of these requirements are subject to enforcement and potential sanctions by FERC, for which the Commission may apply its Penalty Guidelines. The Penalty Guidelines have the potential to result in imposition of significant penalties where a violation causes a significant pecuniary gain for the violator or loss caused by the violation. Court decisions have held that FERC’s penalty authority under FPA Section 316 and 316A does not extend to a municipality. However, this precedent has not yet been raised in a penalty assessment for violation of FPA Section 222 and LIPA expects that future cases before FERC and courts of appeal may clarify the authority of FERC to apply monetary civil penalties to municipalities, if any, for violations of FPA Section 222.

Environmental Protection Agency. The EPA is the principal agency of the federal government regulating air, water and land quality. The Authority and LIPA are subject to EPA rules requiring permits for discharge of identified pollutants in waters of the United States that may occur during utility operations. However, EPA does not regulate radiological emissions or effluents from nuclear facilities, rather the NRC reviews such environmental impacts as part of its permit and licensing proceedings. See also above “CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Environmental - *Regulation of CO2 emissions from Power Plants.*”

Department of Energy. DOE may issue Presidential permits for international transmission interconnections and grant authorizations for the export of energy into Canada.

United States Army Corps of Engineers. The United States Army Corps of Engineers, subject to the State’s DEC review and certification outlined above, must approve construction undertaken in connection with a power plant or transmission line, which affects navigation, involves dredging or filling in waters of the United States, or involves crossing of navigable streams.

Other Jurisdictions

The regulatory procedures of neighboring states such as Connecticut and New Jersey impact the ability of LIPA to obtain additional power supplies through constructing new cables which extend into such jurisdictions.

LITIGATION

LIPA is involved in numerous actions arising from the ordinary conduct of its business both prior to and after the 1998 acquisition of LILCO that include claims related to: Superstorm Sandy, LIPA's challenges to tax assessments in Nassau and Suffolk counties and environmental claims brought by governments and individual plaintiffs that allege LIPA is responsible for all or a portion of the clean-up costs, personal injuries and/or damages resulting from its alleged use, release or deposit of hazardous substances which include asbestos. While LIPA cannot predict the costs of such pending claims, or additional similar claims which may arise, LIPA believes that such litigation, in the aggregate, will not have a material adverse impact on the business or the affairs of the Authority or LIPA. See "Legal Proceedings" in Note 16 of Notes to the Authority's Consolidated Financial Statements and Required Supplementary Information for the years ended December 31, 2022 and 2021.

CERTAIN OTHER MATTERS

LIPA Assets and Liabilities

At the time of the 1998 Acquisition of LILCO, in addition to the electric assets described under "Introduction to the Authority and LIPA" herein, LIPA also retained certain other of LILCO's former assets (these electric and other retained assets are referred to collectively as the "LIPA Assets") and liabilities (the "LIPA Liabilities" and, together with the LIPA Assets, the "LIPA Assets and Liabilities"). The LIPA Assets included, among other assets (i) certain regulatory assets of LILCO, including the Shoreham Regulatory Asset, (ii) the judgments, actions and claims of LILCO for refunds of property taxes, including the judgment resulting from the litigation contesting the assessment of certain Shoreham Nuclear Power Station property and (iii) other intangible assets of LILCO's former retail electric business, including the right to provide electric service in the Service Area. The LIPA Liabilities included, among other liabilities, certain environmental liabilities of LILCO not otherwise transferred to or indemnified by a National Grid Sub.

Upon consummating the 1998 Acquisition, LIPA recorded various purchase accounting adjustments to recognize the fact that LIPA is not subject to the regulatory jurisdiction of the PSC and is exempt from federal income tax. The primary result of these adjustments was the elimination of the regulatory assets and liabilities of LILCO, including the Shoreham Regulatory Asset, and eliminating LILCO's net deferred federal income tax liability. The unamortized balance of the excess of the acquisition costs over the original net book value of the transmission and distribution and nuclear assets and the fair value of the other net assets retained appears on the financial statements included by specific cross-reference herein as the "Acquisition Adjustment." This Acquisition Adjustment was originally being amortized over 35 years (commencing in 1998) and the remaining amortization period on the Acquisition Adjustment was shortened by approximately seven years based on the results of a depreciation study. In May 1998, when the Authority acquired LILCO, the original Acquisition Adjustment was approximately \$4.2 billion. As of December 31, 2022, the balance of the Acquisition Adjustment, net of accumulated amortization was approximately \$433 million.

Guarantees and Indemnities

National Grid USA (a subsidiary of National Grid) has absolutely and unconditionally guaranteed to the Authority (i) the full and prompt payment when due of all amounts required to be credited or paid by National Grid Sub under the PSA and (ii) the full and prompt performance of the

covenants and agreements of the National Grid Sub under the PSA. Upon certain reductions in the credit ratings of National Grid USA, LIPA has the right to have National Grid USA obtain letters of credit securing these undertakings and agreements. On April 13, 2018, National Grid USA replaced KeySpan as the guarantor of National Grid Sub's obligations under the PSA, as provided in the amendment to the PSA that became effective on March 29, 2018.

PSEG Power LLC, an affiliate of PSEG Long Island, has absolutely and unconditionally guaranteed to the Authority (i) the full and prompt payment when due of all amounts required to be credited or paid by PSEG Long Island under the OSA up to \$60,000,000 and (ii) the full and prompt performance of the covenants and agreements of PSEG Long Island under the OSA. Upon certain reductions in the credit ratings of PSEG, LIPA has the right to have PSEG Long Island obtain a letter of credit in lieu of the corporate guaranty.

ADDITIONAL INFORMATION

Certain of the corporations mentioned in this ADR, including National Grid plc., PSEG, Exelon Corporation, the current parent of Constellation Energy Nuclear Group, LLC, the operator of NMP2, file reports and other information with the Securities and Exchange Commission, which reports and information are publicly available. None of the above-mentioned additional information is included herein by specific cross-reference, and the Authority takes no responsibility for the accuracy or completeness thereof.

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APPENDIX A
AUDITED BASIC FINANCIAL STATEMENTS

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(A Component Unit
of the State of New York)

Basic Financial Statements and Required
Supplementary Information

December 31, 2022 and 2021

(With Independent Auditors'
Report Thereon)

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

December 31, 2022 and 2021

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Independent Auditors' Report

Board of Trustees
Long Island Power Authority:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the Long Island Power Authority (LIPA), a component unit of the State of New York, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise LIPA's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of LIPA as of December 31, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of LIPA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LIPA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LIPA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LIPA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the management's discussion and analysis and the schedule of proportionate share of the net pension liability and schedule of contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Melville, New York
March 29, 2023

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Management's Discussion and Analysis (Unaudited)

December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

Introduction

The Long Island Power Authority (LIPA) is a component unit of the State of New York (State). LIPA became the retail supplier of electric service in the Counties of Nassau and Suffolk (with certain limited exceptions) and a portion of Queens County known as the Rockaways (Service Area) on May 28, 1998 by acquiring the transmission and distribution (T&D) system of the Long Island Lighting Company (LILCO) as a wholly owned subsidiary of LIPA. The acquisition included an undivided 18% interest in the Nine Mile Point Unit 2 (NMP2) generating facility located in upstate New York. LIPA provides electric delivery service in the Service Area, which includes approximately 1.2 million customers. The population of the Service Area is approximately 2.9 million.

LIPA was established as a corporate municipal instrumentality of the State, constituting a political subdivision, created by Chapter 517 of the Laws of 1986 (the LIPA Act). As such, it is a component unit of the State and is included in the State's annual financial statements.

LIPA is governed by a local Board of Trustees (Board) consisting of nine Trustees, five of whom are appointed by the Governor, two by the Temporary President of the State Senate, and two by the Speaker of the State Assembly. The Board supervises, regulates, and sets policy and rates for LIPA. In accordance with the LIPA Reform Act, codified as Chapter 173, Laws of New York (Reform Act) in 2013, LIPA is required to submit any proposed rate increase to the New York State Department of Public Service DPS (DPS) for review if it would increase the rates and charges by an amount that would increase LIPA's annual revenues by more than 2.5%; however, LIPA's Board retains final rate-setting power.

The Reform Act also created the Securitization Law, which established LIPA's component unit, the Utility Debt Securitization Authority (UDSA). The Securitization Law's purpose is to provide the statutory authority for the issuance of restructuring bonds that allowed LIPA to retire approximately \$4.5 billion of its outstanding indebtedness to provide net present value debt service savings. In 2021, LIPA successfully obtained an amendment to the UDSA legislation that permits the issuance of additional securitized bonds for refinancing and allows for borrowing to fund LIPA's T&D system resiliency investments. With these legislative changes the UDSA may issue an initial par up to \$8.0 billion of securitized bonds (inclusive of the bonds already issued). This change allowed LIPA and UDSA to retire an additional \$852 million of its outstanding indebtedness in 2022, bringing the total net present value debt service savings for LIPA's customers to \$534 million. UDSA is considered a blended component unit. The activities of UDSA operations are consolidated with the operations of LIPA for financial reporting purposes.

LIPA contracts to provide the majority of services necessary to deliver electric service in the Service Area. Since 2014, LIPA has contracted with PSEG Long Island LLC (PSEG Long Island), a wholly owned subsidiary of Public Service Enterprise Group (PSEG), for management services, and LIPA provides service to customers under the PSEG Long Island brand name. PSEG Long Island manages day-to-day T&D system operating functions as well as certain administrative support functions. PSEG Long Island acts as agent for LIPA in performing many of its obligations and in return receives (a) reimbursement for pass-through operating expenditures, (b) a fixed management fee, and (c) a variable fee contingent on meeting certain performance metrics. In April 2022, LIPA and PSEG Long Island began operating under a new, reformed contract. See Operational Highlights for a discussion on the approval of the Second Amended and Restated Operations Services Agreement (Second A&R OSA) with PSEG Long Island.

LIPA also has a contract with PSEG Energy Resources and Trade LLC (PSEG ER&T) to provide services related to fuel and power supply management and certain commodity activities. LIPA also maintains power purchase agreements with various third-party power generators.

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LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Management's Discussion and Analysis (Unaudited)

December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

Overview of the Basic Financial Statements

LIPA's basic financial statements are prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The Annual Financial Report for LIPA includes the Basic Financial Statements and the Required Supplementary Information. The Basic Financial Statements consist of the Statements of Net Position, the Statements of Revenue, Expenses, and Changes in Net Position, the Statements of Cash Flows, and the Notes to the Financial Statements (Notes). Following the Basic Financial Statements is LIPA's Required Supplementary Information.

Management's Discussion and Analysis provides an overview of LIPA's financial information for the years ended December 31, 2022 and 2021, with comparative information as of and for the year ended December 31, 2020. Management's Discussion and Analysis should be read in conjunction with the Basic Financial Statements. The Notes are an integral part of LIPA's Basic Financial Statements and provide additional information on certain components of these statements.

The Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.

The Statements of Revenues, Expenses, and Changes in Net Position report all of LIPA's revenues and expenses for the periods shown.

The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income and debt financing, and other cash uses such as payments for debt service and capital additions.

The Notes to the Financial Statements provide additional detailed information to support the Financial Statements.

The Required Supplementary Information is required by GASB to accompany the Basic Financial Statements and includes Management's Discussion and Analysis and information related to LIPA's participation in the New York State and Local Employees' Retirement System.

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Operational Highlights

Second Amended and Restated Operations Services Agreement

Tropical Storm Isaias occurred on August 4, 2020, causing significant damage to LIPA's T&D system and interrupting service to more than half of LIPA's customers. During 2021, LIPA sought organizational and contractual changes through a reformed contract as a result of its investigation of PSEG Long Island's storm response.

A reformed contract, the Second A&R OSA, was approved by LIPA's Board on December 15, 2021, approved by the New York State Attorney General on January 6, 2022, and approved by the State Comptroller on April 1, 2022.

To provide stronger protections for Service Area customers, the Second A&R OSA:

- increases the amount of PSEG Long Island's annual compensation at risk from \$10 million to \$40 million;
- subjects PSEG Long Island to up to 110 detailed Performance Metrics set annually by the Board with a recommendation by the DPS to ensure PSEG Long Island meets the Board's strategic direction for service to customers and industry best practices;
- includes both new and strengthened termination rights and automatic compensation reductions (i.e. default and gating Performance Metrics) for failures to meet minimum emergency response, customer satisfaction, cybersecurity, and reliability standards;
- provides a new DPS investigative process to reduce compensation for failures to provide safe, adequate, and reliable service to customers;
- requires PSEG Long Island to implement plans to fix known operational issues identified by LIPA staff or the DPS, with oversight by the Board;
- strengthens PSEG Long Island's dedicated management team with new positions for Chief Information Officer, Chief Information Security Officer, Vice President for Business Services, Director of Human Resources, and Director of Emergency Response;
- ensures that all Long Island employees report to managers dedicated to Long Island operations and links the compensation for all PSEG Long Island employees to Service Area performance;
- includes a Duty of Candor with a termination right for failure to timely and accurately disclose significant operational issues that impair PSEG Long Island's ability to provide reliable service, emergency response, cybersecurity, financial impairment, noncompliance with laws, or circumstances that may endanger public health, safety, and welfare;
- includes new standards requiring greater long-term planning, transparency, and accountability for delivering projects and services on time and within budget;
- requires PSEG Long Island to demonstrate cost savings or improved service for hiring or retaining PSEG affiliates to perform services for LIPA;
- requires the separation of all LIPA information technology systems from those of PSEG affiliates pursuant to a plan approved by the Board on September 28, 2022;
- provides LIPA with new rights to independently test and validate the performance of mission-critical information technology systems, such as those that failed during Tropical Storm Isaias; and
- eliminates PSEG Long Island's eight-year term extension option; instead, the Second A&R OSA will expire on December 31, 2025.

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New York State Legislative Commission on Future of LIPA

The 2022 New York State budget enacted a Legislative Commission on the Future of LIPA (the Commission) to investigate and report to the State Legislature on establishing a public power model for the management and operations of LIPA. This report is being undertaken in advance of the expiration of LIPA's contract with PSEG Long Island on December 31, 2025.

LIPA has outsourced the day-to-day management of the electric grid since its purchase of the T&D system from LILCO in 1998. The Commission's report is expected to describe matters relevant to the feasibility of establishing a public power management model for LIPA. The Commission held public hearings in late 2022 and early 2023 and is expected to release a draft report to members of the State Legislature in early 2023, to be followed by additional public hearings. The New York State Comptroller will have the discretion to review the draft report and issue recommendations, with a final report expected to be published in late 2023.

LIPA will continue to monitor developments relating to this Commission.

New York State Climate Leadership and Community Protection Act (CLCPA)

The CLCPA, signed in 2019, requires the State to, among other things, achieve a zero-carbon electric grid by 2040 and reduce economy-wide greenhouse gas emissions 85% by 2050. In June 2021, LIPA launched an Integrated Resource Plan (IRP) to develop a path for compliance with the CLCPA. The IRP, scheduled for completion in 2023, will develop plans for electric power resources to meet the State's climate objectives reliably and affordably.

The IRP will identify the key activities and investments that LIPA will need to undertake to meet State objectives and those set by its Board. Objectives include supporting and meeting CLCPA goals; retiring fossil-fueled generation; integrating substantial amounts of renewable energy resources; identifying the impacts of beneficial electrification; and increasing the availability of clean energy technologies in disadvantaged communities.

LIPA's 2023 operating budget includes \$88 million for utility-scale renewable projects, and \$94 million for the energy efficiency and distributed energy program. Furthermore, to continue LIPA's commitment to provide reliable electric service to customers, LIPA's 2023 capital budget of \$862 million includes \$173 million for load growth projects, \$303 million for projects that target improved system reliability, \$83 million for the second phase on LIPA's storm hardening initiatives, and \$91 million for information technology related investments.

Power Plants Under Contract

LIPA contracts for approximately 3,700 megawatts (MW) of capacity (and related energy) from National Grid's legacy fossil-fueled generating plants located on Long Island in an Amended and Restated Power Supply Agreement (A&R PSA) that expires in 2028. LIPA is reviewing certain of these power plants for retirement on or before the expiration of the A&R PSA in 2028, facilitated by the addition of new offshore wind and storage resources.

Under the A&R PSA, LIPA pays the property taxes and PILOTs on the PSA power plants either directly or as a reimbursement to National Grid. To improve affordability and fairness for customers, LIPA sought reductions to such assessments and associated property tax bills in litigation that began in 2010.

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In 2018, LIPA negotiated a settlement with the Town of Brookhaven and the Village of Port Jefferson on the Port Jefferson power plant that will reduce taxes on that facility to approximately half of their 2018 level by 2027. In September 2020, LIPA reached an agreement with the Huntington Town Board and the Northport-East Northport School District for similar reductions for the Northport power plant.

In April 2022, LIPA reached an agreement with Nassau County to settle the E. F. Barrett and Glenwood Landing power plant property tax cases on similar terms to those noted above.

In July 2022, LIPA reached an agreement with the North Shore Central School District, whereby the school district withdrew its appeal of the court decision upholding LIPA's right to file tax challenges for the Glenwood Landing power plant, in exchange for three payments totaling \$3.25 million. In October 2022, LIPA entered into a similar settlement with the Island Park Union Free School District in exchange for five payments totaling up to \$9 million.

These settlements completed the litigation that began in 2010 to reduce legacy power plant assessments and taxes.

Department of Environmental Conservation (DEC) regulations for nitrogen oxide (NOx) air emissions from peaking plants take effect May 1, 2023. National Grid, as owner of certain plants, in consultation with LIPA, identified a strategy for compliance for units under contract to LIPA. As a result, LIPA and National Grid plan to retire five peaking units where retrofits are not cost-effective: two units at Glenwood Landing (15 and 55 MW); one unit at West Babylon (52 MW); and two units at Shoreham (53 and 19 MW). The retirements are expected to take effect in May 2025. In the meantime, the units will operate in compliance with the regulations that are applicable between 2023 and 2025. All remaining National Grid peaking units under contract to LIPA are, or will be, in compliance with the DEC NOx regulations by the May 2023 deadline.

In April 2021, PSEG Long Island issued a Request for Proposals to solicit bids for development of bulk energy storage projects to be located on Long Island under contract to LIPA. The procurement will help LIPA meet its load ratio share of the State's energy storage deployment goal established in the CLCPA, which amounts to approximately 375 MW by 2030. Five projects totaling 329 MW have been selected for competitive negotiation of build-own-transfer contracts, with the projects reverting to LIPA after seven years of operation.

In November 2021, LIPA entered into a five-year capacity agreement with the New York Power Authority (NYPA) intended to enable NYPA to make major repairs to restore the Flynn Power Plant on Long Island. NYPA indicated that wholesale market revenues alone would not support the cost of the necessary repairs and that the plant would be shut down. However, LIPA, together with PSEG Long Island, determined that the plant's capacity is needed to assure system reliability for the next several years in light of the recent outage history for some of LIPA's interties with neighboring utilities.

Certain Litigation Related to Payments in Lieu of Taxes

By statute, LIPA makes PILOTs for real property it acquired from LILCO. Beginning in calendar year 2015, the LIPA Reform Act capped LIPA's PILOT payments to no more than 2% higher than the prior calendar year. In 2017, LIPA received notices from Suffolk County claiming to enforce liens against certain of LIPA properties for alleged unpaid real property taxes. LIPA has paid the PILOT amounts it is authorized to pay by law. LIPA estimated the potential exposure with penalties and interest to be approximately \$90 million plus a potential addition of up to \$30 million per year in the event of an adverse result on appeal. As a regulated entity, LIPA obtained regulatory approval from its Board to defer the recovery of these costs from its customers until the conclusion of the appeal process. LIPA does not believe this litigation will have a material adverse impact on the business or the affairs of LIPA or its subsidiary, LILCO.

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For a full discussion of the litigation issues, see Note 16 of the Notes to the Financial Statements.

COVID-19

In response to the COVID-19 pandemic, LIPA's tariff for electric service was temporarily modified to provide for the suspension of normal collections activity. As a result of the economic impact of the pandemic and delay of service terminations, LIPA has incurred increased customer arrears balances. LIPA increased its allowance for expected write-offs and furthermore, effective in 2021, the Board approved a modification to the Delivery Service Adjustment (DSA) electric rate mechanism to capture budget variances related to uncollectible expense during periods affected by a government-ordered or Board-authorized moratorium on service disconnections and up to two years following the end of such moratorium.

For further discussion of the DSA, see Note 5(d) of the Notes to the Financial Statements.

In April 2022, New York State's budget included \$250 million to eliminate pandemic-related utility arrears accumulated through May 1, 2022 for eligible low-income households (the Phase 1 Forgiveness Program). The Phase 1 Forgiveness Program provided LIPA's low-income customers with approximately \$10 million of credits from State funds, and LIPA funded an additional \$15 million of bill credits through year end 2022.

In January 2023, the New York State Public Service Commission approved additional relief for customers. LIPA similarly implemented a second phase of its residential arrears forgiveness program (the Phase 2 Forgiveness Program) to address the unprecedented amount of past due balances that accumulated during the COVID-19 pandemic through May 1, 2022. Under the Phase 2 Forgiveness Program, all residential customers are eligible for forgiveness of balances owed through May 1, 2022, except for those residential low-income customers that participated in the Phase 1 Forgiveness Program. The arrears to be forgiven were capped at \$2,000 for any individual account. Under the Phase 2 Forgiveness Program, LIPA funded an estimated \$37 million in bill credits. Approximately 39,000 residential customers across Long Island and the Rockaways received bill credits from the Phase 2 Forgiveness Program. Residential customer terminations were suspended through mid-March 2023. A similar program for LIPA's small commercial customers with demands that never exceeded 40 kW or that averaged less than 20 kW over an annual period was made available in February 2023. The bill credits for arrears forgiveness for small commercial customers benefited approximately 750 small commercial customers and totaled approximately \$1.2 million. Credits in excess of State funds are charged against LIPA's reserve for uncollectible expense and to the extent the uncollectible expense exceeds reserves it will be collected through LIPA's DSA, as noted above.

In addition, the Federal Emergency Management Agency (FEMA) declared that federal emergency funds will be available for certain incremental worker health and safety costs during the recovery efforts related to the COVID-19 pandemic. LIPA has been approved for such public assistance; however, as no grant application has been finalized or approved as of December 31, 2022, LIPA's Financial Statements do not include amounts for expected FEMA funds.

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Financial Condition Overview

LIPA's Condensed Statements of Net Position as of December 31, 2022, 2021, and 2020 are summarized below.

		2022	2021	2020
Assets and deferred outflows of resources:				
Capital assets, net	\$	10,453,794	10,414,617	10,313,576
Current assets		2,827,116	2,773,753	2,448,950
Regulatory assets		726,741	1,436,195	1,623,091
Noncurrent assets		874,174	994,447	864,124
Deferred outflows of resources		155,298	173,975	226,254
Total assets and deferred outflows of resources		15,037,123	15,792,987	15,475,995
Liabilities and deferred inflows of resources:				
Long-term debt, net of current maturities		9,164,150	9,140,815	8,756,417
Current liabilities		1,469,178	1,657,813	1,678,869
Regulatory liabilities		351,456	203,635	98,731
Noncurrent liabilities		2,708,750	3,394,906	3,823,714
Deferred inflows of resources		646,257	793,439	580,576
Total liabilities and deferred inflows of resources		14,339,791	15,190,608	14,938,307
Total net position				
Net investment in capital assets		362,168	291,226	213,073
Restricted		166,828	185,169	136,746
Unrestricted		168,336	125,984	187,869
Total liabilities, deferred inflows of resources, and net position	\$	15,037,123	15,792,987	15,475,995

Assets and Deferred Outflows of Resources

2022 Compared to 2021

Assets and deferred outflows of resources decreased \$756 million compared to 2021 due to decreases of \$709 million in regulatory assets, \$120 million in noncurrent assets and \$19 million in deferred outflows of resources. These decreases were partially offset by increases of \$39 million in capital assets, and \$53 million in current assets.

Capital assets, net increased \$39 million compared to 2021 primarily due to higher investment in reliability projects, as well as certain storm hardening projects. These capital additions were partially offset by asset retirements and annual depreciation expense.

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Current assets increased \$53 million compared to 2021 primarily due to increased accounts receivable, combined with increased values on LIPA's short-term portion of its commodity derivative instruments. These increases are partially offset by lower mark-to-market values in the Other Post-Employment Benefits (OPEB) dedicated investment account.

Regulatory assets decreased \$709 million primarily due to a decrease of \$394 million in the Delivery Service Adjustment (DSA) resulting from the FEMA reimbursement of \$276 million for eligible Tropical Storm Isaias restoration costs with the remaining balance a result of the annual DSA rate recovery and a decrease in the deferral resulting from lower storm restoration costs incurred than budgeted amounts. Also contributing to the decrease in regulatory assets was a decrease of \$277 million in the OSA-Employee Retirement Benefits resulting from an updated actuarial study, a decrease of \$81 million in unrealized mark-to-market changes on financial derivative instruments and scheduled annual recovery or amortizations of regulatory assets totaling \$41 million. These decreases were partially offset by an increase of \$54 million in the power supply charge recoverable, and a \$30 million increase in the deferred recovery of costs associated with the estimated potential impact of the Suffolk County property tax litigation. For a full discussion of the regulatory assets and liabilities, see Note 5 of the Notes to the Financial Statements.

Noncurrent assets decreased \$120 million due to the \$111 million of scheduled amortization of the Acquisition Adjustment, a \$29 million market value decrease in the NMP2 decommissioning trust, a \$6 million decrease in prefunding amounts related to LIPA OPEB costs, and a \$2 million decrease in restricted cash. These decreases were partially offset by a \$28 million increase in the long-term portion of the financial and commodity derivative valuations.

Deferred outflows of resources decreased \$18 million primarily due to the scheduled amortization of previously deferred costs associated with refunding of higher cost of debt.

2021 Compared to 2020

Assets and deferred outflows of resources increased by \$317 million compared to 2020 due to increases of \$101 million in capital assets, \$325 million in current assets, and \$130 million in other noncurrent assets. These increases were partially offset by decreases of \$187 million in regulatory assets, and \$52 million in deferred outflows of resources.

Capital assets increased \$101 million compared to 2020 primarily due to higher investment in reliability capital projects, as well as certain storm hardening projects. These capital additions were partially offset by asset retirements and annual depreciation expense.

Current assets increased \$325 million compared to 2020 primarily due to increased investment balances from the unspent proceeds received from the issuance of the Electric System General Revenue Bonds, Series 2021A and Series 2021B, an increase in mark-to-market valuation on commodity derivative instruments maturing within one year, and increased accounts receivable arrears balances resulting from the impacts of the COVID-19 pandemic.

Regulatory assets decreased \$187 million primarily due to a decrease of \$198 million in the OSA-Employee Retirement Benefits resulting from an updated actuarial study, a decrease of \$48 million in unrealized mark-to-market changes on derivative instruments, a decrease of \$26 million on the electric rate Revenue Decoupling Mechanism (RDM), along with scheduled annual recovery or amortizations of regulatory assets totaling \$45 million. These decreases were partially offset by an increase of \$90 million resulting from

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recognition of the deferred recovery of costs associated with the estimated potential impact of the Suffolk County property tax litigation, and an increase of \$40 million in the DSA resulting primarily from deferred storm restoration costs. For a full discussion of the regulatory assets and liabilities, see Note 5 of the Notes to the Financial Statements.

Noncurrent assets increased \$130 million due to the recognition of the \$172 million FEMA receivable related to mitigation reimbursement under the Superstorm Sandy Letter of Understanding, a \$63 million increase in commodity derivative instrument valuations, and an increase of \$20 million in the NMP2 decommissioning trust. These increases were partially offset by \$111 million of scheduled amortization of the Acquisition Adjustment.

Deferred outflow of resources decreased \$52 million primarily due to the accumulated decrease in fair value of the effective financial and commodity derivative instruments.

Liabilities and Deferred Inflows of Resources

2022 Compared to 2021

Liabilities and deferred inflows of resources decreased \$851 million due to decreases of \$686 million in noncurrent liabilities, \$189 million in current liabilities, and \$147 million in deferred inflows of resources. These decreases were partially offset by increases of \$148 million in regulatory liabilities and \$23 million in long-term debt.

Long-term debt, net of current maturities, increased \$23 million as LIPA issued Electric System General Revenue Bonds, Series 2022 totaling \$380 million plus premium of \$31 million, to fund capital improvements and refinance debt. In addition, UDSA issued bonds totaling \$936 million, consisting of \$54 million of Series 2022 Taxable Restructuring Bonds, \$787 million of Series 2022 Tax-Exempt Restructuring Bonds, and \$95 million of Series 2022 Tax-Exempt Green Bonds. The proceeds from these bonds, plus \$91 million of premium received, refunded certain LIPA and UDSA outstanding indebtedness and funded LIPA resiliency investments. The remaining increase is attributable to the accretion of capital appreciation bonds. These increases were partially offset by \$295 million of current debt maturities classified as current liabilities and the scheduled amortization of premium totaling \$112 million.

Current liabilities decreased \$189 million primarily due to a decrease of \$291 million in short-term debt due to repayments of LIPA's Commercial Paper General Revenue Notes in 2022. This decrease was partially offset by an increase of \$52 million in current maturities of long-term debt and lease liabilities, a \$25 million increase in counterparty collateral due to changes in the market value of LIPA's commodity derivative instruments and an increase of \$12 million in accounts payable primarily due to increased cable repairs, with the remaining \$13 million increase due to various higher accruals.

Regulatory liabilities increased \$148 million primarily due to a \$80 million increase in the impact of the updated actuarial study related to the OSA-Employee Retirement Benefits, a \$39 million increase in the RDM due to higher-than-budgeted residential sales, a \$27 million increase in unrealized mark-to-market gains on commodity derivative instruments, and a \$11 million increase in power supply charge refundable related to the clean energy compliance fund. These increases were partially offset a \$7 million decrease in the deferrals related to the Utility 2.0 program and a \$2 million decrease in the DSA. For a full discussion of the regulatory assets and liabilities, see Note 5 of the Notes to the Financial Statements.

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Noncurrent liabilities decreased \$686 million primarily due to a \$356 million amortization of lease liabilities, a \$277 million decrease in the PSEG Long Island's workforce obligation retirement benefits resulting from updated assumptions in the actuarial valuation, a \$90 million decrease in the mark-to-market value of financial derivative instruments, and a \$3 million decrease due to the amortization related to swap instrument premiums. These decreases were partially offset by a \$10 million increase in the NMP2 asset retirement obligation and a \$30 million increase in claims and damages related to the Suffolk County property tax litigation.

Deferred inflows of resources decreased \$147 million primarily due to a decrease in the mark-to-market valuations on OPEB dedicated investment accounts.

2021 Compared to 2020

Liabilities and deferred inflows of resources increased \$252 million due to increases of \$384 million in long-term debt, a \$105 million increase in regulatory liabilities and a \$213 million increase in deferred inflows of resources. These increases were partially offset by a decrease of \$429 million in noncurrent liabilities and \$21 million in current liabilities.

Long-term debt, net of current maturities, increased \$384 million as LIPA issued Electric System General Revenue Bonds Series 2021ABC totaling \$725 million, plus premium of \$97 million, to fund capital projects, refinance variable rate debt, and refund higher cost debt. The refunding produced net present value savings to LIPA's customers of \$46 million. The remaining increase is attributable to the accretion of capital appreciation bonds. These increases were partially offset by the decrease of \$247 million of current debt maturities classified as current liabilities and the scheduled amortization of premium totaling \$82 million.

Current liabilities decreased \$21 million primarily due to a decrease of \$102 million in accounts payable processed related to Tropical Storm Isaias and the change in the mark-to-market value of commodity derivative instruments eliminating the \$34 million liability. These decreases were partially offset by an increase of \$109 million in counterparty collateral related to LIPA's commodity derivative instruments and an increase of \$4 million in current maturities of long-term debt and lease liabilities.

Regulatory liabilities increased \$105 million primarily due to a \$136 million increase in unrealized mark-to-market gains on commodity derivative instruments, an increase of \$3 million in deferrals resulting from the DSA, and a \$2 million increase for distributed energy resources (DER). These increases were partially offset by a \$27 million decrease in the power supply charge balance due to customers, a \$8 million decrease in the RDM, and a \$1 million decrease in the deferrals related to the Utility 2.0 program. For a full discussion of the regulatory assets and liabilities, see Note 5 of the Notes to the Financial Statements.

Noncurrent liabilities decreased \$429 million primarily due to a \$336 million amortization of lease liabilities, a \$112 million decrease in the PSEG Long Island's workforce retirement benefit obligations resulting from updated assumptions (including an increased discount rate), a \$42 million decrease in the mark-to-market value of financial and commodity derivative instruments, a \$22 million decrease due to the termination of three interest rate basis swap instruments that had remaining upfront premium balances, and \$5 million of amortization related to financial swap instrument premiums. These decreases were partially offset by the recognition of the estimated potential impact of the Suffolk County property tax litigation totaling \$90 million.

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Deferred inflows of resources increased \$213 million primarily due to an increase of \$172 million of regulatory credits due to the recognition of the remaining estimated balance of the FEMA Superstorm Sandy mitigation grant, a \$52 million increase in mark-to-market valuations on certain investment accounts, and an increase of \$5 million on LIPA employee pension and OPEB deferred expenses. These increases were partially offset by the amortization of the regulatory grant credits totaling \$16 million.

Results of Operations

LIPA's Condensed Statements of Revenues, Expenses, and Changes in Net Position for the years ended December 31, 2022, 2021, and 2020 are summarized as follows:

	2022	2021	2020
Electric revenue, net of uncollectible accounts expense	\$ 4,279,158	3,930,788	3,900,721
Operating expenses	(3,944,593)	(3,630,026)	(3,641,086)
Interest charges, net	(343,080)	(357,243)	(358,995)
Total operating and interest expenses	(4,287,673)	(3,987,269)	(4,000,081)
Revenue less operating expenses and interest charges, net	(8,515)	(56,481)	(99,360)
Grant income	40,766	39,986	44,871
Other income, net	62,702	81,186	73,309
Total other income, net	103,468	121,172	118,180
Change in net position	94,953	64,691	18,820
Net position, beginning of year	602,379	537,688	518,868
Net position, end of year	\$ 697,332	602,379	537,688

2022 Compared to 2021

Electric operating revenues, net of uncollectible accounts expense, for 2022 totaled \$4.28 billion, an increase of \$348 million compared to 2021 due to increases in the (i) Power Supply Charge (PSC) revenue totaling \$346 million; (ii) base delivery revenues of approximately \$79 million; (iii) miscellaneous revenues primarily driven by the recognition of late payment charges of \$39 million; and (iv) amortization of \$5 million of Utility 2.0 revenue collected in prior periods. These increases were partially offset by a decrease of \$121 million in the DSA primarily due to lower storm costs.

2021 Compared to 2020

Electric operating revenues, net of uncollectible accounts expense, for 2021 totaled \$3.93 billion, an increase of \$30 million compared to 2020 due to increases in the (i) PSC revenue totaling \$210 million; (ii) base delivery revenues of approximately \$63 million; and (iii) amortization of \$15 million of Utility 2.0 revenue collected in prior periods. These increases were partially offset by a decrease of \$248 million in the DSA primarily due to lower storm restoration costs as \$306 million of Tropical Storm Isaias cost was deferred in 2020 and a decrease of \$8 million of DER revenue.

(continued)

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Management's Discussion and Analysis (Unaudited)

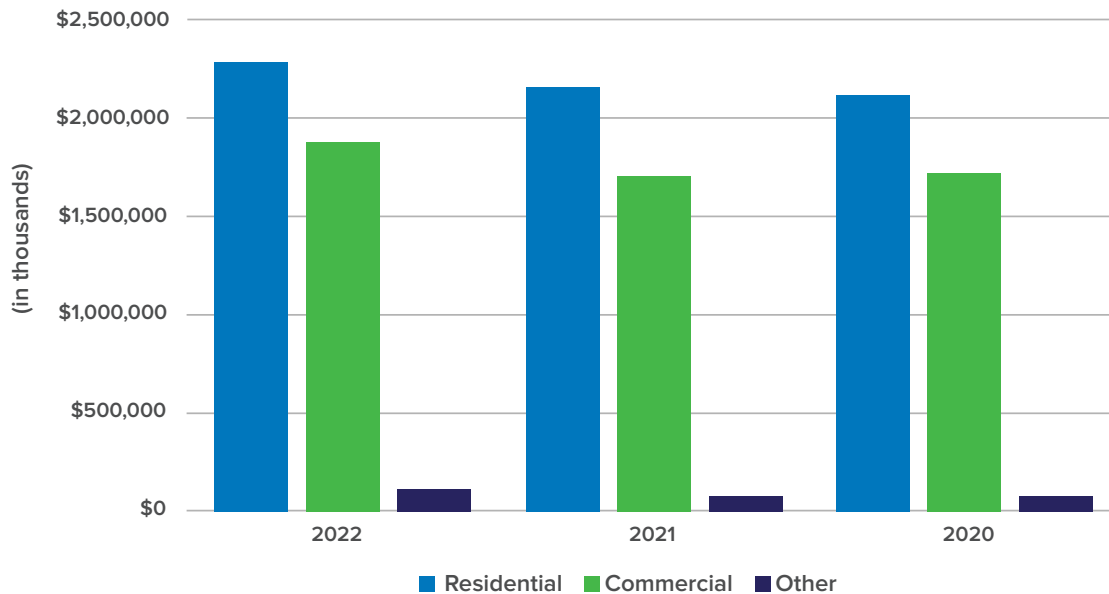
December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

The following table and chart represent revenue for the years ended December 31, 2022, 2021, and 2020 by customer class (residential, commercial, and other):

Revenues from sales of electricity:	2022	2021	2020
Residential	\$ 2,283,553	2,153,778	2,107,710
Commercial	1,881,656	1,700,386	1,715,532
Other	113,949	76,624	77,479
Total revenue, net of uncollectible accounts expense	\$ 4,279,158	3,930,788	3,900,721

Revenues from Sales of Electricity by Customer Class



(continued)

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

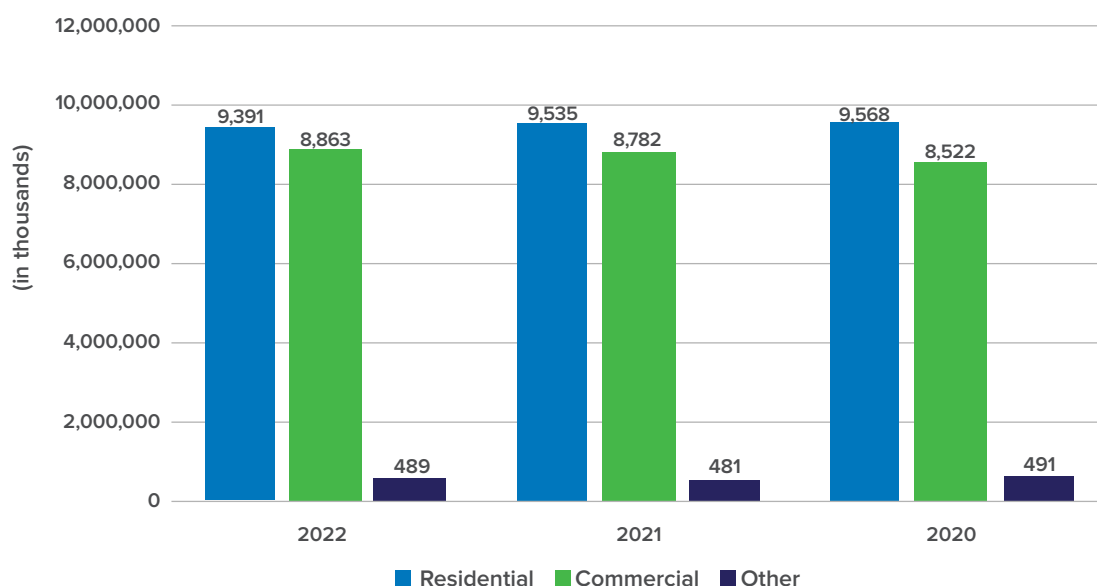
Management's Discussion and Analysis (Unaudited)

December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

The following chart shows megawatt hour (MWh) sales for the years ended December 31, 2022, 2021, and 2020 by customer class (residential, commercial and other). The largest customer in the Service Area (the Long Island Rail Road) accounted for less than 2% of total sales and less than 2% of revenue, and is included in "Other" sales. In addition, the ten largest customers in the Service Area accounted for approximately 7% of total sales and 6% of revenue.

Megawatt Hours from Sales of Electricity by Customer Class



Operating and Interest Charges

For the years ended December 31, 2022, 2021, and 2020, LIPA's expenses were comprised of (i) power supply costs; (ii) operations and maintenance expenses; (iii) PILOTs, other taxes, and assessments (including property taxes on generating assets under contract); (iv) interest charges, net; and (v) depreciation and amortization, as shown below:

Operating and interest charges:	2022	2021	2020
Power supply costs	\$ 2,160,832	1,800,933	1,587,356
Operations and maintenance	792,204	833,750	1,064,052
PILOTs, other taxes, and assessments*	568,760	569,445	568,701
Interest charges, net	343,080	357,243	358,995
Depreciation and amortization	422,797	425,898	420,977
Total	\$ 4,287,673	3,987,269	4,000,081

*Amount for 2022 excludes approximately \$146 million for sales tax revenue collected by LIPA on behalf of local government jurisdictions and remitted to such jurisdictions.

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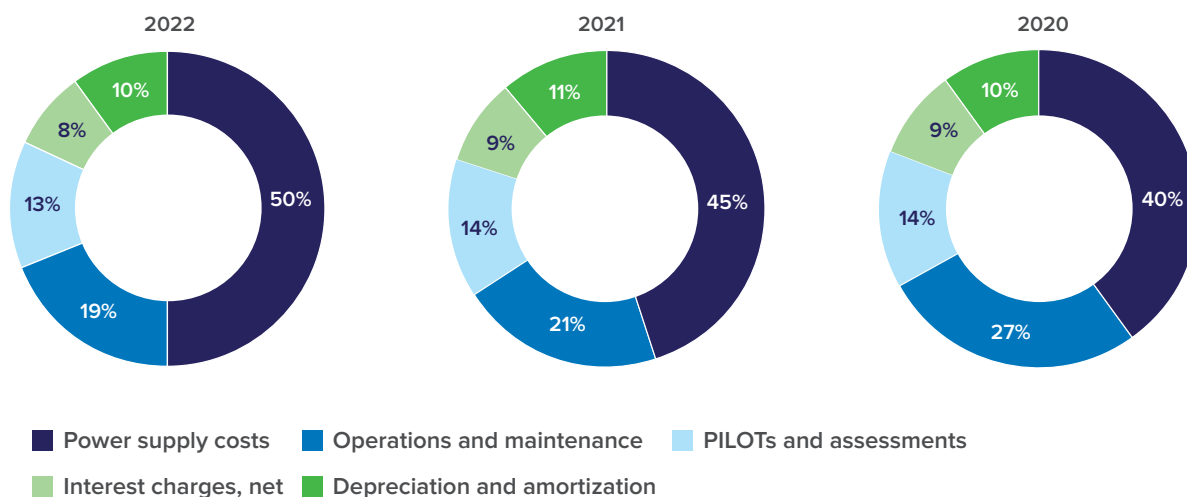
LONG ISLAND POWER AUTHORITY

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2022 Compared to 2021

For the year ended December 31, 2022, operating and interest charges totaled \$4.29 billion, an increase of \$300 million compared to 2021. The increase was primarily due to higher power supply costs of \$360 million. This increase was partially offset by lower (i) operations and maintenance costs of \$43 million from lower storm restoration costs; (ii) interest charges of \$14 million; (iii) depreciation and amortization of \$3 million; and (iv) PILOTs, other taxes, and assessments of \$1 million.

2021 Compared to 2020

For the year ended December 31, 2021, operating and interest charges totaled \$3.99 billion, a decrease of \$13 million compared to 2020. The decrease was primarily due to lower (i) operations and maintenance costs of \$230 million from lower storm restoration costs; and (ii) interest charges of \$2 million. These decreases were partially offset by higher (i) power supply costs of \$213 million; (ii) depreciation and amortization of \$5 million; and (iii) PILOTs, other taxes, and assessments of \$1 million.

Capital Asset and Financing Activities

LIPA's Board financial policy for fiscal sustainability outlines LIPA's goal to provide clean, reliable, and affordable energy through strategies that prudently manage and safeguard LIPA's assets and result in the lowest long-term cost to customers. To achieve this goal, LIPA seeks to decrease its leverage by reducing its debt-to-assets ratio to 70 percent or less by 2030. It also seeks to provide low-cost funding sources such as grants and to minimize borrowing costs with securitization of debt and tax-exempt financing. Consistent with that policy, as shown below, during 2022 LIPA issued \$150 million to refinance certain of its outstanding variable rate bonds. In addition, UDSA issued approximately \$841 million to refund LIPA and UDSA outstanding indebtedness through the issuance of securitization bonds generating net present value savings of \$42 million. In addition, UDSA issued its first Green Bonds totaling \$95 million to support LIPA's resiliency investments. In 2022 and 2021, LIPA and UDSA repaid scheduled debt maturities totaling \$247 million and \$258 million, respectively.

(continued)

LONG ISLAND POWER AUTHORITY

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Below is a summary of the financing activity for LIPA and the UDSA for the years ended December 31, 2022 and 2021. UDSA had no financing activity in 2021.

	Bonds to fund capital projects	Refinancing/ refunding notes or bonds	Interim funding related to Tropical Storm Isaia
2022			
LIPA:			
2022A General Revenue Bonds	\$ 130,360	—	—
2022B General Revenue Bonds	100,000	—	—
2022C General Revenue Bonds	—	150,000	—
UDSA:			
2022T Restructuring Bonds	—	53,585	—
2022TE-1 Restructuring Bonds	—	787,290	—
2022TE-2 Restructuring Bonds (Green Bonds)	94,780	—	—
Total	<u>\$ 325,140</u>	<u>990,875</u>	<u>—</u>
*Tax Exempt (TE)			
2021			
2021 General Revenue Notes	\$ —	—	250,000
2021A General Revenue Bonds	180,755	175,000	—
2021B General Revenue Bonds	175,000	—	—
2021C General Revenue Bonds	—	194,390	—
Total	<u>\$ 355,755</u>	<u>369,390</u>	<u>250,000</u>

For a full discussion on LIPA's debt activities, see Note 12 of the Notes to the Financial Statements.

(continued)

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Management's Discussion and Analysis (Unaudited)

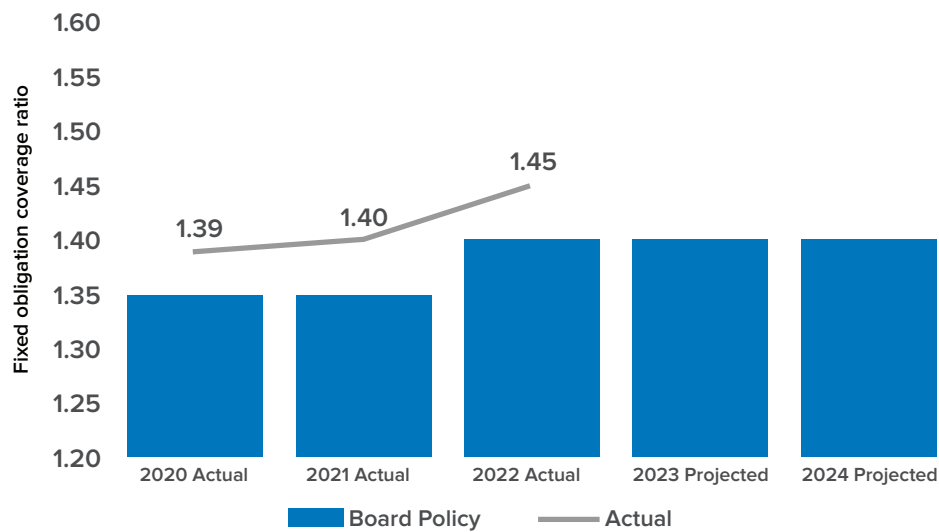
December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

Fixed Obligation Coverage Ratios

LIPA's Board policy on fiscal sustainability provides minimum fixed obligation coverage ratios to be incorporated into revenue requirements when setting rates annually. As shown in the chart below, the LIPA budget was approved to achieve fixed obligation coverage targets on LIPA-issued debt and lease payments of a minimum of 1.40x for 2022 and 1.35x for 2021 and 2020. For 2022, 2021, and 2020, LIPA exceeded its targets by achieving fixed obligation ratios of 1.45x for 2022, 1.40x for 2021, and 1.39x for 2020.

Fixed Obligation Coverage (excluding UDSA debt)



For a full discussion of the fixed obligation coverage ratio calculation, see Note 12(g) of the Notes to the Financial Statements.

(continued)

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Management's Discussion and Analysis (Unaudited)

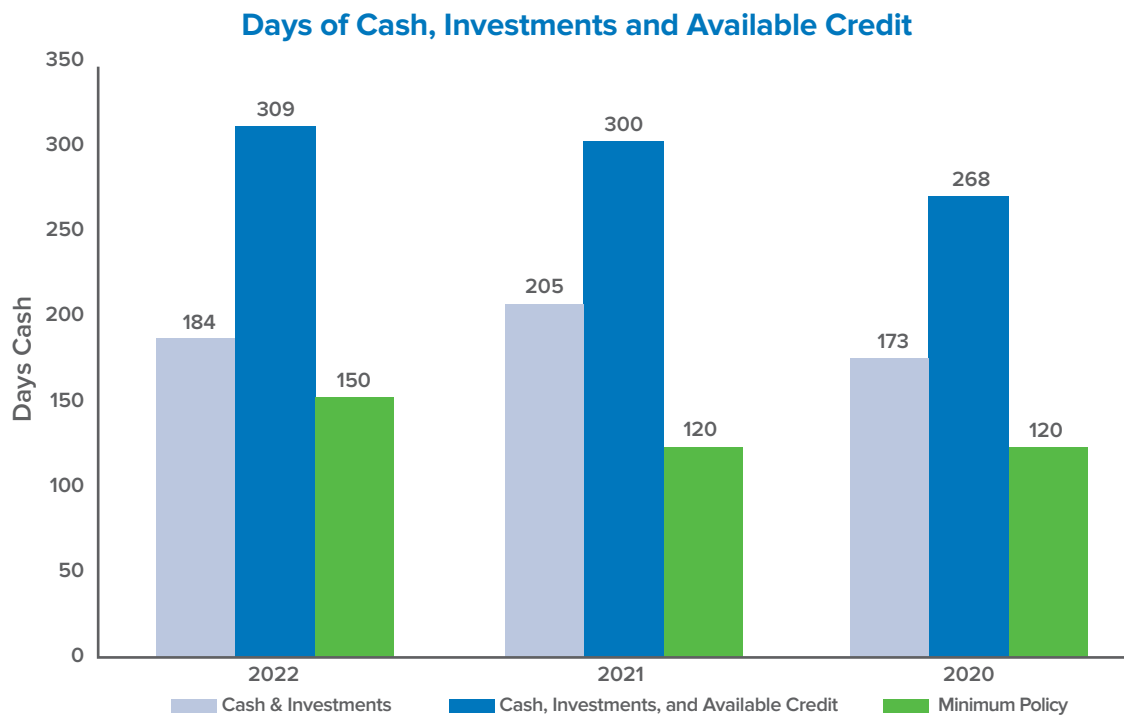
December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

Liquidity and Capital Resources

LIPA's Board policy on fiscal sustainability includes a requirement, among others, to maintain a minimum month-end balance of at least \$100 million in the Operating Fund and \$150 million in the Rate Stabilization Fund. In 2022, LIPA's Board policy was updated to require overall cash, investments, and available credit of at least 150 days of operating expenses whereas prior to 2022, the overall requirement was 120 days.

As of December 31, 2022, 2021, and 2020, LIPA's available sources of liquidity for operating purposes and capital program funding exceeded the policy target with 309 days, 300 days, and 268 days of cash, investments, and available credit, respectively. This represents cash, cash equivalents, investments, and available credit totaling approximately \$2.6 billion, \$2.4 billion, and \$2.2 billion as of December 31, 2022, 2021 and 2020, respectively.



(continued)

LONG ISLAND POWER AUTHORITY

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Management's Discussion and Analysis (Unaudited)

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(Amounts in thousands, unless otherwise stated)

The table below summarizes LIPA's operating liquidity and available credit capacity:

	2022	2021	2020
Operating liquidity			
Unrestricted cash, cash equivalents, and investments	\$ 813,585	785,271	727,395
OPEB Account cash, cash equivalents, and investments	522,648	581,261	475,366
PSEG Long Island working capital requirements	228,312	276,391	202,700
Total operating liquidity	1,564,545	1,642,923	1,405,461
Available credit			
General Revenue Notes – Revolving Credit Facility	200,000	198,000	198,000
General Revenue Notes – Commercial Paper	869,000	580,000	585,000
Total available credit	1,069,000	778,000	783,000
Total cash, cash equivalents, investments, and available credit	<u>\$ 2,633,545</u>	<u>2,420,923</u>	<u>2,188,461</u>
Restricted cash and cash equivalents			
Clean Energy Compliance Fund	\$ 19,548	8,086	4,577
FEMA Grant Proceeds	—	1,740	1,738
UDSA	153,150	111,694	128,833
Total restricted cash and cash equivalents	<u>\$ 172,698</u>	<u>121,520</u>	<u>135,148</u>

Funds included in available cash, cash equivalents, and investments

LIPA's available liquidity balances include accounts dedicated to pre-funding PSEG Long Island's working capital needs totaling approximately \$228 million, \$276 million, and \$203 million, as of December 31, 2022, 2021, and 2020, respectively. This represents approximately 27 operating days of cash as of December 31, 2022. These accounts are owned by LIPA and are available only for LIPA's operating and capital costs. The funds are restricted due to a contractual obligation to pre-fund the accounts from which PSEG Long Island, who acts as agent for LIPA, pays expenses related to operating LIPA's electric system; however, LIPA considers these funds to be part of its working capital as these funds are available to meet its operating and capital needs.

LIPA's available liquidity balance also includes an unrestricted OPEB Account established to pre-fund certain future post-employment retirement obligations for PSEG Long Island employees dedicated to LIPA's operations. These post-employment retirement obligations are a contractual obligation of LIPA. However, in the event that revenues are insufficient to pay reasonable and necessary operating expenses, or to make payments on bonds or parity obligations, these funds are available; as such, they are considered unrestricted cash, cash equivalents, and investments. As of December 31, 2022, 2021, and 2020, the unrestricted OPEB Account had approximately \$523 million, \$581 million, and \$475 million on deposit, respectively. This represents approximately 61 days of cash as of December 31, 2022.

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LONG ISLAND POWER AUTHORITY

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December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

Available credit

LIPA maintains a short-term borrowing program to provide resources to meet interim working capital needs, fund its capital program between long-term debt offerings, and meet any cash flow requirements from severe weather events. Among other factors, LIPA's operating and capital needs vary during the year given the summer peaking and seasonal nature of its sales. As of December 31, 2022 and 2021, the maximum outstanding total short-term borrowings may not exceed \$1.2 billion which was increased from \$1.0 billion in 2020, as LIPA's Board authorized a \$200 million increase to provide for interim funding associated with costs of storm hardening system improvements.

The outstanding balance of LIPA's short-term borrowings totaled \$131 million, \$422 million and \$417 million as of December 31, 2022, 2021, and 2020 respectively. The short-term borrowing programs are supported by bank agreements with various expiration dates from 2023 through 2027. Management renews or replaces the bank agreements as needed prior to their expiration. LIPA believes it will have sufficient liquidity to meet its planned operating, maintenance, and capital programs.

Restricted cash, cash equivalents, and investments

LIPA's restricted cash, cash equivalents, and investments as of December 31, 2022, 2021, and 2020, was \$173 million, \$121 million, and \$135 million, respectively. Restricted cash and cash equivalents includes amounts related to UDSA debt service payments and required debt service and operating reserves of \$153 million, \$112 million, and \$129 million, as of December 31, 2022, 2021, and 2020, respectively. The remaining balance is related to the amounts collected for the Clean Energy Compliance Fund. Restricted funds are not included in the days cash calculation.

(continued)

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Management's Discussion and Analysis (Unaudited)

December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

Risk Management

LIPA has a dedicated Enterprise Risk Management group to identify operating and other risks within each business unit and assist management in ongoing risk monitoring and mitigation. The risk management activities are overseen by an Enterprise Risk Management Committee (ERMC). LIPA also hedges its interest rate exposure through certain interest rate derivative instruments that are approved by the ERMC based on the Board policy established for interest rate exchange agreements.

As part of risk management, LIPA established a power supply risk management hedging program to mitigate a portion of its exposure to fluctuations in commodity prices on behalf of its customers. These activities are overseen by a Power Supply Risk Management Committee (PRMC).

Bond Ratings

LIPA's credit ratings are A2 (Stable) by Moody's Investors Service (Moody's), A (Stable) by Standard and Poor's Global Ratings (S&P), and A (Positive) by Fitch Ratings (Fitch). The Board's policy on fiscal sustainability has resulted in four upgrades to LIPA's credit ratings since 2013 and a change to a "positive outlook" by Fitch in 2021.

Rating Agency	2022	2021	2020
Moody's	A2 (Stable)	A2 (Stable)	A2 (Stable)
S&P	A (Stable)	A (Stable)	A (Stable)
Fitch	A (Positive)	A (Positive)	A (Stable)

For the years ended December 31, 2022, 2021 and 2020, the UDSA bonds were rated Aaa (sf) by Moody's and AAA (sf) by S&P and Fitch, excluding Series 2022, for which UDSA did not apply for a Fitch rating.

Certain bonds and notes of LIPA are supported by either a bank letter of credit or are insured against default.

Contacting the Long Island Power Authority

This financial report is designed to provide LIPA's bondholders, customers, and other interested parties with a general overview of LIPA's finances and to demonstrate its accountability for the funds it receives. If you have any questions about this report or need additional information, contact LIPA at 333 Earle Ovington Blvd., Suite 403, Uniondale, New York 11553, or visit LIPA's website at www.lipower.org.

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Statements of Net Position
December 31, 2022 and 2021

(Amounts in thousands)

Assets and Deferred Outflows of Resources	2022	2021
Current assets:		
Cash and cash equivalents	\$ 609,960	258,903
Restricted cash – working capital requirements	120,724	156,163
Restricted cash – UDSA	153,150	111,694
Investments	726,273	1,107,629
Restricted investments – working capital requirements	127,136	128,314
Accounts receivable (less allowance for uncollectible accounts of \$56,324 and \$62,184 at December 31, 2022 and December 31, 2021, respectively)	654,786	611,991
Other receivables	52,755	60,378
Fuel inventory	135,846	127,595
Material and supplies inventory	87,346	71,561
Commodity derivative instruments	97,435	73,309
Regulatory assets to be recovered within one year	156,314	214,831
Prepayments and other current assets	61,705	66,216
Total current assets	2,983,430	2,988,584
Noncurrent assets:		
Restricted cash and cash equivalents	—	1,740
Utility plant and property and equipment, net	10,453,794	10,414,617
Nuclear decommissioning trust fund (NDTF)	155,368	184,236
Other long-term receivables	189,997	197,190
Unrealized charges	4,833	4,026
Financial derivative instruments	25,457	354
Commodity derivative instruments	66,006	63,014
Regulatory assets for future recovery	570,427	1,221,364
Acquisition adjustment (net of accumulated amortization)	432,513	543,887
Total noncurrent assets	11,898,395	12,630,428
Total assets	14,881,825	15,619,012
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	138,391	164,200
OPEB expense	3,511	81
Pension expense	2,509	3,045
Accumulated decrease in fair value of financial derivatives	—	6,649
Accumulated decrease in fair value of NDTF	10,887	—
Total deferred outflows of resources	155,298	173,975
Total assets and deferred outflows of resources	\$ 15,037,123	15,792,987

See accompanying Notes to the Financial Statements

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Statements of Net Position
December 31, 2022 and 2021

(Amounts in thousands)

Liabilities, Deferred Inflows of Resources and Net Position	2022	2021
Current liabilities:		
Short-term debt	\$ 131,000	422,000
Current maturities of long-term debt	30,115	69,735
Current maturities of UDSA debt	264,660	177,511
Current portion of lease liabilities	353,069	348,638
Counterparty collateral – held by LIPA	134,343	109,035
Accounts payable and accrued expenses	444,205	431,939
Regulatory liabilities payable in one year	186,097	140,621
Accrued payments in lieu of taxes	18,021	11,485
Accrued interest	59,556	57,079
Customer deposits	34,209	30,391
Total current liabilities	1,655,275	1,798,434
Noncurrent liabilities:		
Long-term debt, net	5,291,235	5,301,796
Long-term UDSA debt, net	3,872,915	3,839,019
Lease liabilities	1,766,186	2,121,921
Borrowings	30,464	34,739
Operations Services Agreement – employee retirement benefits	536,578	813,362
Financial derivative instruments	47,566	137,554
Regulatory liabilities for future payment	165,359	63,014
Asset retirement obligation	106,439	90,746
Long-term liabilities and unrealized credits	35,503	41,125
Claims and damages	186,014	155,459
Total noncurrent liabilities	12,038,259	12,598,735
Total liabilities	13,693,534	14,397,169
Deferred inflows of resources:		
Regulatory credits – grants	608,788	626,460
Lease revenue	3,161	9,258
OPEB expense	2,440	5,369
Pension expense	2,868	2,900
Accumulated increase in fair value of financial derivatives	25,457	—
Accumulated increase in fair value of OPEB dedicated account	3,543	123,243
Accumulated increase in fair value of NDTF	—	26,209
Total deferred inflows of resources	646,257	793,439
Net position:		
Net investment in capital assets	362,168	291,226
Restricted	166,828	185,169
Unrestricted	168,336	125,984
Total net position	697,332	602,379
Total liabilities, deferred inflows of resources, and net position	\$ 15,037,123	15,792,987

See accompanying Notes to the Financial Statements

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2022 and 2021

(Amounts in thousands)

	2022	2021
Operating revenues – electric sales, net of uncollectible accounts expense	\$ 4,279,158	3,930,788
Operating expenses:		
Operations – power supply charge	2,160,832	1,800,933
Operations – power supply charge – property taxes	208,715	222,549
Operations and maintenance	719,626	656,852
Storm restoration	32,520	138,731
General and administrative	40,058	38,167
Depreciation and amortization	422,797	425,898
Payments in lieu of taxes and assessments	360,045	346,896
Total operating expenses	3,944,593	3,630,026
Operating income	334,565	300,762
Nonoperating revenues and expenses:		
Other income, net:		
Investment income, net	32,649	25,407
Grant income	23,399	23,788
Other	4,561	26,082
Subtotal	60,609	75,277
Nuclear decommissioning trust fund income	7,928	10,360
Deferred grant income amortization	17,367	16,198
Carrying charges on regulatory assets	17,564	19,337
Subtotal	42,859	45,895
Total other income, net	103,468	121,172
Interest charges and (credits):		
Interest on debt	375,466	366,534
Other interest	27,875	41,940
Other interest amortizations	(60,261)	(51,231)
Total interest charges, net	343,080	357,243
Change in net position	94,953	64,691
Net position, beginning of year	602,379	537,688
Net position, end of year	\$ 697,332	602,379

See accompanying Notes to the Financial Statements

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

(Amounts in thousands)

	2022	2021
Cash flows from operating activities:		
Operating revenues received	\$ 4,656,062	4,124,284
Payments to suppliers and employees:		
Operations and maintenance	(615,496)	(721,220)
Operations – power supply charge	(1,959,819)	(1,626,641)
Operations – power supply charge – property tax related	(208,715)	(222,549)
Payments-in-lieu-of-taxes	(521,664)	(495,970)
Collateral on commodity derivative transactions, net	25,308	180,669
PSEG Long Island pension funding	(30,000)	(37,400)
Net cash provided by operating activities	<u>1,345,676</u>	<u>1,201,173</u>
Cash flows from investing activities:		
Earnings received on investment income	8,979	655
Sales and maturities of investment securities	322,742	—
Sale of restricted investment securities – working capital investments	1,178	798
Purchase of investment securities	—	(65,374)
Purchase of investment securities – OPEB Account	(36,300)	(40,422)
Net cash provided by (used in) investing activities	<u>296,599</u>	<u>(104,343)</u>
Cash flows from noncapital financing related activities:		
Grant proceeds	303,238	30,330
Proceeds from credit facility draws and commercial paper program	935,000	1,275,000
Redemption of credit facility draws and commercial paper program	(1,226,000)	(1,270,000)
Proceeds from the issuance of long-term debt	—	254,187
Interest paid - LIPA	(2,500)	(1,250)
Net cash provided by noncapital financing related activities	<u>9,738</u>	<u>288,267</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(679,500)	(729,979)
Lease payments	(386,989)	(388,414)
Proceeds from the issuance of long-term debt	1,458,197	822,216
Proceeds from termination of financial derivatives	8,257	—
Payments for debt issuance costs	(9,122)	(5,788)
Other interest costs	(27,144)	(42,142)
Interest paid – LIPA	(169,955)	(151,771)
Redemption of long-term debt – LIPA	(69,735)	(78,610)
Payments to bond escrow agent to refinance bonds	(367,504)	(193,656)
Early defeasance of long-term debt – LIPA	—	(196,201)
Early defeasance of long-term debt – UDSA	(702,279)	—
Interest paid – UDSA	(173,394)	(187,969)
Redemption of long-term debt – UDSA	(177,511)	(179,419)
Net cash used in capital and related financing activities	<u>(1,296,679)</u>	<u>(1,331,733)</u>
Net increase in cash and cash equivalents	355,334	53,364
Cash and cash equivalents at beginning of year	528,500	475,136
Cash and cash equivalents at end of year	<u>\$ 883,834</u>	<u>528,500</u>

See accompanying Notes to the Financial Statements

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

(Amounts in thousands)

	2022	2021
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 334,565	300,762
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	422,797	425,898
Other post-employment benefits, non-cash expense	42,906	45,825
Nuclear fuel burned	10,176	9,518
Shoreham and VBA surcharges	52,275	52,081
Accretion of asset retirement obligation	4,915	3,925
Changes in operating assets and liabilities:		
Accounts receivable, net of allowance for uncollectible accounts	(27,973)	(221,666)
Regulatory assets and liabilities	779,986	214,704
Fuel and material and supplies inventory	(24,036)	(21,377)
Accounts payable, accrued expenses, and other	(249,935)	391,503
Net cash provided by operating activities	<u>\$ 1,345,676</u>	<u>1,201,173</u>

See accompanying Notes to the Financial Statements

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Notes to the Financial Statements

December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

(1) Nature of Operations

The Long Island Power Authority (LIPA) is the owner of the electric transmission and distribution (T&D) system located in the Counties of Nassau and Suffolk (with certain limited exceptions) and a portion of Queens County known as the Rockaways (Service Area) and is responsible for supplying electricity to customers within the Service Area. LIPA also owns an undivided 18% interest in the Nine Mile Point Unit 2 (NMP2) generating facility, located in upstate New York.

LIPA was established as a corporate municipal instrumentality of the State of New York (State), constituting a political subdivision, created by Chapter 517 of the Laws of 1986 (the LIPA Act). As such, it is a component unit of the State and is included in the State's annual financial statements.

LIPA is subject to the LIPA Reform Act (Reform Act) which was passed and codified as Chapter 173, Laws of New York on June 21, 2013, by the New York State Assembly and Senate. The Reform Act is divided into two parts, Part A and Part B.

Part A of the Reform Act addressed the organization of LIPA and Part B, referred to as the Securitization Law, created the Utility Debt Securitization Authority (UDSA). The Securitization Law provided a legislative foundation for the UDSA to issue restructuring bonds to allow LIPA to retire a portion of its outstanding indebtedness, providing debt service savings to LIPA's customers on a net present value basis. In 2020, LIPA sought a change to permit the UDSA to issue additional securitized bonds for refinancing, storm hardening, and resiliency purposes. The legislation authorizing the change was signed into law on August 2, 2021. With these legislative changes, the UDSA may issue an initial par up to \$8.0 billion of securitized bonds, inclusive of the bonds already issued.

The UDSA has a governing body separate from that of LIPA and has no commercial operations. For a further discussion on the UDSA, see Note 4.

LIPA has operating agreements with service providers to provide the majority of services necessary to serve LIPA's customers and has power purchase agreements to meet the majority of its power supply needs. Below is a summary of LIPA's primary operating agreements:

Second Amended and Restated Operations Services Agreement (Second A&R OSA): Effective January 1, 2014, PSEG Long Island LLC (PSEG Long Island), a wholly owned subsidiary of Public Service Enterprise Group (PSEG), fully dedicated to LIPA's Long Island operations, provides operations, maintenance, and related services for the T&D system under the Operations Services Agreement.

In April 2022, LIPA and PSEG Long Island began operating under a new, reformed contract, the Second Amended and Restated Operations Services Agreement. This reformed contract increases the amount of PSEG Long Island's annual compensation at risk from \$10 million to \$40 million; subjects PSEG Long Island to up to 110 detailed Performance Metrics set annually by the Board with a recommendation by the DPS to ensure PSEG Long Island meets the Board's strategic direction for service to customers and industry best practices; includes both new and strengthened termination rights and automatic compensation reductions (i.e. default and gating Performance Metrics) for failures to meet minimum emergency response, customer satisfaction, cybersecurity, and reliability standards; provides a new DPS investigative process to reduce compensation for failures to provide safe, adequate, and reliable service to customers; requires PSEG Long Island to implement plans to fix known operational issues identified by LIPA staff or the DPS, with oversight by the Board; strengthens PSEG Long Island's dedicated management team with new positions for Chief Information Officer, Chief Information Security

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Officer, Vice President for Business Services, Director of Human Resources, and Director of Emergency Response; ensures that all Long Island employees report to managers dedicated to Long Island operations and links the compensation for all PSEG Long Island employees to Service Area performance; includes a Duty of Candor with a termination right for failure to timely and accurately disclose significant operational issues that impair PSEG Long Island's ability to provide reliable service, emergency response, cybersecurity, financial impairment, noncompliance with laws, or circumstances that may endanger public health, safety, and welfare; includes new standards requiring greater long-term planning, transparency, and accountability for delivering projects and services on time and within budget; requires PSEG Long Island to demonstrate cost savings or improved service for hiring or retaining PSEG affiliates to perform services for LIPA; requires the separation of all LIPA information technology systems from those of PSEG affiliates pursuant to a plan approved by the Board on September 28, 2022; provides LIPA with new rights to independently test and validate the performance of mission-critical information technology systems, such as those that failed during Tropical Storm Isaias; and eliminates PSEG Long Island's eight-year term extension option; instead, the Second A&R OSA will expire on December 31, 2025. The reformed contract was approved by LIPA's Board on December 15, 2021, approved by the New York State Attorney General on January 6, 2022, and was approved by the State Comptroller on April 1, 2022.

During the years ended December 31, 2022 and 2021, PSEG Long Island was paid a management fee totaling approximately \$57 million and \$68 million, respectively. For 2021, PSEG Long Island earned an incentive fee totaling \$9 million. For 2022 under the reformed contract, PSEG Long Island may earn variable compensation of up to approximately \$20 million, which will be determined by June 2023.

Amended and Restated Power Supply Agreement (A&R PSA): The A&R PSA, which became effective on May 28, 2013, is the successor agreement to the original PSA between National Grid and LIPA. The A&R PSA provides for the sale to LIPA by National Grid of all the capacity, energy, and ancillary services from the oil and gas-fired generating plants on Long Island formerly owned by the Long Island Lighting Company (LILCO). Sales are at cost-based rates, based on wholesale rates regulated by the Federal Energy Regulatory Commission (FERC), which may be modified in accordance with the terms of the A&R PSA for: (i) agreed upon labor and expense indices applied to the base year; (ii) a return of and return on net capital additions, which require approval by LIPA; and (iii) certain reasonably incurred expenses that are outside of the control of National Grid. The annual capacity charge in 2022 and 2021 was approximately \$437 million and \$464 million, respectively. The variable charge under both the PSA and A&R PSA is constant at \$0.90 per megawatt hour of electric energy generated by the plants.

The A&R PSA has provisions for penalties in the event that annual guarantees for heat rate and unforced capacity are not met. No penalties were assessed in either 2022 or 2021.

In addition, LIPA is party to several power purchase agreements with other third-party generators for approximately 1,800 megawatts of capacity and related products.

Fuel Management Agreement and Power Supply Management Agreement: PSEG Energy Resources and Trade LLC (PSEG ER&T) provides fuel management services for both the National Grid generating facilities under contract by LIPA and the other units in LIPA's energy supply portfolio. Certain other services related to power supply management and commodity activities are also provided by PSEG ER&T. During the years ended December 31, 2022 and 2021, PSEG ER&T was paid a management fee totaling approximately \$19 million for each year. The agreements with PSEG ER&T expire December 31, 2025.

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(2) Summary of Significant Accounting Policies

(a) Reporting Entity

LIPA complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). LIPA's financial statements report certain transactions in accordance with GASB Codification Section RE10, *Regulated Operations* which requires that the effects of the rate-making process be recorded in the financial statements.

LIPA's reporting entity is comprised of itself and (i) its operating subsidiary, LILCO, a wholly owned subsidiary of the Long Island Power Authority, doing business as LIPA; and (ii) the UDSA, as blended component units. All significant transactions between LIPA, LILCO, and UDSA have been eliminated.

In 2017, LIPA established a legally separate trust under Section 115 of the Internal Revenue Code known as the Long Island Power Authority OPEB Trust (OPEB Trust) to fund LIPA's Other Post-Employment Benefit Plan (OPEB) which provides health care benefits to LIPA's qualified retired employees. For further discussion, see Note 11 (f).

(b) Estimates

The accompanying financial statements were prepared in conformity with U.S. generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period as well as the reported amounts of assets and liabilities, including disclosure of contingent assets and liabilities, through the date of the financial statements. Actual results could differ from those estimates.

(c) Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

(d) Cash, Cash Equivalents, and Investments (including Restricted)

Cash and cash equivalents, and restricted cash and cash equivalents, include all highly liquid financial instruments with a maturity of three months or less when purchased.

Funds held by LIPA are administered in accordance with LIPA's investment policies pursuant to Section 2925 of the New York State Public Authorities Law. These policies comply with the New York State Comptroller's investment guidelines for public authorities. Investments' carrying values are reported at fair market value.

Certain amounts have been restricted for specific purposes. For a further discussion, see Note 11(b).

(e) Counterparty Collateral

LIPA and certain of its counterparties require collateral posting for mark-to-market valuations that exceed established credit limits. As of December 31, 2022 and 2021, LIPA held approximately \$134 million and \$109 million, respectively, of collateral posted by counterparties, which is recorded as a current liability.

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(f) Material and Supplies Inventory

The material and supplies inventory supports the operations and maintenance of the T&D system. The inventory is accounted for on a weighted average cost basis of accounting.

LIPA also owns 18% of the material and supplies inventory needed to support the operation of the NMP2 nuclear power station. As of December 31, 2022 and 2021, the value of the NMP2 inventory totaled approximately \$14 million and \$13 million, respectively.

(g) Other Receivables and Other Long-Term Receivables

The current portion of other receivables is comprised primarily of non-electric billings such as insurance damage claims.

The noncurrent portion of other long-term receivables are comprised primarily of (i) the balance of the Federal Emergency Management Agency (FEMA) public assistance mitigation grant; (ii) the net present value of the reimbursable costs to construct the interconnection facilities related to the Neptune cable, which is to be paid to LIPA over a 20-year period that commenced in 2007; and (iii) a receivable resulting from a long-term land lease.

(h) Acquisition Adjustment

The Acquisition Adjustment, an intangible asset, represents the difference between the purchase price paid and the net assets acquired from LILCO. The Acquisition Adjustment is being amortized on a straight-line basis through 2026 totaling \$111 million annually.

(i) Lease Liabilities

The lease liabilities represent the net present value of various contracts including capacity and/or energy of certain generation and transmission facilities, fleet vehicles, and certain facilities. The capacity and energy contracts are recognized in power supply expense in an amount equal to the contract payment of the leases, as allowed through the rate-making process. The value of the asset and the obligation is reduced each month to properly reflect the remaining net present value of the asset and obligation. The fleet vehicle and facility leases are recognized in operating expense in an amount equal to the contract payment of the agreement consistent with LIPA's rate-making process.

(j) Fuel Inventory

LIPA owns the fuel oil used in the generation of electricity at the facilities under contract. Fuel inventory represents the value of low sulfur residual oil and other liquid fuels that LIPA had on hand at each year-end. Fuel inventory is valued using the weighted average cost method. At the time of consumption, an expense is recorded at the weighted average cost.

(k) Borrowings

Borrowings represent the unamortized balance of cash premiums received at the time of entering into certain financial derivative instruments. LIPA is amortizing such premiums over the life of the instrument in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB Statement No. 53).

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(l) Commodity and Financial Derivative Instruments

Commodity and financial derivative instruments represent the amount LIPA estimates it would receive or be required to pay in order to terminate its commodity and financial derivative instruments, which approximates fair value.

(m) Long-Term Liabilities and Unrealized Credits

Long-term liabilities and unrealized credits consist primarily of the advance deposits related to construction.

(n) Claims and Damages

Losses arising from claims including workers' compensation claims, property damage, property tax litigation and general liability claims are partially self-insured. Reserves for these claims and damages are established if it is probable that a loss has been incurred and the amount can be reasonably estimated.

(o) Revenues

Operating revenues are comprised of cycle billings for electric service rendered to customers based on meter reads and the accrual of revenues for electric service rendered to customers not billed at year-end. LIPA accrues unbilled revenues by estimating unbilled consumption at the customer meter. Unbilled revenues totaled \$204 million and \$187 million as of December 31, 2022 and 2021, respectively.

LIPA recognizes an estimate for uncollectible accounts for its receivables related to electric service based upon its historical experience with collections; however, during the year ended December 31, 2022 and 2021, the economic impact of the COVID-19 pandemic was also considered in forward-looking projections related to uncollectible rates and resulted in increases to the allowance for uncollectible accounts. LIPA records bad debts for its estimated uncollectible accounts related to electric service as a reduction to related operating revenues in the Statements of Revenues, Expenses, and Changes in Net Position.

(p) Depreciation and Amortization

The provisions for depreciation for utility plant result from the application of straight-line rates determined by age life studies of assets in service. The rates are applied to groups of depreciable properties. The average composite depreciation rates were 2.93% and 3.14% for 2022 and 2021, respectively. Property and equipment are being depreciated over its estimated useful life using the straight-line method.

Separately, leasehold improvements are being amortized over the lesser of the life of the assets or the term of the lease, using the straight-line method. Lease assets are being amortized over the term of the lease using the effective interest rate method to be consistent with the amortization of the related obligation.

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The following estimated useful lives are used for utility property:

Category	Useful Life
Generation – nuclear	46–54 years
Transmission and distribution	40–75 years
Common	5–55 years
Nuclear fuel in process and in reactor	6 years
Generation assets under lease	10–25 years

(q) Asset Retirement Obligations (ARO)

Exelon, NMP2's majority shareholder, is a FASB reporting entity and as such LIPA estimated its ARO in accordance with FASB Accounting Standards Codification (ASC) 410, *Asset Retirement and Environmental Obligations* (FASB ASC 410). LIPA recorded its 18% share of accretion expense and change due to updates from Exelon's annual review and analysis of the NMP2 ARO. The 2022 analysis resulted in increasing LIPA's share of the NMP2 ARO liability by approximately \$11 million. The change was attributable to the increase in the treasury rate during 2022. This increase had no impact on LIPA's operating results as amounts were reclassified from deferred prior year downward adjustments. The NMP2 plant has a remaining license term to 2046. The ARO is continually reviewed for adequacy and any necessary changes are updated annually.

LIPA also has a legal obligation to remove certain of its contracted undersea cables in its transmission agreements. Removal of undersea cables pose many potential environmental issues and removal of such cables are rarely completed. Since the timing and extent of any potential asset retirement is unknown, the fair value of any obligations associated with such removal cannot be reasonably estimated.

A summary of LIPA's ARO activity for the years ended December 31, 2022 and 2021 is included below:

	2022	2021
Asset retirement obligation:		
Balance at January 1	\$ 90,746	70,766
Change due to updates	10,778	16,055
Accretion expense	4,915	3,925
Balance at December 31	\$ 106,439	90,746

(r) Long-Lived Assets

Long-lived assets and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that there is a significant unexpected decline in the service utility of a capital asset. There were no impairment charges recognized in 2022 or 2021.

(s) Payments-in-Lieu-of-Taxes

LIPA makes payments-in-lieu-of-taxes (PILOTs), including for gross income, property, and the Metropolitan Transportation Authority. In addition, LIPA has entered into various PILOT arrangements for property it owns, upon which generation plants have been built.

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(t) Income Taxes

LIPA is a political subdivision of the State and, therefore, is exempt from Federal, state, and local income taxes.

(u) Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB Statement No. 72), establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, this information might not be available.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as described below:

Level 1 – measurements that use quoted or published prices (unadjusted) for identical assets or liabilities in active markets that LIPA has the ability to access at the measurement date.

Level 2 – measurements other than quoted or published prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – measurements that use unobservable inputs for an asset or liability. In some valuations, the inputs used may fall into different levels of hierarchy. In these cases, the financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For a further discussion on the fair value hierarchy levels of LIPA's derivatives and investments, see Notes 8 and 11.

(v) Recent Accounting Pronouncements Not Yet Adopted

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, defines a subscription-based technology arrangement as a contract that conveys control of the right to use a vendor's software, alone or in combination with tangible capital assets, requiring governments to recognize a right-to-use subscription asset and a corresponding subscription liability. The requirements of this Statement are effective for periods beginning after June 15, 2022.

GASB Statement No. 101, *Compensated Absences*, requires that liabilities for compensated absences be recognized for (i) leave not used and (ii) leave that has been used but not yet paid in cash or settled through noncash means. The requirements of this Statement are effective for periods beginning after December 15, 2023.

LIPA is currently evaluating the impact of statements effective for future periods on the accompanying financial statements.

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(3) Rate Matters

LIPA is empowered by the LIPA Act to set rates for electric service in its Service Area without being required to obtain the approval of the DPS or any other State regulatory body. The LIPA Act requires that any bond resolution of LIPA contain a covenant that it will at all times maintain rates, fees, or charges sufficient to pay the costs of: operation and maintenance of facilities owned or operated by LIPA; PILOTs; renewals, replacements, and capital additions; and the principal of, and interest on, any obligations issued pursuant to such resolution as the same become due and payable. In addition, LIPA must establish or maintain reserves or other funds or accounts required or established by or pursuant to the terms of such resolution.

In 2013, the Reform Act established a rate review process that required LIPA and PSEG Long Island submit for review to DPS a three-year rate proposal for rates and charges that took effect on January 1, 2016. Subsequent to the rate proposal period, LIPA and PSEG Long Island are required to submit a proposed rate increase for DPS review if it would increase the rates and charges by an amount that would increase LIPA's annual revenues by more than 2.5%. LIPA's Board retains final rate-setting power. LIPA's annual base rate increase has not exceeded the 2.5% threshold since the three-year rate plan expired at the end of 2018; therefore, no such rate proposal has been submitted to the DPS, although LIPA provides DPS with its budgets and rate adjustments.

LIPA has a cost reconciliation mechanism, referred to as the Delivery Service Adjustment (DSA), to reconcile certain specified budgeted costs to actual costs in each year. The DSA provides cost recovery or refunding of overcollections for certain items that vary due to external factors, including: debt service (variances in interest rates and capital expenditures), storm restoration expenditures (variances from the budget for storm restoration expenses), non-storm emergency costs, bad debt expense, and PSEG Long Island pension and OPEBs. For debt service, any differences between the actual payments and the amount included in the approved budget and approved delivery rates are charged or refunded to customers in the following year, including an allowance for fixed obligation coverage at the factor specified in the Board's financial policy. For storm restoration expenditures, if actual storm restoration costs to be recovered from customers are lower than the budgeted costs, such balances will be managed as a regulatory storm reserve to offset future storm expenditures. If actual storm restoration costs are higher than the budgeted costs, one-third of that balance will be recovered in the subsequent recovery period and the remaining two-thirds will be eligible for recovery during a future recovery period and remain as a regulatory asset.

Eligible non-storm emergency costs are incremental costs authorized by the Board (net of anticipated grant reimbursements) for emergencies other than storms. Eligible bad debt costs are limited to variances of accrued uncollectible expense from the amount in a Board-approved budget during periods affected by a government ordered or Board authorized moratorium on service disconnections and for up to two years following the end of such moratorium. Eligible PSEG Long Island pension and OPEB expenses are variances from the amount in a Board-approved budget, related to the service provider's operations, excluding variances in pension and OPEB expenses allocated to capital, storms, or Utility 2.0 (as such variances are already eligible for recovery in other riders).

The DSA is calculated through the end of September each year, which allows for the bill impact to be known in advance of the annual budget approval. Any adjustments are reviewed by DPS and implemented on January 1st for recovery (or refund) over the following 12 months.

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LIPA also has a Revenue Decoupling Mechanism (RDM). All six of the investor-owned New York State electric utilities also have RDMs within their tariffs for delivery service. Mechanically, RDMs function by comparing actual delivery service revenues with authorized delivery service revenues and crediting (or collecting) any differences to (or from) customers in future periods. RDMs are intended to cover all sources of variances in delivery service revenues including, among other things, variances attributable to the implementation of energy efficiency or net metering above or below forecasted levels, variances caused by warmer or cooler than normal weather, and variances that result from unforeseen changes in economic conditions.

In addition to the items discussed above, LIPA's tariff also includes:

- (i) a Power Supply Charge to allow for adjustments to customers' bills to reflect changes in the cost of fuel, purchased power, and related costs;
- (ii) a PILOTs recovery rider to allow rate adjustments to accommodate changes in revenue-based PILOTs;
- (iii) a rider providing for the recovery of costs associated with the Shoreham Property Tax Settlement;
- (iv) a rider to recover the costs of LIPA's distributed energy resources and energy efficiency programs;
- (v) a rider providing for the collection of the New York State assessment imposed by the New York State Legislature; and
- (vi) undergrounding surcharges for customers located in participating municipalities.

(4) Component Unit – Utility Debt Securitization Authority

The Reform Act created the Securitization Law, which established the UDSA to permit the issuance of restructuring bonds to allow LIPA to retire a portion of its outstanding indebtedness in order to provide debt service savings to LIPA's customers as measured on a net present value basis. The Securitization Law allowed for a total issuance of up to \$4.5 billion of UDSA restructuring bonds. In 2017, all such authorization was exhausted. However, in 2020, LIPA sought a change to permit the UDSA to issue additional securitized bonds for refinancing, storm hardening, and resiliency purposes. The legislation authorizing the change was signed into law on August 2, 2021, and allows the UDSA to issue an initial par up to \$8.0 billion of securitized bonds (inclusive of the bonds already issued).

During 2022, LIPA's Board adopted additional Financing Orders No. 6, No. 7, No. 8, and No. 9. On August 2, 2022, the UDSA's Board of Trustees approved the issuance of Series 2022 bonds in an amount not to exceed \$1.3 billion pursuant to Financing Order No. 6. On September 29, 2022, UDSA issued \$54 million Series 2022 Taxable Restructuring Bonds, \$787 million Series 2022 Tax-Exempt Restructuring Bonds, and \$95 million Series 2022 Tax-Exempt Green Bonds. The proceeds of these Restructuring Bonds, plus \$91 million of premium received, refunded \$852 million of LIPA and UDSA debt and funded \$100 million of LIPA resiliency investments. The 2022 UDSA Restructuring Bonds generated total net present value debt service savings of \$42 million for LIPA's customers. UDSA refinancings have saved LIPA customers \$534 million of net present value debt savings since 2013.

Each issuance of restructuring bonds is separately secured by distinct collateral pursuant to a new financing order. Each financing order is substantively the same and authorizes restructuring bonds to be repaid pursuant to that financing order by an irrevocable contract right to impose, bill, and collect a non-bypassable consumption-based Restructuring Charge from all existing and future retail customers taking electric transmission or distribution service within the Service Area from LIPA or any of its successors or assignees.

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Below is a summary of each financing order and initial par amounts issued:

Financing Order	Date Issued	Initial Amount Issued	Net Present Value Savings	Restructuring Charge Rate Effective Date
Financing Order No. 1	December 18, 2013	\$ 2,022,324	131,609	March 1, 2014
Financing Order No. 2	October 27, 2015	1,002,115	127,978	January 1, 2016
Financing Order No. 3	April 7, 2016	636,770	115,238	April 7, 2016
Financing Order No. 4	September 8, 2016	469,320	71,647	September 8, 2016
Financing Order No. 5	November 21, 2017	369,465	45,387	January 1, 2018
Financing Order No. 6	September 29, 2022	935,655	42,080	October 3, 2022
		<u>\$ 5,435,649</u>	<u>533,939</u>	

To pass through the benefits of securitization to customers, LIPA modified its rate structure to create restructuring offset charges, which are in an amount equal to and opposite the Restructuring Charges; the net result is that the customer bill is less than it would have been absent the sale of restructuring bonds. The restructuring offset charges are adjusted coincident with changes to the Restructuring Charges to maintain that equality.

As discussed in Note 2 (a), UDSA is a component unit of LIPA and all the activities and balances of the UDSA are blended into and reported as part of LIPA. See Note 17 for condensed financial information.

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(5) Regulatory Accounting

LIPA's Board has approved various regulatory mechanisms that result in timing differences between the recognition of revenues and expenses for rate-making purposes and treatment under U.S. generally accepted accounting principles for non-regulated entities. These actions result in regulatory assets and liabilities, which are summarized in the table below:

	2022			2021		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Regulatory assets:						
OSA – employee retirement benefits	\$ 19,481	—	19,481	54,006	242,697	296,703
Shoreham property tax settlement	50,300	257,135	307,435	49,237	291,835	341,072
Property tax litigation	—	120,083	120,083	—	90,134	90,134
Delivery service adjustment	—	40,995	40,995	76,838	358,208	435,046
Employee benefit plan settlement	15,634	31,268	46,902	15,634	46,901	62,535
Power supply charge recoverable	66,835	37,829	104,664	13,476	36,708	50,184
Debt issuance costs	2,804	22,283	25,087	3,209	19,930	23,139
Revenue decoupling mechanism	—	12,155	12,155	—	3,669	3,669
Unfunded actuarially determined reserves	—	8,132	8,132	—	8,132	8,132
Southampton visual benefit assessment	1,260	4,218	5,478	1,049	5,461	6,510
Unrealized financial instrument losses	—	36,329	36,329	—	117,689	117,689
New York State assessment	—	—	—	1,382	—	1,382
Total regulatory assets	\$ 156,314	570,427	726,741	214,831	1,221,364	1,436,195
Regulatory liabilities:						
Unrealized commodity derivative gains	97,435	66,006	163,441	73,309	63,014	136,323
OSA – employee retirement benefits	—	79,887	79,887	—	—	—
Revenue decoupling mechanism	65,010	—	65,010	26,047	—	26,047
Utility 2.0	20,222	—	20,222	26,955	—	26,955
Power supply charge refundable	—	19,466	19,466	8,085	—	8,085
Distributed energy resources	1,881	—	1,881	2,441	—	2,441
Delivery service adjustment	1,538	—	1,538	3,784	—	3,784
New York State assessment	11	—	11	—	—	—
Total regulatory liabilities	\$ 186,097	165,359	351,456	140,621	63,014	203,635

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(a) OSA – Employee Retirement Benefits

LIPA is responsible for reimbursing PSEG Long Island for retirement benefit costs associated with the PSEG Long Island workforce. The PSEG Long Island workforce includes both electric-serving employees hired under the expired Management Services Agreement (MSA) with National Grid (referred to as transitioned employees) and PSEG Long Island employees hired since the beginning of the OSA on January 1, 2014. The retirement benefit plans are owned, sponsored by, and the legal obligation of PSEG Long Island. However, in most cases, PSEG Long Island employee compensation costs are a contractual cost of LIPA under the OSA, including the cost for these retirement benefits (and any required pre-funding of such benefits).

Retirement benefit obligations are future cash outlays that will be incurred as the PSEG Long Island employees receive retirement benefits and therefore are estimates of such costs. Differences between amounts collected from customers and amounts owed to PSEG Long Island for these benefits may arise from changes in asset values, plan amendments, interest rates, and actuarial assumptions, among other factors, which will be reflected in the balance of the regulatory asset. The OSA – Employee Retirement Benefits regulatory asset and liabilities represents costs and liabilities which have been incurred, but not yet collected in electric rates. This amount will be different from LIPA's liability to PSEG Long Island due to differences between funding and recovery levels.

LIPA contributes to a PSEG Long Island-sponsored pension trust on an ongoing basis to pre-fund pension obligations. Additionally, LIPA sets aside funds in an OPEB Account based upon periodic actuarial studies to ensure that sufficient funds are available to meet future healthcare and other post-employment benefit obligations of the PSEG Long Island workforce.

(b) Shoreham Property Tax Settlement (Settlement)

In January 2000, LIPA reached an agreement with Suffolk County, the Town of Brookhaven, the Shoreham-Wading River Central School District, the Wading River Fire District and the Shoreham-Wading River Library District (which was succeeded by the North Shore Library District) (collectively, the Suffolk Taxing Jurisdictions) and Nassau County regarding the over assessment of the Shoreham Nuclear Power Station. Under the terms of the agreement, LIPA issued \$457.5 million of rebates and credits to customers over a five-year period. To fund such rebates and credits, LIPA used proceeds from its Capital Appreciation Bonds: Series 1998A Electric System General Revenue Bonds totaling \$146 million and Series 2000A Electric System General Revenue Bonds totaling \$325 million.

As provided under the Settlement, beginning in June 2003, Suffolk County electric customers' bills include a surcharge (the Suffolk Surcharge) to be collected over the succeeding approximately 25-year period to repay the debt service and issuance costs on the bonds issued by LIPA to fund the Settlement as well as the cost of pre-funding certain rebates and credits.

As rates are established at a level sufficient to recover all such costs identified above, LIPA recorded a regulatory asset. The balance remaining represents rebates and credits issued to LIPA's customers, costs of administering the program, plus annual debt service costs on the bonds identified above, less surcharges collected since 2003.

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(c) Employee Benefit Plan Settlement

The MSA between LIPA and National Grid provided, among other things, that upon termination of the MSA, when a third-party succeeded National Grid as the service provider, the successor would assume the rights and obligations of National Grid regarding certain employee benefit plan liabilities. The Second A&R OSA with PSEG Long Island, however, did not require PSEG Long Island to assume the employee benefit plan assets and liabilities related to the MSA, which were co-mingled with those of other National Grid employees.

LIPA and National Grid and its affiliates signed an Employee Benefit Plan Settlement in 2013 resolving the parties' respective employee benefit plan funding obligations for National Grid's electric-serving employees. LIPA's Board approved recovery of such costs from customers over the remaining term of the Second A&R OSA, as virtually all former employees of National Grid covered by these plans have been transitioned to PSEG Long Island and continue to serve our customers.

As of December 31, 2022 and 2021, the employee benefit plan settlement balance totaled \$47 million and \$62 million, respectively.

(d) Delivery Service Adjustment

The DSA reconciles certain specified budgeted costs to actual costs in each year. The DSA provides cost recovery or refunding of overcollection for certain items that vary due to external factors, including: debt service (variances in interest rates and capital expenditures), storm restoration expenditures (variances from the budget for storm restoration expenses), non-storm emergency costs, bad debt expense, and PSEG Long Island pension and OPEBs. For debt service, any differences between the actual payments and the amount included in the approved budget and approved delivery rates are charged or refunded to customers in the following year, including an allowance for fixed obligation coverage at the factor specified in the Board's financial policy. For storm restoration expenditures, if actual storm restoration costs to be recovered from customers are lower than the budgeted costs, such balances will be managed as a regulatory storm reserve to offset future storm expenditures. If actual storm restoration costs are higher than the budgeted costs, one-third of that balance will be recovered in the subsequent recovery period and the remaining two-thirds will be eligible for recovery during a future recovery period and remain as a regulatory asset. The two-thirds carry forward balance for excess storm restorations costs plus amounts incurred subsequent to the reset period totaled \$22 million as of December 31, 2022.

As of December 31, 2021, a significant portion of the FEMA grant application related to Tropical Storm Isaias had not been finalized and approved, and as such, amounts due from customers for those restoration costs could not be reasonably determined. LIPA obtained from its Board a regulatory action to defer such restoration costs for future recovery beyond the normal collection timeframe in the DSA. During 2022, LIPA received FEMA reimbursement of such costs totaling \$276 million and the deferred amounts were eliminated as recoverable under the DSA.

(e) Unrealized Derivative Instrument Gains and Losses

LIPA defers its unrealized mark-to-market values relating to commodity and financial derivative instruments which are deemed ineffective under GASB Statement No. 53 and records such amounts as regulatory assets or liabilities.

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(f) Property Tax Litigation

By statute, LIPA makes PILOTs for real property it acquired from LILCO. Beginning in calendar year 2015, the LIPA Reform Act capped LIPA's PILOT payments to no more than 2% higher than the prior calendar year. In 2017, LIPA received notices from Suffolk County claiming to enforce liens against certain of LIPA properties for alleged unpaid real estate taxes for the years 2014/15 through 2020/21. LIPA has paid the PILOT amounts it is authorized to pay by law. LIPA estimated the potential exposure with penalties and interest to be approximately \$90 million plus a potential addition of up to \$30 million per year in the event of an adverse result on appeal. As a regulated entity, LIPA obtained regulatory approval from its Board to defer the recovery of these costs from its customers until the conclusion of the appeal process. LIPA does not believe this litigation will have a material adverse impact on the business or the affairs of LIPA or its subsidiary, LILCO.

(g) Revenue Decoupling Mechanism

The RDM ensures that only LIPA's budgeted and Board-approved revenues for delivery service are collected from customers. The RDM compares actual revenues with authorized revenues and credits (or collects) any differences to (or from) customers. It is intended to cover all sources of variances in delivery service revenues including, among other things, variances attributable to the implementation of energy efficiency or net metering above or below forecasted levels, variances caused by warmer or cooler than normal weather, and variances that result from unforeseen changes in economic conditions.

The RDM is applied to delivery rates on a percentage basis and is reset at the beginning of each year to include the prior year surplus or shortfall between actual and authorized revenues for delivery service. In years when a multi-year rate plan is in effect, the RDM also utilizes such realized prior year surplus or shortfall to update delivery rates for the current year so as to minimize future variances between actual and authorized revenues. In no event may LIPA recover an amount that exceeds authorized delivery revenues. Furthermore, to mitigate significant bill impacts resulting from revenue variances, the RDM rate is set to a maximum of 5% of delivery service revenues for any customer class, with the excess to be recovered from the same customer class in the subsequent period.

Due to the continuing effects of COVID-19 and the warmer-than-normal summer, LIPA's revenues from residential customers exceeded the budget during the rate-setting period of January through September 2022 and resulted in a refund of approximately \$82 million to the residential customer class. Subsequent to the rate-setting period in 2022, revenues were less than budget, resulting in amounts due from the residential customer class totaling approximately \$8 million. LIPA's revenues from commercial customers continued to be lower than budget in 2022 resulting in amounts due to LIPA totaling approximately \$17 million from the commercial customer class, with an additional amount due to LIPA related to periods after the rate-setting period totaling approximately \$4 million.

(h) Debt Issuance Costs

LIPA established a regulatory asset for debt issuance costs incurred prior to 2018. The regulatory asset will be amortized as a component of LIPA's revenue requirement on a systematic basis over the life of the debt to which they relate. LIPA's component unit, UDSA, sets its charge for recovery for debt issuance costs on a systematic basis over the life of the debt, and continues to classify these costs as a regulatory asset, in accordance with GASB Section RE10, *Regulated Operations*.

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(i) Power Supply Costs Recoverable or Refundable

LIPA's tariff includes a Power Supply Charge with a monthly reconciliation of power supply costs. For the year ended December 31, 2022 and 2021, actual power supply costs, including estimated costs to operate an undersea cable, were higher than amounts recovered in the Power Supply Charge, resulting in the recognition of a regulatory asset totaling \$61 million and \$9 million, respectively, which will be collected from customers in the subsequent year.

Also recoverable through the Power Supply Charge are deferred transition costs associated with the transfer of the power supply management contract to PSEG ER&T. Collection of these costs totaling \$19 million are being recovered over an eleven-year period, as approved by LIPA's Board, that began January 1, 2015, and expires December 31, 2025. As of December 31, 2022 and 2021, the remaining balance of such costs totaled \$5 million and \$7 million, respectively.

Amounts incurred related to various energy projects, the amortization of which are charged to power supply costs over the period of benefit (i.e., the life of the power purchase agreement) are also recoverable as a component of the Power Supply Charge. As of December 31, 2022 and 2021, the balance was \$25 million and \$21 million, respectively.

Unfunded actuarially determined potential costs relating to generation are a deferred component of the Power Supply Charge and total approximately \$13 million. Such amounts will not be reflected in the Power Supply Charge until settlement costs are paid.

Annually, amounts are being recovered to fund the Clean Energy Compliance Fund to be used in the future for clean energy technologies. As of December 31, 2022 and 2021, the regulatory liability balance was \$19 million and \$8 million, respectively.

(j) Southampton Visual Benefit Assessment

LIPA has recorded the incremental costs to bury a portion of a transmission cable routed through the Town of Southampton as a regulatory asset, which is being recovered from certain customers of the Town in a visual benefit district over a period of 20 years that began in 2009.

(k) Distributed Energy Resources

The Distributed Energy Resources (DER) charge recovers costs of LIPA's energy efficiency and distributed energy resource programs net of State grants received for these programs. The costs of such programs are authorized by LIPA's Board annually in its approved budget and billed to customers through the DER charge based on energy usage.

(l) Unfunded Actuarially Determined Reserves

Unfunded actuarially determined reserves are amounts recorded for non-cash reserves that are deferred until litigation settlement costs are paid, at which time they are recovered in rates. Such estimates were calculated by an actuary based on experience and are updated every three years. The next study is scheduled for 2023.

(m) Utility 2.0

LIPA's annual Utility 2.0 plan funds new technologies, pilot programs, beneficial electrification, electric vehicles and distributed energy projects. Utility 2.0 actual project costs are reconciled to funding levels set in rates on an annual basis.

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(6) Deferred Outflows and Deferred Inflows of Resources

Certain assets and liabilities are reported as deferred outflows of resources (expenses or expenditures) and deferred inflows of resources (revenues) as follows:

(a) *Regulatory Credits – Grants*

LIPA has received grants for storm restoration and storm hardening. LIPA's Board authorized the deferral of grant income as a regulatory credit and is reported as a deferred inflow of resources. This regulatory credit will be amortized over the same time period as the depreciation expense on the associated capital assets for storm hardening. As of December 31, 2022 and 2021 deferred grant revenue totaled approximately \$609 million and \$626 million, respectively.

(b) *Deferred Defeasance Costs on Debt Refunding*

Deferred defeasance costs on refunded debt represent the difference between the reacquisition price and the carrying amount of refunded debt. These deferred costs are amortized as a component of interest expense over the shorter of the life of the old or new debt.

(c) *Changes in Fair Value of Derivative Instruments*

The accumulated changes in the mark-to-market valuation of a hedging derivative instrument deemed effective are reported as deferred inflows or deferred outflows of resources on the Statements of Net Position.

As LIPA follows GASB Section RE10, *Regulated Operations*, any changes in ineffective investment derivative instruments are reported as regulatory assets or liabilities. LIPA's Board has authorized the deferral of these unrealized gains or losses until realized, which corresponds to the period when they are recovered in rates.

(d) *Changes in Fair Market Value of NMP2 Decommissioning Trust and OPEB Account*

LIPA maintains a trust for the decommissioning of NMP2. Separately, LIPA maintains an OPEB Account to set aside funds to meet future PSEG Long Island retirement benefit costs. These funds are reported at their fair market value and any unrealized gains or losses are recognized as a component of deferred inflows or deferred outflows of resources in accordance with LIPA's ratemaking process.

(e) *Pension and OPEB*

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, LIPA reports as deferred inflows or deferred outflows of resources the differences between expected and actual experience, projected and actual investment earnings on pension plan investments, contributions and the proportionate share of contributions, and changes in LIPA's contributions to the pension system subsequent to the measurement date. In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*, LIPA reports the changes in LIPA's net OPEB liability that have not been included in OPEB expense as deferred inflows or deferred outflows of resources. Amounts included would result from changes of assumptions, the net difference between projected and actual earnings on the OPEB Trust, and LIPA's contributions subsequent to the measurement date.

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(f) Lease Revenue

LIPA receives contractually determined revenue related to leasing agreements with (i) certain telecommunication providers for various attachments to the T&D system and (ii) certain power purchase providers for land leases. In March 2022 the telecommunication agreements were renegotiated to include a provision providing LIPA with a unilateral cancellation clause and therefore the agreements are no longer recorded as leases. There were no changes to the land leases.

The total amount of revenue generated from these agreements in 2022 and 2021 was \$0.10 million and \$3 million, respectively. As of December 31, 2022 and 2021, the lease asset receivable and the corresponding deferred inflow of resources was approximately \$3 million and \$9 million, respectively.

(7) Federal Emergency Management Agency Grants

LIPA is eligible to receive Public Assistance (PA) and Mitigation grants through FEMA following major disaster declarations. Public Assistance grants provide reimbursement of costs associated with emergency protective measures and the repair and restoration of damaged facilities. Mitigation grants, when made available, provide funding to harden the system against the future impact of severe weather events. Disaster assistance is subject to eligibility rules applicable to the applicant, facility, work, and cost.

(a) Superstorm Sandy

In 2012, Superstorm Sandy caused significant damage to LIPA's Service Area resulting in the declaration of a federal major disaster area and making LIPA eligible for FEMA grants. In 2013, LIPA and FEMA signed a Letter of Undertaking (LOU) that provides for a Public Assistance (PA) grant authorized under Section 428 of the Stafford Act (428 Grant Agreement) for \$1.434 billion. As of December 31, 2022, LIPA has received FEMA funding reimbursing Superstorm Sandy costs of approximately \$1.111 billion with a remaining balance due from FEMA of approximately \$172 million. The remaining amounts owed to LIPA are expected in 2024.

(b) Tropical Storm Isaias

On August 4, 2020, LIPA's Service Area suffered significant damage as a result of Tropical Storm Isaias. The resulting damage to the electrical system caused significant customer outages. Tropical Storm Isaias was declared a federal major disaster on October 2, 2020. LIPA filed for recovery of response and storm restoration costs of approximately \$309 million associated with Tropical Storm Isaias. During 2022, LIPA received FEMA funds totaling approximately \$276 million.

(c) COVID-19

In response to the COVID-19 pandemic, on March 20, 2020, FEMA announced that federal emergency funds will be made available for recovery efforts related to the COVID-19 pandemic. The funding is for incremental costs related to safety protocols implemented to protect employees, customers, and the public. LIPA has been approved for public assistance; however, as no grant application has been finalized or approved prior to December 31, 2022, no grant income was recognized.

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(d) Tropical Depression Ida

In September 2021, portions of LIPA's service territory were impacted by Tropical Depression Ida, which resulted in severe flooding in parts of the Service Area leaving downed trees and power lines. This event was declared a federal disaster and as such LIPA filed for a Public Assistance grant totaling approximately \$9 million. LIPA has been approved for public assistance; however, as the grant application has not been finalized or approved prior to December 31, 2022, no grant income was recognized.

(8) Derivative Instruments

LIPA uses derivative instruments in its normal course of business to limit some of the volatility associated with interest rate changes and market price fluctuations in the purchase of fuel oil, natural gas, and electricity. LIPA does not use derivative instruments for trading or speculative purposes. These contracts are evaluated pursuant to GASB Statement No. 53 to determine whether they meet the definition of derivative instruments and whether they effectively hedge the expected cash flows associated with interest rate and commodity price risk exposures. The fair values of LIPA's derivatives are reported on the Statements of Net Position as either Commodity Derivative Instruments or Financial Derivative Instruments.

LIPA applies hedge accounting for derivative instruments that are deemed effective under GASB Statement No. 53. Under hedge accounting, changes in the fair value of such hedging derivative instruments are a component of deferred inflows or deferred outflows of resources on the Statements of Net Position until the contract is settled, or hedge accounting is terminated. Derivative instruments that do not meet the definition of a hedging derivative instrument are economic hedges, intended to mitigate exposure to fluctuations in interest rates or commodity prices, and are referred to as investment derivative instruments. Changes in the fair value of investment derivative instruments are deferred until settled or terminated in accordance with LIPA's ratemaking process and recorded as regulatory assets or liabilities.

All settlement payments or receipts for derivative instruments are recorded as either power supply expense for commodity derivative instruments or interest expense for interest rate derivative instruments on the Statements of Revenues, Expenses, and Changes in Net Position in the period settled.

LIPA's interest rate and commodity derivative contracts are valued in accordance with GASB Statement No. 72, which establishes a fair value hierarchy: Level 1, Level 2, and Level 3 (as discussed in Note 2 (u)). Interest rate derivative contracts are based on the present value of cash flows using the income approach and the interest rate derivative contracts are classified as Level 2, as their valuation relies primarily on observable inputs.

LIPA's commodity derivative contracts are transacted both over-the-counter and through clearing exchanges and the valuations are based upon price quotes from exchanges. The impacts of credit and non-performance risk by either LIPA or its counterparty were not material to the financial statements.

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The following table presents LIPA's derivative instruments measured and recorded at fair value on the Statements of Net Position on a recurring basis and their level within the fair value hierarchy.

Derivative instrument description	Fair value December 31, 2022	Net change in fair value	Fair value December 31, 2021	Type of hedge	Financial statement classification for changes in fair value	
Hedging derivative instruments:						
Financial derivatives:						
Total return swap	\$ 291	(63)	354			
Forward-starting swap	25,166	30,209	(5,043)			
Forward-starting swap	—	1,960	(1,960)			
Total	<u>\$ 25,457</u>	<u>32,106</u>	<u>(6,649)</u>	Cash flow	Deferred outflows	
Investment derivative instruments:						
Financial derivatives:						
Synthetic fixed	\$ (78,030)	87,260	(165,290)	N/A		
Total	<u>\$ (78,030)</u>	<u>87,260</u>	<u>(165,290)</u>		Regulatory assets	
Commodity derivatives:						
Power – financial basis	(17,686)	(4,828)	(12,858)	N/A		
Purchased power swaps	86,013	1,113	84,900	N/A		
Natural gas swaps	73,041	(340)	73,381	N/A		
Natural gas basis swaps	22,073	31,207	(9,134)	N/A		
Natural gas/power options	—	(34)	34	N/A		
Total	<u>\$ 163,441</u>	<u>27,118</u>	<u>136,323</u>		Regulatory assets/liabilities	
	2022			2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative assets (liabilities):						
Financial derivatives	\$ —	25,457	—	—	(6,649)	—
Financial derivatives	—	(78,030)	—	—	(165,290)	—
Commodity derivatives	159,054	4,387	—	158,315	(21,992)	—
	<u>\$ 159,054</u>	<u>(48,186)</u>	<u>—</u>	<u>158,315</u>	<u>(193,931)</u>	<u>—</u>

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The terms of LIPA's commodity derivative instruments as of December 31, 2022 are summarized in the table below:

Derivative Instrument	Notional Amount	Units	Beginning Period	Ending Period	LIPA Pays Per Unit	LIPA Receives
Natural Gas Swaps	60,993	Dthms	1/1/2023	12/1/2025	\$ 2.50 to \$ 6.30	Natural Gas at Henry Hub
Natural Gas Basis Swaps ⁽¹⁾	64,015	Dthms	1/1/2023	3/1/2025	\$ (1.09) to \$ 12.25	Gas Basis between Henry Hub and Transco Z6, NY
Purchased Power Swaps	4,503	Mwths	1/1/2023	12/1/2025	\$ 26.75 to \$ 173.00	Power at PJM West
Purchased Power Basis	8,385	Mwths	1/1/2023	12/1/2025	\$ (9.00) to \$ 0.15	Power Basis between PJM West to JCPL

(1) There was one sale of natural gas basis swaps. Volumes indicated above are net volumes. The trade price of the sale was (\$.50), which was within the purchase trade price range of (\$1.09) to \$12.25.

The terms of LIPA's commodity derivative instruments as of December 31, 2021 are summarized in the table below:

Derivative Instrument	Notional Amount	Units	Beginning Period	Ending Period	LIPA Pays ⁽¹⁾ Per Unit	LIPA Receives
Natural Gas Swaps	85,678	Dthms	1/1/2022	12/1/2024	\$ 2.35 to \$ 2.74	Natural Gas at Henry Hub
Natural Gas Basis Swaps	70,808	Dthms	1/1/2022	3/1/2024	\$ (0.61) to \$ 4.20	Gas Basis between Henry Hub and Transco Z6, NY
Purchased Power Swaps ⁽²⁾	6,353	Mwths	1/1/2022	12/1/2024	\$ 20.85 to \$ 34.35	Power at PJM West
Purchased Power Basis	7,578	Mwths	1/1/2022	12/1/2024	\$ (8.65) to \$ 1.95	Power Basis between PJM West to JCPL
Purchased Power Options ⁽³⁾	131	Mwths	1/1/2022	2/1/2022	\$ 65.00 to \$ 65.00	Power at PJM West

(1) In some cases LIPA receives instead of pays as noted below.

(2) The purchased power swaps include two short-swaps resulting from the exercise of purchased put options. The volume of these swaps is included in the notional amount. The trade price of these swaps (which equals the strike price of the exercised option) is \$65/MWh. This trade price is not included in the price range as it is the price received and not paid by LIPA.

(3) The price range shown is the strike price range. The power options are all put purchases; therefore, the price range indicates the amount LIPA receives per unit if exercised.

LIPA has entered into interest rate derivative agreements in which variable payments made or received are based on the London Interbank Offered Rate (LIBOR). On March 5, 2021, ICE Benchmark Administration (IBA) and the Financial Conduct Authorities (FCA) announced that the LIBOR cessation date for most USD LIBOR tenors, including 1-month LIBOR, will be June 30, 2023. To address the LIBOR cessation, LIPA has adhered to the International Swap Deal Agreements (ISDA) 2020 LIBOR Fallback Protocol (Protocol). Under the Protocol, upon the LIBOR discontinuation, the LIBOR index will be replaced by a fallback rate consisting of the Secured Overnight Financing Rate (SOFR) and a spread adjustment. The spread adjustment was fixed upon the announcement of LIBOR cessation dates. All transactions will remain in LIBOR until the LIBOR cessation date in 2023.

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The terms of LIPA's interest rate derivative instruments as of December 31, 2022 are summarized in the table below:

Financial derivative	Effective date	Termination date	LIPA pays	LIPA receives	Original notional	Upfront cash payment
Synthetic fixed	6/1/2003	12/1/2029	5.120 %	69.47% of 1-month LIBOR	\$ 587,225	\$ 106,400
Total return swap	5/1/2020	6/29/2023	69.4% 1-month LIBOR+.36%	MMD +1.10% ^a	200,000	—
Fixed-payer swap	9/1/2022	9/1/2042	1.8571%	70.00% of 1-month LIBOR	251,510	—
						<u>\$ 106,400</u>

The terms of LIPA's interest rate derivative instruments as of December 31, 2021 are summarized in the table below:

Financial derivative	Effective date	Termination date	LIPA pays	LIPA receives	Original notional	Upfront cash payment
Synthetic fixed	6/1/2003	12/1/2029	5.120 %	69.47% of 1-month LIBOR	\$ 587,225	\$ 106,400
Total return swap	5/1/2020	6/29/2023	69.4% 1-month LIBOR+.36%	MMD +1.10% ^a	200,000	—
Forward-starting swap	9/1/2022	9/1/2042	1.8571%	70.00% of 1-month LIBOR	251,510	—
Forward-starting swap	9/1/2022	9/1/2029	1.3150%	70.00% of 1-month LIBOR	164,860	—
						<u>\$ 106,400</u>

^a Based on lowest long-term rating of LIPA

Immediately following direct placement of LIPA's Electric System General Revenue Bonds, Series 2015A Municipal Market Data (MMD) Floating Rate Notes (FRNs) totaling \$200 million and Series 2016A MMD FRNs totaling \$175 million, LIPA entered into five-year basis agreements (total return swap agreement) whereby the counterparty agreed to pay LIPA an amount equal to the floating MMD indexed FRN coupon, and LIPA agreed to pay the counterparty 69.4% of 1-month LIBOR plus 36 basis points. In 2020, the basis agreement related to the 2015A FRNs was amended to extend the agreement to June 29, 2023. At the five-year expiration or the early termination of the agreements, the counterparty pays LIPA an amount equal to 0% of the first \$0.25 of gain (per \$100 notional principal amount of the FRN) and thereafter 90% of the gain in the market value of the MMD FRN and LIPA pays the counterparty 100% of any decrease in the market value of the MMD FRN, provided however, that if LIPA exercises its right to call or remarket the MMD FRN, the value of either agreement will be zero and neither party will have a payment obligation.

The total return swap agreement related to the 2016A FRNs expired on September 30, 2021, and the Electric System General Revenue Bonds, Series 2016A MMD FRNs totaling \$175 million were called on October 1, 2021 and refinanced with the Electric System General Revenue Bonds Series 2021A.

In December 2019, LIPA entered into two forward-starting interest rate swap transactions which became effective on September 1, 2022, and were executed in anticipation of issuing bonds to refund certain of LIPA's Electric System General Revenue Bonds callable in 2022. During 2022, LIPA terminated one of its forward-starting swaps and received an approximately \$8 million termination payment. Under the remaining forward-starting swap (fixed-payer swap), LIPA has agreed to pay to the counterparty the fixed interest rate of 1.8571% in exchange for receiving 70% of 1-month LIBOR. LIPA has the option to terminate the swap on September 1, 2027, and monthly thereafter.

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LIPA is exposed to the following risks related to derivative instruments as defined by GASB Statement No 53:

(a) Termination Risk

Termination risk is the risk that a derivative could be terminated by a counterparty prior to its scheduled maturity due to a contractual event with LIPA owing a termination payment. As long as LIPA fulfills its obligations under the contracts, the counterparties do not have the right to terminate these agreements. LIPA believes that termination risk is low because the counterparties may terminate the agreements only upon the occurrence of specific events such as payment defaults, other defaults which remain uncured for 30 days after notice, bankruptcy or insolvency of LIPA (or similar events), or a downgrade of LIPA's and its insurers', if any, credit rating below investment grade. If, at the time of termination, the mark-to-market valuation of the derivative was a liability of LIPA, LIPA could be required to pay that amount to the counterparty. Termination risk associated with all of LIPA's derivatives is limited to the fair market value.

(b) Basis Risk

LIPA is exposed to basis risk on certain of its interest rate swaps because the variable-rate payments received by LIPA, and those paid either pursuant to the terms of the swap or on the associated variable rate debt, may differ. The terms of the interest rate swap transactions are summarized in the table above.

LIPA is exposed to basis risk on a portion of its commodity swaps when the commodity swap payment received is based upon a reference price in a market (e.g., natural gas priced at Henry Hub) that differs from the market in which the hedged item is expected to be bought (natural gas priced at New York City gate). If the correlation between these market prices should change substantially, LIPA may incur costs as a result of the hedging derivative instrument's inability to offset the price of the related commodity.

(c) Collateral Posting

Under certain conditions, LIPA may be required to post collateral related to its interest rate derivative instruments. Under the terms of its interest rate derivative agreements, collateral may be required if LIPA's credit ratings, and in the case of insured swaps, the credit ratings of any related interest rate derivative insurer, fall below minimum levels as provided in each agreement, and LIPA fails to provide alternative credit enhancements. Collateral for its financial derivatives, if required, would approximate fair value. LIPA has never been required to post collateral for its interest rate derivative instruments.

LIPA has collateral requirements with commodity derivative counterparties in the Credit Support Annexes (CSA) of International Swap Deal Agreements (ISDA). Collateral is required to be posted with the counterparty when the negative fair value of the commodity derivative instrument exceeds the unsecured line of credit established with each counterparty as listed in the counterparty table in (d) below. In the event of collateral being posted, the value will equal the difference between the fair value and the amount of the unsecured line of credit. For exchange broker cleared derivative transactions, there is an initial margin requirement on day one of a trade that is calibrated to cover the expected cost of closing out the position in the event of a default. Collateral postings between the exchange clearing broker and LIPA each day thereafter are based on the fair value of the derivative instrument.

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(d) Credit Risk

Credit risk is the risk that the counterparty (or its guarantor) will default on its obligations under the agreement. LIPA has sought to limit counterparty risk by contracting only with highly rated counterparties or requiring guarantees of the counterparty's obligations. LIPA also makes use of exchange-cleared transactions for a portion of its commodity derivatives. The exchange uses a central clearing counterparty structure along with risk-based margin requirements that limits credit risk exposure.

Below is a table with the credit ratings issued by Moody's Investors Service (Moody's) and Standard and Poor's Global Ratings (S&P) and unsecured line of credit limits of LIPA's counterparties as of December 31, 2022:

Counterparty	As of December 31, 2022		Counterparty's unsecured line of credit (\$M)
	Moody's	S&P	
Interest Rate Derivative Instruments:			
Citibank, N.A. New York	Aa3	A+	\$ —
UBS AG, Stamford Branch	Aa3	A+	—
Wells Fargo Bank, N.A.	Aa2	A+	—
Commodity Derivative Instruments:			
BP Energy Company *	A3	A-	\$ 15.0
Citigroup Energy, Inc.*	A3	BBB+	10.0
Consolidated Edison Energy, Inc. *	Baa2	BBB+	4.0
Constellation Energy Generation, LLC	Baa2	BBB	10.0
J. Aron & Company *	A2	BBB+	40.0
JPMorgan Chase Bank, N.A.	Aa2	A+	35.0
Macquarie Energy LLC *	A2	A+	10.0
Merrill Lynch Commodities, Inc. *	A2	A-	20.0
Mitsui Bussan Commodities Ltd. *	A3	A	12.5
Morgan Stanley Capital Group Inc. *	A1	A-	10.0
Next Era Power Marketing *	Baa1	BBB+	10.0
Pacific Summit Energy LLC *	Baa1	BBB+	10.0
Societe Generale	A1	A	25.0
The Bank of Nova Scotia	Aa2	A+	25.0

* Rating reflects the rating of the parent company guarantor

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(9) Utility Plant and Property and Equipment

Additions to and replacements of utility plant are capitalized at original cost, which includes material, labor, and indirect costs associated with an addition or replacement. The cost of renewals and betterments relating to units of property is added to utility plant. The cost of property replaced, retired, or otherwise disposed of is deducted from utility plant and, generally, together with dismantling costs less any salvage, are charged to accumulated depreciation. The cost of repairs and minor renewals are charged to operations and maintenance expense. Group properties, such as poles, meters, and wire, are accounted for on an average unit cost basis by year of installation.

The following schedule summarizes LIPA's utility plant and property and equipment as of December 31, 2022:

	Beginning balances	Additions	Transfers/ Disposals	Ending balances
Utility plant	\$ 9,882,520	665,100	(98,689)	10,448,931
Office equipment, furniture, and leasehold improvements	8,221	2,645	—	10,866
Accumulated depreciation	(2,472,548)	(296,584)	163,902	(2,605,230)
Total utility plant – net	<u>7,418,193</u>	<u>371,161</u>	<u>65,213</u>	<u>7,854,567</u>
Leased assets:				
Utility plant	3,317,209	—	—	3,317,209
Other	126,127	—	(7,127)	119,000
Accumulated depreciation	(972,777)	(348,814)	4,637	(1,316,954)
Total leased assets, net	<u>2,470,559</u>	<u>(348,814)</u>	<u>(2,490)</u>	<u>2,119,255</u>
Construction work in progress	495,841	615,897	(665,100)	446,638
Retirement work in progress	30,024	68,762	(65,452)	33,334
	<u>525,865</u>	<u>684,659</u>	<u>(730,552)</u>	<u>479,972</u>
Totals	<u>\$ 10,414,617</u>	<u>707,006</u>	<u>(667,829)</u>	<u>10,453,794</u>

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The following schedule summarizes LIPA's utility plant and property and equipment as of December 31, 2021:

	Beginning balances	Additions	Transfers/ Disposals	Ending balances
Utility plant	\$ 9,122,598	863,298	(103,376)	9,882,520
Office equipment, furniture, and leasehold improvements	6,323	1,898	—	8,221
Accumulated depreciation	(2,340,303)	(300,608)	168,363	(2,472,548)
Total utility plant – net	6,788,618	564,588	64,987	7,418,193
Leased assets:				
Utility plant	3,311,412	21,408	(15,611)	3,317,209
Other	128,416	—	(2,289)	126,127
Accumulated depreciation	(648,284)	(342,357)	17,864	(972,777)
Total leased assets, net	2,791,544	(320,949)	(36)	2,470,559
Construction work in progress	716,083	642,818	(863,060)	495,841
Retirement work in progress	17,331	76,099	(63,406)	30,024
	733,414	718,917	(926,466)	525,865
Totals	\$ 10,313,576	962,556	(861,515)	10,414,617

(10) Nine Mile Point Nuclear Power Station, Unit 2

LIPA owns an undivided 18% interest in NMP2, which is located in Oswego County, New York. Constellation Energy Nuclear Group (CENG) owns the other 82%. NMP2 has a rated net capacity of approximately 1,300 megawatts. LIPA is entitled to 18% of the unit's capacity and energy and is obligated to pay 18% of its operating and maintenance costs, nuclear fuel costs, and costs of capital additions. LIPA's net capital investment in NMP2, excluding nuclear fuel, was approximately \$500 million and \$511 million as of December 31, 2022, and 2021, respectively.

CENG was a joint venture of Exelon Corporation and EDF, a large electric-power company headquartered in France through August 6, 2021. Exelon and EDF entered into a Settlement Agreement under which Exelon acquired EDF's interest in the joint venture. Exelon Generation operates NMP2.

On December 16, 2021, the New York Public Service Commission approved a plan by Exelon to separate its regulated-utilities and competitive-energy businesses into two separate, publicly traded companies. This was the last regulatory approval required by Exelon to execute the plan. Exelon completed the separation on February 1, 2022. The resulting competitive-energy company is known as Constellation Energy Generation; it owns 82% of NMP2 and LIPA continues to own its 18% share.

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(a) Nuclear Plant Decommissioning

The operating license for NMP2 expires on October 31, 2046.

As of December 31, 2022, and 2021, LIPA's share of the estimated costs for decommissioning of the unit and restoration of the site is approximately \$102 million and \$87 million, respectively, and is included in the Statements of Net Position as a component of the Asset Retirement Obligation. LIPA maintains a nuclear decommissioning trust fund (NDTF) for its share of the decommissioning costs. As of December 31, 2022, and 2021, the NDTF had approximately \$155 million and \$184 million, respectively. LIPA believes that deposits to the fund, which are based on actuarial estimates, and the assumed investment returns of these funds during the term of the operating license, will be sufficient to meet its obligations.

(b) Liability for Nuclear Accidents

The Federal Price-Anderson Act (Act) currently requires owners of nuclear power plants to obtain \$450 million in private insurance coverage for off-site liability coverage for each reactor site (not each reactor). Exelon maintains this coverage for the Nine Mile Point site, and LIPA reimburses Exelon for its proportionate share of the cost. The Act further stipulates that in the event off-site damages exceed the amount of private insurance coverage, each reactor licensee is retroactively liable for a prorated share of the excess. This liability is limited to \$131 million per reactor, payable at no more than approximately \$20 million per reactor per incident per year. LIPA's maximum liability under this provision is approximately \$25 million, payable at approximately \$4 million per incident per year.

(11) Cash, Cash Equivalents, and Investments

The majority of LIPA's cash, cash equivalents, and investments are either managed by an external investment manager or invested in mutual funds. LIPA's investment of funds is administered in accordance with the applicable provisions of State law, the Bond Resolution, certain banking agreements and LIPA's investment policy.

(a) Unrestricted cash, cash equivalents, and investments

As of December 31, 2022, and 2021, LIPA had unrestricted cash, cash equivalents, and investments totaling approximately \$1.34 billion and \$1.37 billion, respectively. The unrestricted funds primarily consist of the: Operating Fund, Construction Fund, Rate Stabilization Fund, and OPEB Account.

In the event that LIPA determines there are insufficient revenues to pay reasonable and necessary operating expenses or to make payments on bonds or parity obligations, if any, after notifying the Finance and Audit Committee of LIPA's Board, LIPA may release funds from the OPEB Account for such purposes. As such, the OPEB Account is unrestricted.

Deposits made to LIPA's unrestricted OPEB Account are to fund LIPA's contractual obligations to employees of PSEG Long Island for certain post-employment benefits. LIPA has invested such funds, pursuant to LIPA's investment policy, in domestic and international stock mutual funds (65%), as well as inflation protected and bond market institutional mutual funds (35%) with quarterly rebalancing when an asset class falls outside of a 5% range of its asset weighting. As of December 31, 2022, and 2021, the OPEB Account balance totaled approximately \$523 million and \$581 million, respectively.

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The following tables summarize LIPA's unrestricted cash, cash equivalents and investments as of December 31, 2022 and 2021. The credit ratings listed are from Moody's, S&P, and Fitch Ratings, and the rating shown is the lowest rated obligation within each investment type.

Deposit/investment type	Credit Rating (if applicable)	Percent of portfolio	2022 Fair value	Cash and cash equivalents	Investments
Operating Fund, Construction Fund, Rate Stabilization Fund, and Other operating accounts:					
Cash and collateralized deposits		4 %	\$ 33,535	33,535	—
Discount notes and bonds:					
Commercial paper	P-1/A-1/F1	—	985	—	985
Corporate	Baa-/BBB+/BBB+	11	90,134	—	90,134
Federal agencies	Aaa/AA+/AAA	4	32,913	—	32,913
Foreign government bonds	Aaa/AAA/AAA	1	11,228	—	11,228
Municipal bonds	Aa3/AAA/A	1	4,073	—	4,073
Treasury notes	Aaa/AA+/F1+	8	64,292	—	64,292
Money-market mutual funds		71	576,425	576,425	—
Subtotal		100 %	813,585	609,960	203,625
OPEB Account:					
Mutual funds - equities		66 %	344,221	—	344,221
Mutual funds - fixed income		34	178,427	—	178,427
Subtotal		100 %	522,648	—	522,648
Total			\$ 1,336,233	609,960	726,273

Deposit/investment type	Credit Rating (if applicable)	Percent of portfolio	2021 Fair value	Cash and cash equivalents	Investments
Operating Fund, Construction Fund, Rate Stabilization Fund, and Other operating accounts:					
Cash and collateralized deposits		10 %	\$ 74,957	74,957	—
Discount notes and bonds:					
Commercial paper	P-1/A-1/F1	27	214,995	—	214,995
Corporate	Baa1/BBB+/A-	23	182,349	—	182,349
Federal agencies	Aaa/AA+	5	38,488	—	38,488
Foreign government bonds	Aaa/AAA/AAA	2	14,886	—	14,886
Municipal bonds	A1/A/A	1	7,699	—	7,699
Treasury notes	Aaa/AA+	9	67,951	—	67,951
Money-market mutual funds		23	183,946	183,946	—
Subtotal		100 %	785,271	258,903	526,368
OPEB Account:					
Mutual funds - equities		66 %	383,889	—	383,889
Mutual funds - fixed income		34	197,372	—	197,372
Subtotal		100 %	581,261	—	581,261
Total			\$ 1,366,532	258,903	1,107,629

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(b) Restricted cash, cash equivalents and investments

LIPA's restricted cash, cash equivalents, and investments consist of: the Working Capital Requirements Account, the FEMA Grant Proceeds Fund, and the UDSA Collection and Reserve Accounts.

Restricted Cash for Working Capital Requirements

In accordance with the Second A&R OSA, LIPA is required to advance fund an account with three months of anticipated T&D operating and capital costs for PSEG Long Island to utilize as LIPA's agent in the management of LIPA's T&D system. Also pre-funded by LIPA are amounts held by PSEG Long Island to pay taxes, storm restoration costs, and amounts required to fund the Clean Energy Compliance Fund. The accounts totaled \$248 million and \$284 million as of December 31, 2022 and 2021, respectively, and were invested in accordance with LIPA's investment policy. Due to the contractual obligation of LIPA to pre-fund such accounts, the funds are classified as restricted. Such accounts, except for the Clean Energy Compliance Fund which totaled \$20 million and \$8 million, respectively, are considered by LIPA to be a component of its working capital, as funds are used strictly for LIPA operating needs.

Grant Proceeds

As of December 31, 2022, there are no funds in the Grant Proceeds Fund.

UDSA

Restructuring charge collections are held by the Bond Trustee (Trustee) in Collection Accounts to satisfy debt service on the Restructuring Bonds. The Collection Accounts consist of four subaccounts: General Subaccount, Excess Funds Subaccount, Reserve Subaccount, and Upfront Financing Costs Subaccount. The Collection Accounts (other than the Upfront Financing Costs Subaccount) secure the Restructuring Bonds.

Restricted cash held by the Trustee, as of December 31, 2022 and 2021 includes \$89 million and \$55 million, respectively, in the General Subaccounts, and \$64 million and \$57 million, respectively in the Reserve Subaccounts.

The UDSA has separate investment guidelines that are specifically designed to address its legal and contractual requirements. These guidelines mandate that such investments be matched to meet bond principal and interest payments.

The following tables summarize LIPA's restricted cash, cash equivalents and investments as of December 31, 2022 and 2021. The credit ratings listed are from Moody's, S&P, and Fitch Ratings and the ratings shown are the lowest-rated obligation within each investment type.

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Deposit/investment type	Credit rating (if applicable)	Percent of portfolio	2022 Fair value	Cash and cash equivalents	Investments
Restricted Accounts for Working Capital, Clean Energy Compliance Fund, and Grants:					
Cash and collateralized deposits		47 %	\$ 117,595	117,595	—
Discount notes and bonds:					
Commercial paper	P-1/A-1/F1	3	6,226	—	6,226
Corporate	Baa-/BBB+/A-	20	48,882	—	48,882
Foreign government bonds	Aaa/AAA/AAA	3	8,715	—	8,715
Municipal bonds	Aa3/AAA/A	1	1,970	—	1,970
Treasury bills and notes	Aaa/AA+/AAA	25	61,343	—	61,343
Money-market mutual funds		1	3,129	3,129	—
Total		100 %	\$ 247,860	120,724	127,136
UDSA:					
Money-market mutual funds		100 %	\$ 153,150	153,150	—

Deposit/investment type	Credit rating (if applicable)	Percent of portfolio	2021 Fair value	Cash and cash equivalents	Investments
Restricted Accounts for Working Capital, Clean Energy Compliance Fund, and Grants:					
Cash and collateralized deposits		54 %	\$ 154,854	154,854	—
Discount notes and bonds:					
Commercial paper	P-1/A-1/F1	8	22,275	—	22,275
Corporate	A3/BBB+/A-	22	63,201	—	63,201
Federal agencies	Aaa/AA+	1	4,033	—	4,033
Foreign government bonds	Aaa/AAA/AAA	4	11,820	—	11,820
Municipal bonds	A	1	2,236	—	2,236
Treasury bills and notes	Aaa/P-1/AA+/A-1+	9	24,749	—	24,749
Money-market mutual funds		1	3,049	3,049	—
Total		100 %	\$ 286,217	157,903	128,314
UDSA:					
Money-market mutual funds		100 %	\$ 111,694	111,694	—

(c) Risk

LIPA's investment policy places a limit on investments by sector and issuer and addresses various risks, as described below. LIPA's Board may also specifically authorize, as it deems appropriate, other investments that are consistent with LIPA's investment objectives. LIPA regularly reviews and revises its investment policy.

Credit Risk: The risk that an issuer of a security will not fulfill its obligation to the investor. LIPA mitigates this risk by limiting investments to those carrying either the highest short-term rating or: (i) the two highest long-term ratings for supranationals and collateralized investment agreements; (ii) the three highest long-term ratings for corporates, municipals, and certificates of deposit; and (iii) the highest long-term rating for asset-backed securities. Money-market funds must have the highest fund rating by all nationally recognized statistical rating organizations that rate the fund. Counterparties of repurchase agreements must be rated in the highest short-term rating category, and floating-rate notes should reflect the appropriate sector rating requirements.

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Concentration of Credit Risk: The risk of loss attributed to the magnitude of an entity's investment in a sector single issuer. LIPA's investment policy has established limits such that no more than 5%, across all sectors of the investment portfolio, may be invested in the securities of any one non-governmental issuer, and no more than 40% may be invested in the securities of any one Federal Agency. Additionally, issuer limitations exist across other sectors of the portfolio as follows: (i) 10% for supranationals; (ii) 20% for repurchase agreements; and (iii) 25% for money-market funds.

Custodial Credit Risk: For deposits and investments, the risk that in the event of failure of a financial institution or counterparty, LIPA will not be able to recover its deposits, investments, or collateral securities that are in possession of another party. LIPA minimizes this risk by: (i) collateralizing its demand deposits and time deposits; (ii) utilizing financial institutions that are low risk, and highly rated by rating agencies; and (iii) having investments held by designated custodians in the name of LIPA.

As of December 31, 2022, and 2021, approximately \$151 million and \$230 million, respectively, in deposits were uninsured. LIPA has, through a pledge, assignment, and custodial agreement with its bank, collateralized 102% of the collective funds on deposit. LIPA has highly rated money-market funds of approximately \$733 million and \$299 million which were uninsured at December 31, 2022 and 2021, respectively.

Interest Rate Risk: The risk of a decline in the value of an investment resulting from interest rate fluctuations. Interest rate risk is commonly associated with investments in fixed-income products. LIPA's investment portfolio is structured to ensure sufficient liquidity is available, and as such, LIPA's investment policy has established maximum maturities by sector. The portfolio may not exceed a 5.5 year average life with certain exceptions as follows: (i) Federal Agency securities have a maximum maturity of 10 years; (ii) certificates of deposit may not exceed 3 years; (iii) banker's acceptances and commercial paper may not exceed 180 and 270 days, respectively; and (iv) repurchase agreements have a maximum maturity of 90 days. Additionally, there are no maturity limitations for investments in money-market or mutual funds.

In order to meet the OPEB Account objectives of funding future retirement benefit obligations while balancing long-term risk and return and providing reasonable diversification, the OPEB Account allocates its assets in domestic and international equity mutual funds and fixed-income mutual funds. The equity funds replicate broad-based, low-cost market index strategies. The fixed-income mutual funds replicate the Barclays U.S. Treasury Inflation Protected Securities Index or the Barclay's Capital U.S. Float Adjusted Aggregate Bond Market Index.

LIPA's OPEB Account investment policy has established fund targets as follows: (i) domestic equity mutual funds at 40%; (ii) international equity mutual funds at 25%; (iii) fixed-income investment mutual funds at 20%; and (iv) fixed-income investments—inflation protected securities mutual funds at 15%, with quarterly rebalancing when an asset class falls outside of a 5% range of its asset weighting.

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(d) Nuclear Decommissioning Trust Fund (NDTF)

LIPA maintains a separate investment policy applicable to the long-term investments in the NDTF, which are held to meet LIPA's obligation with respect to the eventual decommissioning of LIPA's 18% interest in the NMP2 nuclear facility. LIPA's policy is to periodically conduct an actuarial study to determine the appropriate level of funding for the NDTF and to maintain an appropriate investment policy so that the value in the trust in 2046 (the year in which decommissioning activities are scheduled to begin), will be sufficient to meet decommissioning obligations.

To meet LIPA's objectives of funding future nuclear decommissioning obligations, while balancing long-term risk and return and providing reasonable diversification, the NDTF is invested in domestic and international equity mutual funds and fixed-income mutual funds. The equity funds replicate broad-based, low-cost market index strategies. The fixed-income mutual funds replicate the Barclays U.S. Treasury Inflation Protected Securities Index or the Barclay's Capital U.S. Float Adjusted Aggregate Bond Market Index.

LIPA's NDTF investment policy has established fund targets as follows: (i) domestic equity mutual funds at 35%; (ii) international equity mutual funds at 20%; (iii) fixed-income investments mutual funds at 25%; and (iv) fixed-income investments — inflation protected securities mutual funds at 20%, with quarterly rebalancing when an asset class falls outside of a 5% range of its asset weighting.

The NDTF had the following investments as of December 31:

Mutual Fund Investment type	Percent of portfolio	2022 Fair value
Domestic equity	35 %	\$ 55,372
International equity	19	29,450
Fixed-income investments	25	38,325
Fixed-income investments-inflation protected securities	21	32,221
Total	100 %	\$ 155,368
Mutual Fund Investment type	Percent of portfolio	2021 Fair value
Domestic equity	37 %	\$ 68,777
International equity	19	34,812
Fixed-income investments	24	44,013
Fixed-income investments-inflation protected securities	20	36,634
Total	100 %	\$ 184,236

(e) Fair Value of Investments

The following table presents LIPA's unrestricted and restricted investments and its NDTF, measured and recorded at fair value on the Statements of Net Position and their level within the fair value hierarchy (as previously defined in Note 2 (u)):

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		2022			
Investment type		Fair Value	Level 1	Level 2	Level 3
Unrestricted and restricted investments:					
Discount notes:					
Commercial paper	\$	7,211	—	7,211	—
Corporate		139,016	—	139,016	—
Federal agencies		32,913	—	32,913	—
Foreign government bonds		19,943	—	19,943	—
Municipal bonds		6,043	—	6,043	—
Treasury bills and notes		125,635	125,635	—	—
Money-market mutual funds		522,648	522,648	—	—
Total	\$	853,409	648,283	205,126	—
NDTF Mutual Funds		155,368	155,368	—	—
Total	\$	155,368	155,368	—	—
		2021			
Investment type		Fair Value	Level 1	Level 2	Level 3
Unrestricted and restricted investments:					
Discount notes:					
Commercial paper	\$	237,270	—	237,270	—
Corporate		245,550	—	245,550	—
Federal agencies		42,521	—	42,521	—
Foreign government bonds		26,706	—	26,706	—
Municipal bonds		9,935	—	9,935	—
Treasury bills and notes		92,699	92,699	—	—
Money-market mutual funds		581,262	581,262	—	—
Total	\$	1,235,943	673,961	561,982	—
NDTF Mutual Funds		184,236	184,236	—	—
Total	\$	184,236	184,236	—	—

(f) OPEB Trust

LIPA created a legally separate Section 115 Trust (OPEB Trust) to fund its eligible employee and retiree OPEB obligation. Based on the funding analysis of an actuarial study, LIPA, in 2017, transferred approximately \$19 million from the OPEB Account to the OPEB Trust. Additionally, LIPA funded approximately \$0.82 million and \$0.69 million in 2022 and 2021, respectively, to the OPEB Trust. As of December 31, 2022 and 2021, the OPEB Trust totaled approximately \$25 million and \$30 million, respectively, which was approximately 104.3% for 2022 and 130.1% for 2021 of its net OPEB liability.

The OPEB Trust is restricted to funding LIPA's employee and retiree OPEB obligations.

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(12) Long-Term and Short-Term Debt

(a) Electric System General Revenue Bonds and Subordinated Revenue Bonds

LIPA financed the cost of acquiring the T&D system from LILCO with Electric System General Revenue Bonds. Ongoing capital improvements are funded through the issuance of debt, except where grants or excess cash flow provide the ability to cash fund such expenditures. LIPA and LILCO, which is now a subsidiary of LIPA, entered into a Financing Agreement, whereby LILCO transferred to LIPA all of its right, title, and interest in and to the revenues generated from the operation of the T&D system, including the right to collect and receive the same.

All of LIPA's bonds are secured by a Trust Estate as pledged under LIPA's Bond Resolution (the Resolution). The Trust Estate consists principally of the revenues generated by the operation of the T&D system and has been pledged to LIPA.

Below is a summary of LIPA's bond transactions completed during the years ended December 31:

2022			
Revenue Obligations:	2022A General Revenue Bonds	Par Amount:	\$ 130,360
Purpose:	Fund system improvements and pay issuance costs	Date Closed:	August 30, 2022
Revenue Obligations:	2022B General Revenue Bonds	Par Amount:	\$ 100,000
Purpose:	Fund system improvements and pay issuance costs	Date Closed:	August 30, 2022
Revenue Obligations:	2022C General Revenue Bonds	Par Amount:	\$ 150,000
Purpose:	Refund debt and pay issuance costs	Date Closed:	August 30, 2022
		NPV savings	\$ 17,141
2021			
Revenue Obligations:	2021 General Revenue Notes	Par Amount:	\$ 250,000
Purpose:	Fund costs related to Tropical Storm Isaias and pay issuance costs	Date Closed:	January 28, 2021
Revenue Obligations:	2021A General Revenue Bonds	Par Amount:	\$ 355,755
Purpose:	Refinance debt, fund system improvements and pay issuance costs	Date Closed:	September 30, 2021
Revenue Obligations:	2021B General Revenue Bonds	Par Amount:	\$ 175,000
Purpose:	Fund system improvements and pay issuance costs	Date Closed:	September 30, 2021
Revenue Obligations:	2021C General Revenue Bonds	Par Amount:	\$ 194,390
Purpose:	Refund debt and pay issuance costs	Date Closed:	September 30, 2021
		NPV savings	\$ 45,857

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(b) Component Unit Bonds – UDSA

LIPA's Board adopted Financing Orders authorizing the issuance of Restructuring Bonds by the UDSA to allow LIPA and UDSA to retire a portion of its outstanding indebtedness and to fund transmission and distribution resiliency investments. The Restructuring Bonds are not obligations of LIPA.

Below is a summary of UDSA's bond transactions completed during the year ended December 31, 2022. No bond transactions occurred during 2021

2022				
Restructuring Bonds:	2022 Taxable and Tax Exempt (TE) -1 Restructuring Bonds	Par Amount:	\$	840,875
Purpose:	Refinance outstanding LIPA and UDSA indebtedness	Date Closed:		September 29, 2022
	and pay issuance costs	NPV savings	\$	42,081
Restructuring Bonds:	2022 TE-2 Restructuring Bonds - Green Bonds	Par Amount:	\$	94,780
Purpose:	Finance T&D system resiliency projects	Date Closed:		September 29, 2022

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LIPA's long-term debt as of December 31, 2022 consisted of the following:

	Beginning balance	Accretion/ additions	Maturities	Repaid/ Refundings	Ending balance	Years of Maturity	Interest Rate (%)	
General revenue bonds/notes:								
Series 1998A	\$ 74,388	3,770	12,970	12,199	52,989	2024-2028	5.30	(a)
Series 2000A	243,916	13,141	36,390	19,145	201,522	2023-2029	5.90-5.95	(a)
Series 2003C	36,645	—	—	—	36,645	2028-2029	5.25	
Series 2010B	162,605	—	—	—	162,605	2024-2041	5.45-5.85	(c)
Series 2012A	40,995	—	—	40,995	—	—	—	
Series 2012B	175,750	—	11,880	163,870	—	—	—	
Series 2014A	413,070	—	—	—	413,070	2034-2044	4.00-5.00	
Series 2014B	67,155	—	—	—	67,155	2024-2026	3.88-4.13	
Series 2014C FRN	150,000	—	—	108,760	41,240	2030-2033	3.63	(b)(d)
Series 2015B	107,855	—	—	2,635	105,220	2024-2045	3.00-5.00	
Series 2015C FRN	149,000	—	—	—	149,000	2030-2033	3.63	(b)(d)
Series 2016B	362,740	—	5,640	—	357,100	2023-2046	5.00	
Series 2017	336,880	—	—	7,060	329,820	2024-2047	5.00	
Series 2018	428,000	—	—	2,900	425,100	2024-2039	3.38-5.00	
Series 2019A	210,675	—	—	2,500	208,175	2024-2039	3.00-5.00	
Series 2019B	284,250	—	—	—	284,250	2032-2049	1.65	
Series 2020A	235,475	—	—	2,500	232,975	2024-2040	4.00-5.00	
Series 2020B	250,000	—	—	—	250,000	2040-2050	0.85	
Series 2020C	91,615	—	—	—	91,615	2023	0.76	(e)
Series 2021	250,000	—	—	—	250,000	2025	1.00	
Series 2021A	355,755	—	2,855	2,910	349,990	2024-2042	1.50-5.00	
Series 2021B	175,000	—	—	—	175,000	2042-2051	1.50	
Series 2021C	194,390	—	—	—	194,390	2023	0.36	(e)
Series 2022A	—	130,360	—	—	130,360	2023-2044	5.00	
Series 2022B	—	100,000	—	—	100,000	2044-2052	5.00	
Series 2022C	—	150,000	—	—	150,000	2030-2038	2.30-4.11	(b)
Direct placement notes:								
Series 2015A1 FRN	51,000	—	—	—	51,000	2033	2.23	(b)(d)
Series 2015A2 FRN	149,000	—	—	—	149,000	2029	2.02	(b)(d)
Subtotal	4,996,159	397,271	69,735	365,474	4,958,221			
UDSA restructuring bonds:								
Series 2013T	114,641	—	41,981	—	72,660	2023	3.44	
Series 2013TE	1,374,390	—	—	659,290	715,100	2023-2039	5.00	
Series 2015	989,095	—	21,385	—	967,710	2023-2035	3.00-5.00	
Series 2016A	636,770	—	—	—	636,770	2023-2033	5.00	
Series 2016B	244,675	—	90,980	—	153,695	2023-2033	4.00-5.00	
Series 2017	343,785	—	23,165	—	320,620	2023-2039	5.00	
Series 2022T	—	53,585	—	—	53,585	2023-2037	4.42-4.95	
Series 2022TE-1	—	787,290	—	—	787,290	2023-2037	5.00	
Series 2022TE-2	—	94,780	—	—	94,780	2038-2050	5.00	
Subtotal	3,703,356	935,655	177,511	659,290	3,802,210			
	8,699,515	1,332,926	247,246	1,024,764	8,760,431			
Plus: Net premium	688,546	122,356	75,518	36,890	698,494			
Less: Current maturities	(247,246)	—	—	—	(294,775)			
Total Long-term debt	\$ 9,140,815				9,164,150			

(a) Capital Appreciation Bonds

(b) Certain bonds of this series are subject to interest rate exchange agreements

(c) Taxable Build America Bonds subject to federal subsidy, rate shown is pre-subsidy level

(d) Variable rate (rate presented as of the December 31, 2022)

(e) On February 24, 2023, Series 2020C and Series 2021C were refunded with General Revenue Bonds, 2023A and 2023B; and as such, amounts were excluded from current maturities.

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LIPA's long-term debt as of December 31, 2021 consisted of the following:

	Beginning balance	Accretion/ additions	Maturities	Repaid/ Refundings	Ending balance	Years of Maturity	Interest Rate (%)	
General revenue bonds/notes:								
Series 1998A	\$ 82,961	4,397	12,970	—	74,388	2022-2028	5.30	(a)
Series 2000A	265,117	14,699	35,900	—	243,916	2022-2029	5.90-5.95	(a)
Series 2003C	36,645	—	—	—	36,645	2028-2029	5.25	
Series 2010B	194,715	—	15,785	16,325	162,605	2024-2041	5.45-5.85	(c)
Series 2011A	685	—	685	—	—	—	—	(b)
Series 2012A	166,970	—	—	125,975	40,995	2036-2042	5.00	(b)
Series 2012B	179,035	—	3,285	—	175,750	2022-2029	5.00	(b)
Series 2014A	413,070	—	—	—	413,070	2034-2044	4.00-5.00	(b)
Series 2014B	94,010	—	6,085	20,770	67,155	2024-2026	3.88-4.13	(b)
Series 2014C FRN	150,000	—	—	—	150,000	2030-2033	0.82	(b)(d)
Series 2015B	110,370	—	—	2,515	107,855	2023-2045	3.00-5.00	
Series 2015C FRN	149,000	—	—	—	149,000	2030-2033	0.82	(b)(d)
Series 2016B	368,260	—	—	5,520	362,740	2022-2046	5.00	
Series 2017	345,000	—	1,400	6,720	336,880	2023-2047	5.00	
Series 2018	430,000	—	—	2,000	428,000	2023-2039	3.38-5.00	
Series 2019A	215,675	—	2,500	2,500	210,675	2023-2039	3.00-5.00	
Series 2019B	284,250	—	—	—	284,250	2032-2049	1.65	
Series 2020A	237,975	—	—	2,500	235,475	2023-2040	4.00-5.00	
Series 2020B	250,000	—	—	—	250,000	2040-2050	0.85	
Series 2020C	113,975	—	—	22,360	91,615	2023	0.76	(b)
Series 2021	—	250,000	—	—	250,000	2025	1.00	
Series 2021A	—	355,755	—	—	355,755	2022-2042	1.50-5.00	
Series 2021B	—	175,000	—	—	175,000	2042-2051	1.50	
Series 2021C	—	194,390	—	—	194,390	2023	0.36	
Direct placement notes:								
Series 2015A1 FRN	51,000	—	—	—	51,000	2033	2.23	(b)(d)
Series 2015A2 FRN	149,000	—	—	—	149,000	2029	2.02	(b)(d)
Series 2016A FRN	175,000	—	—	175,000	—	—	—	(b)(d)
Subtotal	4,462,713	994,241	78,610	382,185	4,996,159			
UDSA restructuring bonds:								
Series 2013T	186,200	—	71,559	—	114,641	2022-2023	3.44	
Series 2013TE	1,374,390	—	—	—	1,374,390	2023-2039	5.00	
Series 2015	1,002,115	—	13,020	—	989,095	2022-2035	3.00-5.00	
Series 2016A	636,770	—	—	—	636,770	2023-2033	5.00	
Series 2016B	317,270	—	72,595	—	244,675	2022-2033	4.00-5.00	
Series 2017	366,030	—	22,245	—	343,785	2022-2039	5.00	
Subtotal	3,882,775	—	179,419	—	3,703,356			
	8,345,488	994,241	258,029	382,185	8,699,515			
Plus: Net premium	668,958	101,258	71,747	9,923	688,546			
Less: Current maturities	(258,029)	—	—	—	(247,246)			
Total Long-term debt	\$ 8,756,417				9,140,815			

(a) Capital Appreciation Bonds

(b) Certain bonds of this series are subject to interest rate exchange agreements

(c) Taxable Build America Bonds subject to federal subsidy, rate shown is pre-subsidy level

(d) Variable rate (rate presented as of the December 31, 2021)

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The debt service requirements for LIPA's bonds (excluding short-term debt such as general revenue notes and revolving credit facility but including the UDSA Restructuring Bonds) as of December 31, 2022 are as follows:

Due	Principal*	Interest	Net swap payments (receipts)	Total
2023	\$ 294,775	360,923	7,976	663,674
2024	365,750	347,389	7,965	721,104
2025	634,310	331,675	7,988	973,973
2026	394,630	312,984	7,989	715,603
2027	410,580	297,030	8,034	715,644
2028–2032	2,305,350	1,195,231	(5,289)	3,495,292
2033–2037	1,834,690	682,764	(14,449)	2,503,005
2038–2042	1,324,810	285,965	(5,163)	1,605,612
2043–2047	675,785	94,299	—	770,084
2048–2052	293,045	18,051	—	311,096
Total	\$ 8,533,725	3,926,311	15,051	12,475,087

* Future interest on capital appreciation bonds are included in principal maturities.

Future debt service on the variable-rate bonds and the floating-rate portion of floating-to-fixed rate swaps is calculated using the relevant indices, including applicable spreads, as of December 31, 2022. Such rates, as shown in the long-term debt summary table, are assumed constant through maturity. For bonds subject to floating-to-fixed rate swap agreements, the “net swap payments” represent the fixed rate swap payment net of the assumed variable rate swap receipts for each agreement.

Terms by which interest rates change for variable rate debt are as follows:

The 2014C FRN Bonds bear interest at 70% of one-month LIBOR, plus the per annum spread of 75 basis points. The rate is determined on the second London Banking Day prior to the first business day of each month.

The 2015A-1 FRN Bonds bear interest at the sum of the prevailing 18-year AAA MMD general obligation index and the applicable spread of 90 basis points. The MMD FRN rate resets on the first business day of each month.

The 2015A-2 FRN Bonds bear interest at the sum of the prevailing 14-year AAA MMD general obligation index and the applicable spread of 90 basis points. The MMD FRN rate resets on the first business day of each month.

The 2015C FRN Bonds bear interest at 70% of one-month LIBOR, plus the per annum spread of 75 basis points. The rate is determined on the second London Banking Day prior to the first business day of each month.

During 2021, the 2016A FRN Bonds were refunded with proceeds from Series 2021A.

The 2022C FRN Bonds bear interest at SIFMA plus the per annum spread of 45 basis points. The rate is determined on Wednesday of each week, or if any Wednesday is not a business day, the immediately succeeding business day.

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(c) Callable Bonds

LIPA has approximately \$4.2 billion of Electric Revenue Bonds callable through 2032. The UDSA has approximately \$2.6 billion of Restructuring Bonds callable through 2032.

(d) Interest Rate Swap Agreements

LIPA has entered into several interest rate swap agreements with various counterparties to modify the interest rate on outstanding debt. For further discussion, see Note 8.

(e) Short-Term Debt

LIPA's short-term borrowing program provides resources to meet interim working capital needs, cash flow requirements due to the seasonality of sales, and cash flow requirements from unforeseen circumstances such as severe weather events. The Board has authorized a maximum authorization of \$1.2 billion in short-term borrowings.

LIPA's short-term debt as of December 31, 2022 consisted of the following instruments:

		Maximum Authorized Par Amount	Beginning Balance	Additions	Payments	Ending Balance	Supporting Letter of Credit Expiration Date
General revenue notes:							
Series 2019A	Revolving Credit Agreement \$	200,000	2,000	—	2,000	—	3/15/2027
Series 2015 CP 1AB	Commercial Paper	200,000	50,000	240,000	239,000	51,000	6/30/2025
Series 2015 CP 2AB	Commercial Paper	150,000	50,000	200,000	170,000	80,000	6/30/2025
Series 2015 CP 3AB	Commercial Paper	100,000	—	85,000	85,000	—	5/05/2023
Series 2015 CP 4AB	Commercial Paper	200,000	150,000	125,000	275,000	—	3/08/2024
Series 2015 CP 5AB	Commercial Paper	100,000	85,000	75,000	160,000	—	3/11/2025
Series 2015 CP 6AB	Commercial Paper	250,000	85,000	210,000	295,000	—	3/14/2024
Total short-term debt		\$ 1,200,000	422,000	935,000	1,226,000	131,000	

LIPA's short-term debt as of December 31, 2021 consisted of the following instruments:

		Maximum Authorized Par Amount	Beginning Balance	Additions	Payments	Ending Balance	Supporting Letter of Credit Expiration Date
General revenue notes:							
Series 2019A	Revolving Credit Agreement \$	200,000	2,000	—	—	2,000	3/15/2022
Series 2015 CP 1AB	Commercial Paper	200,000	60,000	405,000	415,000	50,000	6/30/2025
Series 2015 CP 2AB	Commercial Paper	150,000	85,000	150,000	185,000	50,000	6/30/2025
Series 2015 CP 3AB	Commercial Paper	100,000	100,000	—	100,000	—	5/05/2023
Series 2015 CP 4AB	Commercial Paper	200,000	170,000	260,000	280,000	150,000	3/08/2024
Series 2015 CP 5AB	Commercial Paper	100,000	—	225,000	140,000	85,000	3/11/2022
Series 2015 CP 6AB	Commercial Paper	250,000	—	235,000	150,000	85,000	3/14/2024
Total short-term debt		\$ 1,200,000	417,000	1,275,000	1,270,000	422,000	

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(f) **Covenants**

LIPA's General Resolution, bond agreements with purchasers of LIPA's direct placement notes, and bank agreements supporting its short-term borrowing program generally include certain covenants, events of default, and remedies including, in some cases, acceleration of the related obligations. In addition, the bond agreements and bank agreements generally include different and/or additional covenants from the General Resolution such as, among others: (i) a requirement that LIPA maintain an amount not less than \$150 million in the Rate Stabilization Fund and (ii) a more rigorous rate covenant. Complete copies of LIPA's financing documents for its long-term and short-term borrowings, the bond agreements, bank agreements, and related offering documents have been filed with the Municipal Securities Rulemaking Board's EMMA website.

(g) **Fixed Obligation Coverage Ratio**

LIPA makes use of a fixed obligation coverage ratio to determine revenue requirements. LIPA's methodology for calculating the fixed obligation coverage ratio excludes certain specified non-cash items from expenses. Depreciation expense and amortization of the Acquisition Adjustment and other regulatory assets, including the PSEG Long Island accrual expense for future OPEB benefit cost obligations, are excluded from the coverage calculation. The revenue section of this calculation includes revenues received from certain customers used to satisfy regulatory assets that were established when LIPA issued debt to fund these projects. For calculating the coverage ratios, such cash receipts are available to meet LIPA's fixed obligation requirements, as they are a component of cash flow, but are excluded from revenues for accrual accounting purposes.

Certain interest-related costs, such as interest rate derivative costs, letters of credit and remarketing fees, bond administration costs, and interest related to customer deposits, are treated as ordinary operating expenses without coverage. LIPA and UDPA principal and interest payments, including interest payments on LIPA's short-term borrowing program and payments on leases, are included for coverage.

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Effective for 2022 and 2021, the LIPA Board's policy on fiscal sustainability established a fixed obligation coverage ratio of 1.40x and 1.35x respectively, of debt and lease payments. LIPA's calculation of its fixed obligation coverage ratio for the years ended December 31, 2022 and 2021 is shown below for informational purposes.

	2022	2021	
Operating revenues, net of uncollectible accounts expense	\$ 4,279,158	3,930,788	(1)
Other income	60,609	75,277	(1)
Shoreham Settlement & VBA regulatory asset receipts	52,275	52,081	(2)
Total revenues and income	4,392,042	4,058,146	
Operating expenses	(3,944,593)	(3,630,026)	(1)
Add non cash expenses/(deduct cash funding):			
Depreciation and amortizations	422,797	425,898	(1)
Lease allowance	406,237	407,395	(3)
OPEB accrual expense	42,906	45,825	(2)(4)
Other interest expense	(27,144)	(42,142)	(2)
Total expenses	(3,099,797)	(2,793,050)	
Funds available for debt service	\$ 1,292,245	1,265,096	
Principal and interest – LIPA	242,190	231,631	(2)
Principal and interest – UDSA	350,905	367,388	(2)
Lease liabilities	406,237	407,395	(3)
Total fixed obligation debt service	\$ 999,332	1,006,414	
Fixed Obligation Coverage Ratio:			
Excluding UDSA	1.45	1.40	(5)
Including UDSA	1.29	1.26	
Board approved budget coverage target:			
Excluding UDSA	1.40	1.35	
Including UDSA	1.20	1.15	

Notes:

(1) See Statements of Revenues, Expenses and Changes in Net Position

(2) See Statements of Cash Flow

(3) See Note 12 (h) (below)

(4) The financial policy adopted by LIPA's Board adds back the PSEG Long Island OPEB accrual operating expense as available to pay debt service. There are no mandatory pre-funding requirements for these OPEB expenses. LIPA voluntarily sets aside funds for OPEB obligations in an OPEB Account after payment of all operating expenses and debt service each year. See note 11 for more detail.

(5) 2022 – Excluding UDSA equal to $(\$1,292,245 \text{ less } (\$350,905))/(\$999,332 \text{ less } (\$350,905))$
2021 – Excluding UDSA equal to $(\$1,265,096 \text{ less } (\$367,388))/(\$1,006,414 \text{ less } (\$367,388))$

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(h) Changes in noncurrent liabilities

LIPA's other long-term liabilities as of December 31, 2022 were comprised of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
Long-term liabilities and unrealized credits	\$ 41,125	26,611	(32,233)	35,503
Borrowings	34,739	—	(4,275)	30,464
Claims and damages	155,459	38,019	(7,464)	186,014
Lease liabilities	2,121,921	50,502	(406,237)	1,766,186
Total other long-term liabilities \$	<u>2,353,244</u>	<u>115,132</u>	<u>(450,209)</u>	<u>2,018,167</u>

LIPA's other long-term liabilities as of December 31, 2021 were comprised of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
Long-term liabilities and unrealized credits	\$ 62,838	23,844	(45,557)	41,125
Borrowings	61,786	50	(27,097)	34,739
Claims and damages	65,734	98,701	(8,976)	155,459
Lease liabilities	2,457,513	71,803	(407,395)	2,121,921
Total other long-term liabilities \$	<u>2,647,871</u>	<u>194,398</u>	<u>(489,025)</u>	<u>2,353,244</u>

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(13) OSA – Employee Retirement Benefits Obligations

PSEG Long Island

PSEG Long Island employee pension and OPEB obligations are legal obligations of PSEG Long Island, and the employees covered by these plans are PSEG Long Island employees. However, the cost to employ PSEG Long Island's workforce, including employee pension and other post-employment benefits, are a "pass-through expenditure" and contractual liability of LIPA.

When transitioning National Grid employees to PSEG Long Island, to ensure the National Grid workforce serving LIPA was protected against benefit losses from the transition, the PSEG Long Island benefit plans credited National Grid transitioned employees for service prior to the OSA for purposes such as eligibility, participation, vesting, company match levels, subsidies (including any type of early retirement subsidy), and attainment of retirement dates. In addition, those employees who immediately prior to the OSA effective date could have become eligible to participate in the National Grid post-employment health and life insurance benefit plans are entitled to receive substantially equivalent post-employment health and life insurance benefits from PSEG Long Island. This arrangement created a prior service cost obligation totaling \$126 million for pensions and \$316 million for OPEBs as of January 1, 2014.

The following table provides a roll-forward of the changes to the benefit obligations and the fair value of the plan assets during each of the years ended December 31, 2022 and 2021.

		Pension benefits		Post-employment benefits	
		2022	2021	2022	2021
Benefit obligation at beginning of year	\$	595,986	569,636	639,829	698,696
Service cost		38,040	38,307	21,207	23,267
Interest cost		16,552	13,815	18,443	17,771
Actuarial gain		(188,898)	(18,714)	(215,044)	(88,782)
Benefits paid		(9,563)	(7,058)	(9,746)	(11,123)
Benefit obligation at end of year		452,117	595,986	454,689	639,829
Fair value of assets at beginning of year		422,453	343,234	—	—
Actual (deficit) return on plan assets		(72,662)	48,877	—	—
LIPA/Employer contribution		30,000	37,400	9,746	11,123
Benefits paid		(9,563)	(7,058)	(9,746)	(11,123)
Fair value of assets at end of year		370,228	422,453	—	—
LIPA unfunded obligation	\$	(81,889)	(173,533)	(454,689)	(639,829)

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The table also provides the funded status of the PSEG Long Island plans and the amounts recognized as the long-term contractual liability on the Statements of Net Position at the end of both years.

The table does not reflect the balance of LIPA's OPEB Account, which was established to pre-fund the contractual liability for post-employment benefits. LIPA's Board authorized the creation of an OPEB Account to allow LIPA to segregate funds to meet future OPEB obligations for PSEG Long Island employees. As of December 31, 2022 and 2021, LIPA had on deposit in the OPEB Account approximately \$523 million and \$581 million, respectively. For a further discussion, see Note 11.

The unfunded contractual liability related to pension and post-employment benefits decreased during 2022 due to the impact of an update of certain assumptions regarding the census data, claims costs, excise taxes, and the discount rate. These changes resulted in a net actuarial gain of approximately \$189 million for pension benefits and approximately \$215 million for post-employment benefits as follows:

<i>(amounts in millions)</i>	Pension benefits	Post-employment benefits
Updated census data	\$ 3.5	(5.3)
Updated assumptions	(5.0)	2.8
Impact of adopting granular method	4.0	4.1
Discount rate changes (see table below)	(191.5)	(216.6)
Total gain	\$ (189.0)	(215.0)

The actuarial valuations related to pension and post-employment benefits involve estimates and assumptions regarding the probability of events in the future. Below are the weighted average assumptions used to calculate actuarial present values of benefit obligations as of December 31, 2022 and 2021:

	Pension benefits		Post-employment benefits	
	2022	2021	2022	2021
Discount rate	5.30 %	3.21 %	5.34 %	3.28 %
Rate of compensation increase	3.95 %	3.95 %	3.95 %	3.95 %

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Pension Plan Assets

During 2022 and 2021, LIPA provided \$30 million and \$37 million, respectively, to PSEG Long Island for deposit in its pension plan trust fund. The trust is sponsored, overseen, and managed by the PSEG Thrift & Pension Investment Committee. The benefit plan assets are maintained separately and are not commingled with other PSEG plans. The benefit plan assets are not LIPA assets and, therefore, are not reflected on the Statements of Net Position. These assets, however, reduce LIPA's contractual obligation to PSEG Long Island for the benefit obligations of the PSEG Long Island employees. The following table outlines the PSEG Long Island pension assets as of December 31, 2022 and 2021:

Investment type	2022		2021	
	Amount	Allocation	Amount	Allocation
Equity	\$ 275,260	74.4%	319,122	75.6%
Fixed-income	93,365	25.2	102,197	24.2
Other	1,603	0.4	1,134	0.2
	<u>\$ 370,228</u>	<u>100.0%</u>	<u>422,453</u>	<u>100.0%</u>

National Grid A&R PSA

The capacity charge of the A&R PSA is adjusted each year for the actuarially required contributions for the pension and OPEB (P&OPEB) benefits of the employees that work at these National Grid power plants. The actuarially required contributions are reflected in annual filings by National Grid with FERC. As of the most recent estimate provided by National Grid's actuary dated March 2022, the P&OPEB obligations are estimated to be overfunded by approximately \$28 million compared with an estimated underfunded status in 2021 by approximately \$23 million. This funding status is a component in the development of the actuarially required contributions in each year. LIPA does not expect to have a material liability for P&OPEB obligations under the A&R PSA upon termination of the contract.

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(14) LIPA Employee Benefits

All full-time LIPA employees must participate in one of two employee retirement plans offered by LIPA, either: (i) the New York State and Local Retirement System (the Retirement System); or (ii) the New York State Voluntary Defined Contribution Plan (VDC). Employees in part-time positions have the option of enrolling in the Retirement System.

(a) Pension Plans

(i) Plan Description

The Retirement System is a cost-sharing multiple-employer defined benefit retirement system. The net position of the Retirement System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in fiduciary net position allocated to the Retirement System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the Retirement System. Retirement System benefits are established under the provisions of the New York State Retirement and Social Security Law (NYSRSSL). Once a public employer elects to participate in the Retirement System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a New York State statute. The Retirement System is included in New York State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

(ii) Benefits

The Retirement System provides retirement benefits as well as death and disability benefits and uses a tier concept to distinguish membership classes (i.e. Tiers 1 through 6) with Tier membership based on the date an employee joins the Retirement System. The Retirement System is noncontributory for Tier 1 and 2 employees who joined on or prior to July 26, 1976. Tiers 3 and 4 employees, who joined between July 27, 1976 and December 31, 2009, are required to contribute 3% of their gross earnings toward their retirement benefits until the employee either accrues ten years of service credit or has been a member of the Retirement System for ten years after their date of membership. Employees who joined the Retirement System after January 1, 2010 are Tier 5 employees and contribute 3% of their salary during their entire length of service. Employees who joined the Retirement System on or after April 1, 2012 are Tier 6 employees and must contribute for their entire length of service.

Tier 6 contribution rates vary based on annual compensation. During the first three years of membership, the Tier 6 employee contribution rate is based on the employee's annual wage. After this three-year period, the employee's contribution rate will be based on actual earnings in the two years prior. The contribution rate varies between 3% and 6% depending on an employee's actual salary.

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All members become vested in the pension plan after five years of credited service. All members are generally eligible to receive benefits at age 55. The benefit is generally 1.66% of final average salary (FAS), multiplied by the number of years of service, for members who retire with less than 20 years of service. The benefit calculation for Tiers 1 and 2 members with greater than 20 years of service credit, or Tiers 3 through 5 members between 20 and 30 years of service credit is calculated using 2% of FAS for each year of service. Tier 3 through 5 members are eligible for an additional 1.5% of FAS applied to each year of service over 30 years. The benefit for Tier 6 members with more than 20 years of service is 1.75% of FAS for 20 years of service plus 2% of FAS for each year of service credit in excess of 20 years. The Retirement System provides an annual automatic cost of living adjustment to members or surviving spouses based on certain eligibility criteria.

(iii) *Post-Employment Benefit Increases*

A cost-of-living adjustment is provided annually to: (i) all pensioners who have attained age 62 and have been retired for five years; (ii) all pensioners who have attained age 55 and have been retired for ten years; (iii) all disability pensioners, regardless of age, who have been retired for five years; (iv) Retirement System recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years; and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria.

(iv) *Employers Contributions*

Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Retirement Systems' fiscal year ending March 31. LIPA's contributions for the year ended December 31, 2022, 2021, and 2020, were equal to 100% of the contributions required, and were \$0.58 million, \$0.72 million, \$0.61 million, respectively.

(v) *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred In-flows of Resources Related to Pensions*

As of December 31, 2022, LIPA reported an asset of \$0.83 million and as of December 31, 2021, LIPA reported a liability of \$0.01 million for its proportionate share of the Retirement System net pension liability. The total pension liability, as reported by the Retirement System, as of March 31, 2022 was determined using an actuarial valuation as of April 1, 2021, with update procedures used to roll-forward the total pension liability to March 31, 2022. LIPA's proportionate share of the net pension liability was based on a projection of LIPA's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

As of December 31, 2022 and 2021, LIPA's proportionate share was 0.01% of the Retirement System net pension liability.

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For the years ended December 31, 2022 and 2021, LIPA recognized pension expense of \$0.20 million and \$0.40 million, respectively. As of December 31, 2022 and 2021, LIPA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual expense	\$ 63	82	120	—
Net difference between projected and actual earnings on investments	—	2,732	—	2,820
Changes in assumptions	1,392	23	1,805	34
Net difference between LIPA's contributions and proportionate share of contributions	474	31	398	46
LIPA's contributions subsequent to the measurement date	580	—	722	—
	<u>\$ 2,509</u>	<u>2,868</u>	<u>3,045</u>	<u>2,900</u>

The net amount of LIPA's balances of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan years ended December 31:

2023	(40)
2024	(187)
2025	(622)
2026	(90)
	<u>\$ (939)</u>

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(vi) Actuarial Assumptions

For December 31, 2022, the total pension liability as of the measurement date was determined by using an actuarial valuation as of April 1, 2021, with update procedures used to roll-forward the total pension liability to the measurement date. The actuarial valuation used the following assumptions:

Measurement date:	March 31, 2022
Actuarial valuation date:	April 1, 2021
Actuarial cost method:	Aggregate Cost Method
Inflation:	2.70 %
Salary scale:	4.40 %
Investment rate of return, including inflation (compounded annually, net of expenses):	5.90 %
Cost of living adjustments, annually:	1.40 %
Decrement tables:	April 1, 2015 – March 31, 2020 Retirement System's Experience
Mortality improvement:	Society of Actuaries Scale MP-2020

For December 31, 2021, the total pension liability as of the measurement date was determined by using an actuarial valuation as of April 1, 2020, with update procedures used to roll-forward the total pension liability to the measurement date. The actuarial valuation used the following assumptions:

Measurement date:	March 31, 2021
Actuarial valuation date:	April 1, 2020
Actuarial cost method:	Aggregate Cost Method
Inflation:	2.70 %
Salary scale:	4.40 %
Investment rate of return, including inflation (compounded annually, net of expenses):	5.90 %
Cost of living adjustments, annually:	1.40 %
Decrement tables:	April 1, 2015 – March 31, 2020 Retirement System's Experience
Mortality improvement:	Society of Actuaries Scale MP-2020

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized below:

Asset class	Long-term expected real rate of return (%)
Domestic equity	3.30
International equity	5.85
Private equity	6.50
Real estate	5.00
Opportunistic/Absolute return strategies	4.10
Credit	3.78
Real assets	5.80
Fixed income	—
Cash	(1.00)

(vii) Discount Rate

The discount rate used to calculate the total pension liability was 5.90% as of December 31, 2022 and 2021. The projection of cash flows used to determine the discount rate assumes that contributions from pension plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current pension plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(viii) Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following represents the current-period net pension liability of LIPA's proportionate share of the net pension liability, as of December 31, 2022, calculated using the current-period discount rate assumption of 5.90%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (4.90%) or 1-percentage-point higher (6.90%) than the current assumption:

	1% Decrease (4.9%)	Assumption (5.9%)	1% Increase (6.9%)
LIPA's proportionate share of the net pension liability (asset)	\$ 2.1 million	0.83	(3.3) million

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The following represents the current-period net pension liability of LIPA's proportionate share of the net pension liability, as of December 31, 2021, calculated using the current-period discount rate assumption of 5.90%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (4.90%) or 1-percentage-point higher (6.90%) than the current assumption:

	1% Decrease (4.9%)	Assumption (5.9%)	1% Increase (6.9%)
LIPA's proportionate share of the net pension liability (asset)	\$ 2.7 million	0.01	(2.5) million

(b) New York State Voluntary Defined Contribution Plan

LIPA offers certain full-time employees participation in a VDC Plan, which is an alternative to the State's Retirement System. The VDC option is available to all unrepresented State, New York City, and local public employees who are hired on or after July 1, 2013 and are paid at a rate of \$75 thousand or more on an annual basis. For those employees choosing this option, LIPA is required to contribute 8% of their gross salary and the employee contributes between 3% and 6% depending on salary. All contributions are fully vested after one year.

(c) Deferred Compensation Savings Plan

LIPA also offers all employees an option to participate in a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457(b). This plan permits participants to defer a portion of their salaries until future years. Amounts deferred under the plan are not available to employees or beneficiaries until termination, retirement, death, or an unforeseeable emergency. An independent trustee is also responsible for the administration of this plan.

(d) Other Post-Employment Benefits

OPEBs are a form of employee compensation that are recognized in the same period in which the compensated service is provided by the employees. OPEBs include post-employment healthcare benefits (including medical, dental, vision, hearing, and other health-related benefits) and other forms of post-employment benefits (including life insurance, disability, and long-term care).

LIPA is a participating employer in the New York State Health Insurance Program (NYSHIP), which is an agent multiple-employer plan administered by the New York State Department of Civil Service. Through NYSHIP, LIPA provides certain medical benefits for eligible retired employees and their dependents. Participation in the NYSHIP program provides for employees and/or their dependents to continue eligibility for these benefits in retirement. Employees with membership in the NYSLRS are eligible for retiree medical insurance if the employee has at least one year of full-time service with LIPA and satisfied the requirements for retiring as a member of the Retirement System. Employees enrolled in the VDC are eligible for retiree medical insurance if the employee has five years of full-time service with LIPA and meets the age requirement of the Retirement System tier in effect at the time the employee last entered service.

NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State.

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LIPA's OPEB liability totaled approximately \$24 million and \$23 million as of December 31, 2022 and 2021, respectively. LIPA's OPEB Trust, a legally separate Section 115 trust approved by LIPA's Board to accumulate resources for its OPEB obligation, totaled approximately \$25 million and \$30 million as of December 31, 2022 and 2021, respectively, for a total respective funding of 104.3% and 130.1%. Contributions to the OPEB Trust are based on an actuarial valuation.

(15) Commitments and Contingencies

(a) Leases

In 2020, LIPA adopted the provisions of GASB Statement No. 87. As such LIPA recognized a lease liability and a leased asset for agreements whereby LIPA obtains the right to the present service capacity of an underlying asset and the right to determine the nature and manner of an underlying asset's use for a period of one year or greater. Below is a description of these lease arrangements:

(i) Capacity Arrangements

In providing electricity to its customers, LIPA has entered into a variety of power purchase agreements that ensure LIPA can meet the electricity needs of its customers. These arrangements range from contracts where LIPA acquires a product such as power without controlling the underlying facility, to arrangements where LIPA obtains the right to control the underlying facility by controlling a plant's output or a transmission line's throughput. LIPA has recorded a lease asset and a corresponding lease liability in each power and transmission contract where it has obtained control. A common feature of arrangements where LIPA has recorded a lease asset and a corresponding lease liability involves the plant owner transferring to LIPA the right to bid capacity and associated energy prices into the New York State capacity markets during the term of the contract.

The lease assets associated with capacity arrangements include tolling arrangements, capacity-only arrangements, and firm transmission contracts. The lessors to these capacity agreements typically bill LIPA based upon a fixed monthly capacity charge applied to the megawatts under contract for the term of the contract. During the term of the arrangement, the megawatts under contract are subject to a capacity test to determine each year's contractual megawatts, whereas the fixed monthly capacity charge may be subject to adjustment based upon fixed rate scheduled changes, price indexes and other computations. These arrangements do not contain any residual value guarantees by LIPA and LIPA has not paid any termination penalties associated with these agreements in 2022 or 2021. Contractual elements such as service arrangements included within these capacity arrangements have been excluded from the determination of the lease asset and corresponding lease liability. As of December 31, 2022 and 2021, the lease asset, net of amortization, and the corresponding lease liability for capacity arrangements, amounted to approximately \$2.0 billion and \$2.4 billion, respectively.

(ii) Property Leases

LIPA leases 16 facilities throughout Long Island to serve its customers. These sites include its corporate offices, customer service centers, operation centers and staging sites. While terms vary by lease, each lease provides for a monthly lease payment subject to a fixed escalation on the anniversary date of each agreement. None of the leases contain provisions for variable payments or residual value guarantees. Additionally, there are no other payments

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such as termination penalties, not previously included in the measurement of the lease liability reflected as outflows of resources in either 2022 or 2021. As of December 31, 2022 and 2021, the lease asset, net of amortization and the corresponding lease liability for property leases amounted to approximately \$65 million and \$79 million, respectively.

(iii) Vehicles

LIPA leases a fleet of vehicles ranging from passenger cars to heavy-duty trucks. Lease terms range up to 120 months, with 43 months remaining on such leases. The monthly lease payment is based upon a straight-line depreciation of the vehicle cost over its term, a monthly variable interest rate based upon LIBOR plus 1.95%, and a management fee. The management fee is excluded from the computation of the lease asset and corresponding obligation. If LIPA decides to end an individual vehicle lease prior to term end, any difference between the undepreciated vehicle cost, (as calculated under the lease) and the proceeds received from the sale of the vehicle by the leasing company are either returned to LIPA if the proceeds are greater than the undepreciated cost or charged to LIPA if less than the undepreciated cost.

There are no other payments such as residual value guarantees or termination penalties not previously included in the measurement of the lease liability reflected as outflows of resources. As of December 31, 2022 and 2021, the leased asset, net of amortization, and the corresponding lease liability for the fleet amounted to approximately \$4 million and \$7 million, respectively.

Presented below is a summary of the principal and interest requirements to maturity for the capacity, property lease and fleet lease liability for each of the five subsequent fiscal years and in five-year increments thereafter:

Year		Principal	Interest	Total
2023	\$	353,069	48,865	401,934
2024		347,857	40,110	387,967
2025		343,628	31,339	374,967
2026		338,772	22,792	361,564
2027		297,067	14,448	311,515
2028-2032		409,372	18,211	427,583
2033-2037		24,841	2,195	27,036
2038-2042		4,649	54	4,703
Total	\$	2,119,255	178,014	2,297,269

(b) Other Energy Agreements and Transmission Agreements

LIPA has entered into other power purchase agreements with terms that extend beyond one year, with varying terms expiring through 2034. While these agreements do not qualify as leases, certain agreements have minimum payment terms. The approximate minimum obligation associated with such agreements is \$2 million per year for remaining term of agreement.

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LIPA has natural gas transportation agreements for the delivery of gas to its contracted gas-fueled power generating facilities. Certain of these agreements have minimum obligations. As of December 31, 2022, the approximate minimum obligation associated with such agreements are approximately \$4 million for years 2023 through 2028 and approximately \$2 million for 2029.

LIPA also has natural gas physical supply contracts that have no fixed costs associated with them.

LIPA has several contracts to purchase renewable energy and energy from waste facilities. These contracts do not have minimum obligations and LIPA only pays if the energy is delivered. For the years ended December 31, 2022 and 2021, LIPA recognized approximately \$91 million and \$101 million for energy related to these contracts, respectively.

LIPA also has a 20-year power purchase agreement for a 130-megawatt offshore wind farm to be installed off the coast of Long Island that is expected to be commercially operational by the end of 2023. LIPA will only pay for energy when delivered without taking construction risk and has no financial commitment until the wind farm is commercially operational.

As provided by LIPA's tariff, the cost of all the facilities noted above are includable and recoverable through the Power Supply Charge.

(c) Insurance Programs

LIPA's insurance program is comprised of a combination of policies from major insurance companies, self-insurance, and contractual transfer of liability, including naming LIPA as an additional named insured and indemnification.

LIPA has purchased Workers' Compensation insurance from the New York State Insurance Fund to provide coverage for claims arising from employee accidents or injuries. In addition, LIPA carries Employment Practices Liability Insurance from a major insurance company and LIPA's office property and liability coverage is administered by the New York State Office of General Services Bureau of Risk & Insurance Management through a master policy the State procures for various State entities, including LIPA. Liability related to construction projects and similar risks is transferred through contractual indemnification and compliance with insurance requirements. LIPA also has insurance coverage on its interest in NMP2 as disclosed in Note 10.

LIPA has commercially available excess general liability, property, and cyber insurance for claims above its self-insurance provisions. For general liability, including automobile liability, LIPA is self-insured up to \$3.0 million per occurrence. For property damage and extra expense combined, LIPA is self-insured up to \$1.5 million per occurrence. For property damage or loss due to a named windstorm and flood, 2% of the value at risk is self-insured per occurrence with a minimum of \$1.5 million and up to a maximum self-insured level of \$7.5 million. For cyber-related events, including an event relating to LIPA's information technology system, LIPA is self-insured for up to \$15 thousand per event. Similarly, LIPA's service provider, PSEG Long Island, also maintains cyber insurance covering events related to information technology and operating systems where LIPA is an additional named insured.

LIPA has no general property insurance for damage to its poles and wires and is self-insured.

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(16) Legal Proceedings

(a) PSEG Long Island

PSEG Long Island's liability for third-party claims in performing its obligations to operate and maintain LIPA's T&D system is generally limited to the aggregate loss and expense between \$2.5 million and \$5.0 million in any contract year other than for loss and expense attributable to PSEG Long Island's gross negligence or willful misconduct, for which there is no limitation on PSEG Long Island's liability. PSEG Long Island is not financially responsible for any liabilities that occurred prior to January 1, 2014.

(b) Superstorm Sandy

Four purported class action lawsuits were filed against LIPA and National Grid related to Superstorm Sandy that contain common allegations of wrongdoing and/or gross negligence relating to LIPA's and National Grid's preparedness and response to the storm. These actions seek monetary damages, fees, and other relief. The four suits were consolidated into a single class action.

In June 2018, the trial court granted plaintiffs' motion to certify a class consisting of residential customers who lost power for more than three days and did not require an electrical inspection due to flooding before service could be restored. LIPA appealed that ruling. On December 29, 2021, the appellate court issued a decision and order reversing the lower court's class certification order. The plaintiffs filed a motion to renew and reargue the December 29, 2021 ruling and in the alternative for leave to appeal to New York's highest court. On Wednesday, January 18, 2023, the appellate division denied plaintiffs' motion. LIPA awaits further action at the trial court level.

Twelve more individual actions have been filed on behalf of the owners of approximately 100 properties in the Breezy Point, Belle Harbor, and Rockaway Park neighborhoods of the Rockaway Peninsula, in the Queens portion of the Service Area. These suits allege generally that the failure to de-energize the electrical system in the Rockaways in advance of the tidal surges experienced during the storm resulted in fires that caused various types of property damage, ranging from all or partial loss of plaintiffs' customers' homes. In February 2018, the Court of Appeals, New York State's highest court, affirmed lower court rulings that LIPA is not entitled at this point to the dismissal of the fire cases.

The class action and the fire cases are being defended, and although the amounts sought in damages are significant, the outcome of these matters cannot be predicted with certainty at this time. LIPA does not believe that they will have a material impact on the operating results or financial condition of LIPA.

(c) Environmental

National Grid and LIPA are parties to Liabilities Undertaking and Indemnification Agreements which, when taken together, provide, generally, that environmental liabilities will be divided between National Grid and LIPA on the basis of whether they relate to assets transferred to National Grid or retained by LIPA as part of the 1998 LIPA/LILCO Merger (Merger). In addition, to clarify and supplement these agreements, National Grid and LIPA also entered into an agreement to allocate between them certain liabilities, including environmental liabilities, arising from events occurring prior to the Merger and relating to the business and operations to be conducted by LIPA after the Merger (the Retained Business) and to the business and operations to be conducted by National Grid after the Merger (the Transferred Business).

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National Grid is responsible for all liabilities arising from all manufactured gas plant operations on Long Island (MGP Sites), including those currently or formerly operated by National Grid or any of its predecessors, whether or not such MGP Sites were related to the Transferred Business or the Retained Business. In addition, National Grid is responsible for all environmental liabilities traceable to the Transferred Business and certain scheduled environmental liabilities. Environmental liabilities that arise from the non-nuclear generating business (a Transferred Business) may be recoverable by National Grid as part of the capacity charge under the A&R PSA. LIPA is responsible for all environmental liabilities traceable to the Retained Business and certain scheduled environmental liabilities.

Environmental liabilities, other than those related to MGP sites that existed as of the date of the Merger that are untraceable, including untraceable liabilities that arise out of common and/or shared services, have been allocated to LIPA and National Grid, as provided for in the Merger.

The A&R PSA addresses the terms by which LIPA will continue to purchase electricity from certain National Grid facilities. Generally, National Grid's liabilities under this contract are limited to losses due to gross negligence or willful misconduct or violations of environmental laws not consistent with prudent utility practices.

(d) Litigation Related to Payments in Lieu of Taxes

In 2017, LIPA received notices from Suffolk County claiming to enforce liens against certain LIPA properties for alleged unpaid real property taxes. LIPA has paid the PILOT amounts it is authorized to pay by law. Furthermore, LIPA believes Suffolk County lacks legal authority to enforce a tax lien on LIPA's property. LIPA filed a legal action to negate any attempt by Suffolk County to enforce the alleged tax liens. LIPA also filed suit against the ten Suffolk County towns to ensure that they comply with the annual 2% limit on growth in such property tax PILOTs.

On April 1, 2021, the Supreme Court, Suffolk County issued a Decision and Order that found: (1) LIPA's T&D properties are not exempt from real-property taxation for tax years 2014/15 through 2019/20 by reason of LIPA's failure to timely challenge its assessment as non-exempt, taxable properties by the Town Assessors during those tax years; and (2) compelling LIPA to pay to Suffolk County alleged unpaid real property taxes levied against the T&D properties for tax years 2014/15 through 2019/20. A judgment was entered on October 8, 2021. By stipulation, the judgment includes the 2020/21 tax year. LIPA filed a notice of appeal from the judgment on October 14, 2021, and the appeal was filed on December 17, 2021. Enforcement of the judgment is stayed pending the determination of LIPA's appeal. LIPA estimated the potential exposure with penalties and interest to be approximately \$90 million plus a potential addition of up to \$30 million per year in interest in the event of an adverse result on appeal. As a regulated entity, LIPA obtained regulatory approval from its Board to defer the recovery of these costs from its customers until the conclusion of the appeal process. LIPA does not believe this litigation will have a material adverse impact on the business or the affairs of LIPA or its subsidiary, LILCO.

(continued)

LONG ISLAND POWER AUTHORITY

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Notes to the Financial Statements

December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

(e) Asbestos Proceedings

Litigation is pending in New York State Court against LIPA, LILCO, National Grid and various other defendants involving thousands of plaintiffs seeking damages for personal injuries or wrongful death allegedly caused by exposure to asbestos. The cases for which LIPA may have financial responsibility involve employees of various contractors and subcontractors engaged in the construction or renovation of certain power plants formerly owned by LILCO. These cases include extraordinarily large damage claims, which have historically proven to be excessive. The actual aggregate amount paid to plaintiffs alleging exposure to asbestos at these power plants over the years has not been material to LIPA. Due to the nature of how these cases are litigated, it is difficult to determine how many of the remaining cases that have been filed (or of those that will be filed in the future) involve plaintiffs who were exposed to asbestos at any of these power plants. Based upon experience, it does not appear that currently pending or future claims involving plaintiffs who allege exposure to asbestos at any of these power plants will have a material impact on the operating results or financial condition of LIPA.

(continued)

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(17) Component Unit Condensed Statements

UDSA is a component unit of LIPA and all the activities and balances of the UDSA are blended into and reported as part of LIPA. The condensed information for December 31, 2022 and 2021 are below:

	LIPA	UDSA	Eliminations	Consolidated
Assets and deferred outflows of resources:				
Capital assets, net	\$ 10,453,794	—	—	10,453,794
Current assets	2,603,905	223,211	—	2,827,116
Regulatory assets	707,934	18,807	—	726,741
Noncurrent assets	874,174	4,013,451	(4,013,451)	874,174
Deferred outflows of resources	145,239	10,059	—	155,298
Total assets and deferred outflows of resources	<u>14,785,046</u>	<u>4,265,528</u>	<u>(4,013,451)</u>	<u>15,037,123</u>
Liabilities, deferred inflows of resources, and net position:				
Long-term debt, net of current maturities	5,291,235	3,872,915	—	9,164,150
Current liabilities	1,195,185	273,993	—	1,469,178
Regulatory liabilities	351,456	—	—	351,456
Noncurrent liabilities	6,722,201	—	(4,013,451)	2,708,750
Deferred inflows of resources	646,257	—	—	646,257
Net position	578,712	118,620	—	697,332
Total liabilities, deferred inflows of resources, and net position	<u>\$ 14,785,046</u>	<u>4,265,528</u>	<u>(4,013,451)</u>	<u>15,037,123</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the year ended December 31, 2022

	LIPA	UDSA	Eliminations	Consolidated
Operating revenues	\$ 3,892,220	389,830	(2,892)	4,279,158
Operating expenses	3,728,482	219,003	(2,892)	3,944,593
Operating income	163,738	170,827	—	334,565
Other income, net	101,162	2,306	—	103,468
Interest charges, net	200,929	142,151	—	343,080
Change in net position	63,971	30,982	—	94,953
Net position, beginning of year	514,741	87,638	—	602,379
Net position, end of year	<u>\$ 578,712</u>	<u>118,620</u>	<u>—</u>	<u>697,332</u>

Condensed Statement of Cash Flows For the year ended December 31, 2022

	LIPA	UDSA	Eliminations	Total
Net cash provided by operating activities	\$ 974,578	371,098	—	1,345,676
Net cash provided by investing activities	294,293	2,306	—	296,599
Net cash provided by noncapital related activities	9,738	—	—	9,738
Net cash used in capital and related financing activities	(964,731)	(331,948)	—	(1,296,679)
Net increase in cash and cash equivalents	313,878	41,456	—	355,334
Cash and cash equivalents at beginning of year	416,806	111,694	—	528,500
Cash and cash equivalents at end of year	<u>\$ 730,684</u>	<u>153,150</u>	<u>—</u>	<u>883,834</u>

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Condensed Statement of Net Position

December 31, 2021

	<u>LIPA</u>	<u>UDSA</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets and deferred outflows of resources:				
Capital assets, net	\$ 10,414,617	—	—	10,414,617
Current assets	2,607,836	165,917	—	2,773,753
Regulatory assets	1,420,491	15,704	—	1,436,195
Noncurrent assets	994,447	3,931,161	(3,931,161)	994,447
Deferred outflows of resources	173,975	—	—	173,975
	<u>15,611,366</u>	<u>4,112,782</u>	<u>(3,931,161)</u>	<u>15,792,987</u>
Total assets and deferred outflows of resources				
	<u>15,611,366</u>	<u>4,112,782</u>	<u>(3,931,161)</u>	<u>15,792,987</u>
Liabilities, deferred inflows of resources, and net position:				
Long-term debt, net of current maturities	5,301,796	3,839,019	—	9,140,815
Current liabilities	1,471,688	186,125	—	1,657,813
Regulatory liabilities	203,635	—	—	203,635
Noncurrent liabilities	7,326,067	—	(3,931,161)	3,394,906
Deferred inflows of resources	793,439	—	—	793,439
Net position	514,741	87,638	—	602,379
Total liabilities, deferred inflows of resources, and net position	\$ <u>15,611,366</u>	<u>4,112,782</u>	<u>(3,931,161)</u>	<u>15,792,987</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Position

For the year ended December 31, 2021

	<u>LIPA</u>	<u>UDSA</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenues	\$ 3,579,128	354,409	(2,749)	3,930,788
Operating expenses	3,394,833	237,942	(2,749)	3,630,026
Operating income	184,295	116,467	—	300,762
Other income, net	121,133	39	—	121,172
Interest charges, net	212,554	144,689	—	357,243
Change in net position	92,874	(28,183)	—	64,691
Net position, beginning of year	421,867	115,821	—	537,688
Net position, end of year	\$ <u>514,741</u>	<u>87,638</u>	<u>—</u>	<u>602,379</u>

Condensed Statement of Cash Flows

For the year ended December 31, 2021

	<u>LIPA</u>	<u>UDSA</u>	<u>Eliminations</u>	<u>Total</u>
Net cash provided by operating activities	\$ 850,833	350,340	—	1,201,173
Net cash (used in) provided by investing activities	(104,382)	39	—	(104,343)
Net cash provided by noncapital related activities	288,267	—	—	288,267
Net cash used in capital and related financing activities	(964,215)	(367,518)	—	(1,331,733)
Net increase (decrease) in cash and cash equivalents	70,503	(17,139)	—	53,364
Cash and cash equivalents at beginning of year	346,303	128,833	—	475,136
Cash and cash equivalents at end of year	\$ <u>416,806</u>	<u>111,694</u>	<u>—</u>	<u>528,500</u>

(continued)

LONG ISLAND POWER AUTHORITY

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Notes to the Financial Statements

December 31, 2022 and 2021

(Amounts in thousands, unless otherwise stated)

(18) Subsequent Events

Subsequent events have been evaluated through March 30, 2023, which is the date that the financial statements were available to be issued.

On February 24, 2023, LIPA issued Electric System General Revenue Bonds, Series 2023A and Series 2023B totaling approximately \$287 million and used the proceeds to repay existing long-term debt. Funds were used to pay approximately \$92 million in principal and interest due on LIPA's outstanding Electric System Revenue Bonds, Series 2020C and approximately \$195 million in principal and interest due on LIPA's outstanding Electric System Revenue Bonds, Series 2021C. Principal amounts due on Series 2020C and 2021C were excluded from short-term maturities due to the anticipated refunding.

On March 15, 2023, LIPA issued Electric System General Revenue Bonds, Series 2023C totaling approximately \$63 million and used the proceeds to repay approximately \$63 million in principal on LIPA's Electric System Revenue Bonds, Series 2015C.

LONG ISLAND POWER AUTHORITY

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Required Supplementary Information (Unaudited)

Schedule of the LIPA's Proportionate Share of the Net Pension (Asset) Liability New York State and Local Employees' Retirement System

As of measurement date March 31,	2022	2021	2020	2019	2018	2017	2016	2015	2014
Proportionate percentage of net pension liability	0.0102049%	0.0098574%	0.0103052%	0.0103343%	0.0096075%	0.0099883%	0.0106679%	0.0280362%	0.0280362%
Proportionate share of the net pension (asset) liability	\$ (834,210)	\$ 9,815	\$ 2,728,884	\$ 732,219	\$ 310,076	\$ 938,526	\$ 1,712,234	\$ 947,131	\$ 1,266,916
LIPA's covered-employee payroll	\$ 4,727,500	\$ 4,720,000	\$ 4,279,104	\$ 3,883,794	\$ 4,088,041	\$ 3,782,636	\$ 3,511,480	\$ 8,246,620	\$ 11,057,226
LIPA's proportionate share of the net pension (asset) liability as a percentage of its covered-employee payroll	-17.65%	0.21%	63.77%	18.85%	7.58%	24.81%	48.76%	11.49%	11.46%
Plan fiduciary net position as a percentage of the total pension liability	103.65%	99.95%	96.27%	98.24%	94.70%	90.70%	97.95%	97.20%	97.20%

Schedule of the LIPA's Contributions New York State and Local Employees' Retirement System

As of December 31,	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 579,984	\$ 723,107	\$ 605,939	\$ 568,817	\$ 608,517	\$ 558,890	\$ 198,948	\$ 850,124	\$ 2,023,685
Contributions in relation to statutorily required contributions	\$ 579,984	\$ 723,107	\$ 605,939	\$ 568,817	\$ 608,517	\$ 558,890	\$ 198,948	\$ 850,124	\$ 2,023,685
Contribution deficiency (excess)	—	—	—	—	—	—	—	—	—
LIPA's covered-employee payroll	\$ 4,727,500	\$ 4,720,000	\$ 4,279,104	\$ 3,883,794	\$ 4,088,041	\$ 3,782,636	\$ 3,511,480	\$ 8,246,620	\$ 11,057,226
Contributions as a percentage of covered payroll	12.27%	15.32%	14.16%	14.65%	14.89%	14.78%	5.67%	10.31%	18.30%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority has presented information for those years for which information is available.

See accompanying independent auditors' report.



APPENDIX B
GLOSSARY OF DEFINED TERMS

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APPENDIX B

Glossary of Certain Defined Terms

The following terms, as generally used in offering documents of the Authority, have the respective meanings provided below. These summary definitions do not purport to be complete or definitive and are qualified in their entirety by reference to the Resolution, the Financing Agreement, the OSA and the PSA, copies of which have been filed with EMMA and are on file with the Trustee.

“Administrative Services Agreement” means the Administrative Services Agreement, dated as of May 1, 1998, between the Authority and LIPA, as the same may be amended and supplemented.

“Authorized Representative” means in the case of the Authority and LIPA, their respective Chairman, Chief Executive Officer, Executive Director, Chief Financial Officer, Controller or Chief Operating Officer, or such other person or persons so designated by resolution of the Authority or LIPA, as the case may be.

“Business Day” means any day other than a Saturday, Sunday or legal holiday.

“Certificate” means (i) a signed document attesting to or acknowledging the matters therein stated or setting forth matters to be determined pursuant to the Resolution or otherwise, (ii) the report of an Accountant as to an audit or compliance called for by the Resolution, or (iii) any report of the Consulting Engineer or Rate Consultant as to any matter called for by the Resolution or the Financing Agreement.

“Change in Regulatory Law” has the meaning set forth in the OSA.

“Change of Control” has the meaning set forth in the OSA.

“Construction Fund” means the fund by that name established pursuant to the Resolution.

“Consulting Engineer” means, when such term is used in the Resolution and the Financing Agreement, any independent engineer or firm of engineers of recognized standing selected by the Authority and may include an independent engineer or firm of engineers of recognized standing selected by the Authority or LIPA in one or more other capacities.

“Debt Service” for any Fiscal Year or part thereof means, as of any date of calculation, the sum of (i) with respect to any Outstanding Bonds, an amount equal to the sum of (a) interest payable during such Fiscal Year or part thereof on such Bonds, except to the extent that such interest is to be paid from amounts representing Capitalized Interest and (b) the Principal Installments of such Bonds payable during such Fiscal Year or part thereof and (ii) with respect to a Parity Reimbursement Obligation, an amount equal to the sum of (a) interest payable during such Fiscal Year or part thereof on such Parity Reimbursement Obligation and (b) the Principal Installments of such Parity Reimbursement Obligation payable during such Fiscal Year or part thereof. Such interest and Principal Installments shall be calculated on the assumption that (x) no such Bonds, or Parity Reimbursement Obligations Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment thereof upon stated maturity or upon mandatory redemption by application of Sinking Fund Installments and (y) variable rate Bonds will bear interest at the greater of (A) the rate or rates which were assumed by LIPA in the Authority Budget for such Fiscal Year to be borne by Variable Rate Bonds during such Fiscal Year or (B) the average rate or rates borne on variable rate Bonds Outstanding during the twelve calendar months preceding the date of calculation, but at a rate not less than the rate or rates borne thereon as of such date of calculation; provided, however, that if LIPA has in connection with any variable rate Bonds entered into a Financial Contract which provides that the Authority is to pay to the Qualified Counterparty an amount determined based upon a fixed rate of interest on the Outstanding principal amount of such variable rate Bonds or that the Qualified Counterparty is to pay to the Authority an amount determined based upon the amount by which the rate at which such variable rate Bonds bear interest exceeds a stated rate of interest on all or any portion of such variable rate Bonds, it will be assumed that such variable rate Bond bears interest at the fixed rate of interest to be paid by the Authority or the rate in excess of which the Qualified Counterparty is to make payment to the Authority in accordance with such agreement.

“Debt Service Fund” means the fund by that name established pursuant to the Resolution.

“Event of Default” means, (i) when such term is used in the Resolution and the Financing Agreement, any event specified in the Resolution as an “Event of Default” (and as summarized in the summary thereof under the caption “Event of Default; Remedies Upon Default”) and (ii) when such term is used in the OSA or the PSA, such events as defined in the OSA or the PSA.

“FERC” means the Federal Energy Regulatory Commission.

“Financing Agreement” means the Financing Agreement, dated as of May 1, 1998, by and between the Authority and LIPA to provide for their respective duties and obligations relating to the financing and operation of the retail electric business in the Service Area, as the same may be amended or supplemented.

“Fiscal Year” means the twelve-month period commencing on January 1 of each year; provided, however, that the Authority and LIPA may, from time to time, mutually agree on a different twelve-month period as the Fiscal Year, in which case January 1, when with reference to Fiscal Year, shall be construed to mean the first day of the first calendar month of such different Fiscal Year.

“GASB” means the Governmental Accounting Standards Board.

“ISO-NE” means The New England Independent System Operator.

“LIPA Parties” means the Authority and LIPA.

“LIPA Budget” means the annual budget of LIPA, as amended or supplemented, adopted or in effect for a particular Fiscal Year as provided in the Financing Agreement.

“LIPA Unsecured Debt Fund” means the fund by that name established pursuant to the Resolution.

“Municipalization” has the meaning set forth in the OSA.

“National Grid Parties” means Keyspan Corporation and various National Grid subsidiaries.

“NYISO” means the New York Independent System Operator and any successor thereto.

“Operating Expense Fund” means the fund by that name established pursuant to the Resolution.

“Operating Expenses” means any and all current expenses of maintaining, repairing, operating and managing the System, including but not limited to the costs of supplies, fuel, fuel assemblies and components required for the operation of the System (including but not limited to any payments made under Supply Contracts other than the Debt Service Component thereof); payments relating to fuel or electricity hedging instruments; all payments under any System Agreements; all salaries, administrative, general, commercial, architectural, engineering, advertising, public notices, auditing, billing, collection and enforcement and legal expenses; insurance and surety bond premiums; consultants’ fees and charges; payments to pension, retirement, health and hospitalization funds; any taxes which may lawfully be imposed on the System or the income or operation thereof or of LIPA; costs of public hearings; ordinary and current rentals of equipment or other property; lease payments for real property or interests therein; expenses of maintenance and repair (including replacements); expenses, liabilities and compensation of the Trustee or any other Fiduciary or Depositary; to the extent provided by by-law, agreement or other instrument of the Authority or LIPA, indemnification of Fiduciaries, Trustees, officers and employees of the Authority, directors, officers and employees of LIPA, and others and premiums for insurance related thereto; reasonable reserves for operation, maintenance and repair and for self-insurance; and all other expenses necessary, incidental or convenient for the efficient operation of the System; all costs and expenses associated with or arising out of the research, development (including feasibility and other studies, including but not limited to resource planning and studies and reports relating to demand side management) and/or implementation of any project, facility, system, task or measure related to the System including but not limited to demand side management programs, deemed desirable or necessary by the Authority or LIPA; all other costs and expenses arising out of or in connection with the conduct of LIPA’s business or necessary, incidental or convenient for the efficient operation of LIPA; and all expenses necessary, incidental or convenient for the efficient operation of the Authority and the performance of the obligations of the Authority under the Administrative Services Agreement. Notwithstanding the foregoing, Operating Expenses shall not include (i) any costs and expenses attributable to a Separately Financed Project, (ii) any costs or

expenses for new construction or for reconstruction other than restoration of any part of the System to the condition of serviceability thereof when new, (iii) the Debt Service Component of any Supply Contract, (iv) to the extent so specified by the Authority, any incentive payments payable by LIPA under any System Agreement, (v) any payments payable by LIPA under any other agreement the terms of which specify that the same shall not constitute an Operating Expense under the Resolution, (vi) any allowance for depreciation, (vii) payment under any Capital Leases, or (viii) any PILOTs.

“Outstanding” when used with reference to Parity Reimbursement Obligations, shall have the meaning given to such term in the agreement creating such Parity Reimbursement Obligations, and, when used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Resolution except: (a) any Bonds canceled by the Trustee at or prior to such date; (b) any Bonds the principal and Redemption Price, if any, of and interest on which have been paid in accordance with the terms thereof; (c) any Bonds in lieu of or in substitution for which other Bonds have been authenticated and delivered pursuant to the Resolution; and (d) any Bonds deemed to have been paid as provided in the Resolution.

“Outstanding LIPA Unsecured Debt” means certain unsecured financial obligations of LIPA outstanding as of the acquisition of LILCO, all of which has been retired as of the date hereof.

“Parity Contract Obligation” means the obligation of the Authority or LIPA to pay the Debt Service Component of Supply Contracts and Capital Leases from Revenues and secured by a pledge of and lien on the Trust Estate on a parity with the Bonds.

“Parity Contract Obligations Fund” means the fund by that name established pursuant to the Resolution from which amounts shall be applied for the payment of Parity Contract Obligations in accordance with the Resolution.

“Pass-Through Expenditures” has the meaning set forth in the OSA.

“Parity Obligations” means, collectively, all Parity Contract Obligations and Parity Reimbursement Obligations.

“Parity Reimbursement Obligation” shall have the meaning assigned thereto under the heading “Special Provisions Relating to Option Securities, Financial Contracts, Subordinated Credit Facilities, Parity Obligations and Subordinated Indebtedness” in the summary of the Resolution.

“PILOTs” means any payment in lieu of taxes due and owing by the Authority or LIPA in accordance with the Act or other applicable law.

“PILOTs Fund” means the fund by that name established by the Resolution, and used to make payments to the State or any municipality or other political subdivision of the State, which shall be entitled to receive PILOTs under the Act, subject to the provisions of the Resolution.

“PJM” means the Pennsylvania-New Jersey-Maryland Regional Transmission Organization.

“Power and Energy” means the electrical energy and capacity available from the System Power Supply.

“Principal Installment” means, as of any date of calculation and with respect to any Outstanding Bonds, (i) the principal amount of such Bonds (including (x) any amount designated in, or determined pursuant to, the applicable Supplemental Resolution, as the “principal amount” with respect to any Bonds which do not pay full current interest for all or any part of their term and (y) the principal amount of any Parity Reimbursement Obligation) due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for such Bonds, or (iii) if such future dates coincide as to different Bonds, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date.

“Privatization” has the meaning set forth in the OSA.

“Property Tax Settlement” as used in the Resolution, means the Authority’s program of rebates and credits to System customers in respect of the amounts otherwise payable by the Suffolk Taxing Jurisdictions as refunds of taxes and payments in lieu of taxes relating to Shoreham.

“PSA” or **“Power Supply Agreement”** means the Amended and Restated Power Supply Agreement that commenced in May 2013, between GENCO and LIPA, as amended and supplemented.

“Rate Covenant” means the covenants by the Authority in the Resolution to establish and maintain System fees, rates, rents, charges and surcharges at a level sufficient to achieve Revenues sufficient to pay Debt Service, Operating Expenses and other expenses.

“Rate Stabilization Fund” means the fund by that name established by the Resolution, and used for any lawful purpose of the Authority or LIPA, including but not limited to making any deposits required by the Resolution to any Fund or Account, in accordance with the Resolution.

“Redemption Price” means, when used with respect to a Bond or portion thereof, the principal amount thereof plus the applicable premium, if any, payable upon either optional or mandatory redemption thereof pursuant to the Resolution.

“Reimbursement Obligation” shall have the meaning provided under the heading “Special Provisions Relating to Option Securities, Financial Contracts, Subordinated Credit Facilities, Parity Obligations and Subordinated Indebtedness” in the summary of the Resolution.

“Required Deposits” means the amount, if any, payable into the Operating Expense Fund, the Debt Service Fund, the Parity Contract Obligations Fund, the Subordinated Indebtedness Fund, LIPA Unsecured Debt Fund and the PILOTs Fund, but in each case only to the extent such payments are required to be made from Revenues.

“Retained Assets” means (i) certain regulatory assets of LILCO, including the Shoreham Regulatory Asset, (ii) the judgments, actions and claims of LILCO for refunds of property taxes, including the judgment resulting from the litigation contesting the assessment of certain Shoreham Nuclear Power Station property and (iii) other intangible assets of LILCO’s former retail electric business, including the right to provide electric service in the Service Area.

“Revenue Fund” means the fund into which Revenues are deposited by the Authority or by LIPA, unless required by the Resolution to be deposited to any other Fund or Account, in accordance with the Resolution or the Financing Agreement.

“Revenues” means all revenues, rates, fees, charges, surcharges, rents, proceeds from the sale of LIPA Assets, proceeds of insurance, and other income and receipts, as derived in cash, directly or indirectly from any of LIPA’s operations, by or for the account of the Authority or LIPA, including but not limited to (i) all payments received by the Authority or LIPA with respect to the Promissory Notes, (ii) any guaranty of performance under any System Agreement and (iii) all dividends received by the Authority as a result of ownership of any stock or other evidences of an equity interest in LIPA; provided, however, that Revenues shall not include (a) any Transition Charge, (b) any of the foregoing attributable directly or indirectly to the ownership or operation of any Separately Financed Project, or (c) any federal or State grant moneys the receipt of which is conditioned upon their expenditure for a particular purpose unless the Authority determines that such grant moneys shall constitute Revenues. Notwithstanding the foregoing, Revenues also shall not include any amounts, or amounts from any sources, as may be specified from time to time by a Supplemental Resolution; provided, however that at the time such Supplemental Resolution becomes effective the tests set forth in the Resolution under the heading **“Conditions Precedent to Delivery of Bonds”** in the Resolution shall be satisfied in accordance with the Resolution.

“Separately Financed Project” means any such project financed by revenues or other income derived solely from the ownership or operation of such project or from other funds withdrawn from the Revenue Fund in accordance with the Resolution.

“Service Area” or **“LIPA Service Area”** means the Counties of Suffolk and Nassau and that portion of the County of Queens known as the Rockaways constituting LILCO’s electric franchise area as of the effective date of the

Act. **“Service Area”** does not include the Nassau County Villages of Freeport and Rockville Centre, and the Suffolk County Village of Greenport.

“Shoreham” means the Shoreham Nuclear Power Station located at Shoreham, Long Island.

“Shoreham Credits” means credits to the bills of System ratepayers arising from the settlement of the Shoreham Property Tax Litigation, in each of the five years of 1998-2003 in Nassau County and the Rockaways in the aggregate amount of \$50 million per year and in Suffolk County in the aggregate amount of \$30 million per year.

“State” means the State of New York.

“Subordinated Indebtedness” means any bond, note or other evidence of indebtedness issued by LIPA in furtherance of its corporate purposes under the Act and secured by a pledge of the Trust Estate subordinate to the pledge thereof made by the Resolution in favor of the Bonds and Parity Obligations and otherwise as provided by the Resolution. Subordinated Indebtedness shall include, but shall not be limited to, Option Securities, Reimbursement Obligations other than Parity Reimbursement Obligations, and Financial Contracts to the extent provided by the Resolution.

“Subordinated Indebtedness Fund” means the fund established in accordance with the Resolution for payment of the principal and redemption price of and interest on Subordinated Indebtedness, subject to the provisions of the Resolution.

“Supplemental Resolution” or **“Supplemental Resolutions”** means, as the context requires, (a) the Twenty-Sixth Supplemental Resolution or (b) a resolution or resolutions of the Authority authorizing the issuance of a Series of Bonds or otherwise amending or supplementing the Resolution, adopted in accordance with the Resolution.

“System” means the Retained Assets and any System Improvements, but shall not include any Separately Financed Projects.

“System Agreements” means any agreements relating to the operation or maintenance of the System, the supply of power and energy to the System, and the provision of transmission and distribution services and capacity for the System.

“System Budget” means the combined Authority Budget and LIPA Budget, as amended or supplemented, adopted or in effect for a particular Fiscal Year, as provided in the Resolution and in the Financing Agreement.

“System Improvement” means any project, facility, system, equipment, or material related to or necessary or desirable in connection with the generation, production, transportation, transmission, distribution, delivery, storage, conservation, purchase or use of energy or fuel, whether owned jointly or singly by LIPA, including any capacity or output in which LIPA has an interest, heretofore or hereafter authorized by the Act or by other applicable State statutory provisions, including but not limited to demand side management programs; provided, however, that the term “System Improvement” shall not include any Separately Financed Project.

“T&D System” means the electricity transmission and distribution system owned by LIPA from time to time and all other assets, facilities, equipment or contractual arrangements of LIPA used to provide the transmission and distribution of Power and Energy within or to the Service Area.

“Transition Charge” means any rates, fees, charges or surcharges relating to the System or the customers thereof established by irrevocable rate order or other action or instrument, and applicable to or by the Authority or LIPA, in conjunction with the issuance of debt or other securities under a separate resolution, indenture or similar instrument (other than the Resolution) to the extent such rates, fees, charges or surcharges are pledged or otherwise encumbered or conveyed as security for such debt or other securities.

“Trust Estate” means collectively: (i) all payments received by the Authority from LIPA under the Financing Agreement, and all rights to collect and receive the same; (ii) all Revenues and all right, title and interest of the Authority in and to the Revenues, including all rights of the Authority to collect and receive the same, including but not limited to (a) all payments received by the Authority with respect to the Promissory Notes and all right, title and interest of the Authority in and to the Promissory Notes, including all rights of the Authority to collect and receive amounts payable thereunder and (b) any dividends received by the Authority as a result of ownership of any common or preferred stock or

other evidences or an equity interest of the Authority in LIPA, and all rights to receive the same; (iii) the proceeds of sale of Bonds until expended for the purposes authorized by the Resolution; (iv) all Funds, Accounts and subaccounts established by the Resolution, including securities credited thereto and investment earnings thereon; and (v) all funds, moneys and securities and any and all other rights and interests in property, whether tangible or intangible, from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Resolution for the Bonds by the Authority, or by anyone on its behalf, or with its written consent, to the Trustee, which is authorized by the Resolution to receive any and all such property at any and all times, and to hold and apply the same subject to the terms of the Resolution.

APPENDIX C

LIST OF CUSIP* NUMBERS

<u>Series</u>	<u>CUSIP</u>	<u>Maturity/ Mandatory Purchase</u>	<u>Coupon or Yield</u>	<u>Serial/Term</u>
Electric System General Revenue Bonds				
Capital Appreciation Bonds				
1998A	542690CH3	12/1/2023	5.300%	CABs
1998A	542690CJ9	12/1/2024	5.300%	CABs
1998A	542690CK6	12/1/2025	5.300%	CABs
1998A	542690CL4	12/1/2026	5.300%	CABs
1998A	542690CM2	12/1/2027	5.300%	CABs
1998A	542690CN0	12/1/2028	5.300%	CABs
Capital Appreciation Bonds				
2000A	542690NW8	6/1/2023	5.910%	CABs
2000A	542690NX6	6/1/2024	5.920%	CABs
2000A	542690NY4	6/1/2025	5.930%	CABs
2000A	542690NZ1	6/1/2026	5.940%	CABs
2000A	542690PA4	6/1/2027	5.950%	CABs
2000A	542690PB2	6/1/2028	5.950%	CABs
2000A	542690PC0	6/1/2029	5.950%	CABs
Current Interest Bonds				
2003C	542690UY6	9/1/2029	5.250%	Term
(Federally Taxable - Issuer Subsidy - Build America Bonds)				
Current Interest Bonds				
2010B	542690W65	5/1/2024	5.450%	Serial
2010B	542690W73	5/1/2025	5.600%	Serial
2010B	542690W81	5/1/2026	5.700%	Serial
2010B	542690W99	5/1/2041	5.850%	Serial
Current Interest Bonds				
2012B	5426902E1	9/1/2023	5.000%	Serial
2012B	5426902F8	9/1/2024	5.000%	Serial
2012B	5426902G6	9/1/2025	5.000%	Serial
2012B	5426902H4	9/1/2026	5.000%	Serial
2012B	5426902J0	9/1/2027	5.000%	Serial
2012B	5426902K7	9/1/2029	5.000%	Serial
Current Interest Bonds				
2014A	5426903D2	9/1/2034	5.00%	Serial
2014A	5426903E0	9/1/2035	5.00%	Serial
2014A	5426903F7	9/1/2039	5.00%	Term
2014A	5426903B6	9/1/2039	4.00%	Term
2014A	5426903C4	9/1/2044	5.00%	Term

<u>Series</u>	<u>CUSIP</u>	<u>Maturity/ Mandatory Purchase</u>	<u>Coupon or Yield</u>	<u>Serial/Term</u>
Current Interest Bonds				
2014B	5426903M2	9/1/2024	3.883%	Serial
2014B	5426903N0	9/1/2025	3.983%	Serial
2014B	5426903P5	9/1/2026	4.133%	Serial
LIBOR Floating Rate Tender Notes				
2014C	542691GG9	5/1/2033	Variable	Term
Current Interest Bonds				
2015B	5426904Q2	9/1/2023	5.00%	Serial
2015B	5426904R0	9/1/2024	5.00%	Serial
2015B	5426904S8	9/1/2025	3.00%	Serial
2015B	5426905F5	9/1/2025	5.00%	Serial
2015B	5426904T6	9/1/2026	5.00%	Serial
2015B	5426904U3	9/1/2027	5.00%	Serial
2015B	5426904V1	9/1/2028	5.00%	Serial
2015B	5426904W9	9/1/2029	5.00%	Serial
2015B	5426904X7	9/1/2030	5.00%	Serial
2015B	5426904Y5	9/1/2031	5.00%	Serial
2015B	5426904Z2	9/1/2032	5.00%	Serial
2015B	5426905A6	9/1/2033	5.00%	Serial
2015B	5426904G4	9/1/2034	5.00%	Serial
2015B	5426904H2	9/1/2035	5.00%	Serial
2015B	5426905G3	9/1/2036	5.00%	Serial
2015B	5426905H1	9/1/2037	5.00%	Serial
2015B	5426905J7	9/1/2038	5.00%	Serial
2015B	5426904J8	9/1/2040	4.00%	Term
2015B	5426904K5	9/1/2045	5.00%	Term
LIBOR Floating Rate Tender Notes				
2015C	5426904F6	5/1/2033	Variable	Term
Current Interest Bonds				
2016B	5426907W6	9/1/2023	5.00%	Serial
2016B	5426907X4	9/1/2024	5.00%	Serial
2016B	5426907Y2	9/1/2025	5.00%	Serial
2016B	5426907Z9	9/1/2026	5.00%	Serial
2016B	5426908A3	9/1/2027	5.00%	Serial
2016B	5426908B1	9/1/2028	5.00%	Serial
2016B	5426908C9	9/1/2029	5.00%	Serial
2016B	5426908D7	9/1/2030	5.00%	Serial
2016B	5426908E5	9/1/2031	5.00%	Serial
2016B	5426908F2	9/1/2032	5.00%	Serial
2016B	5426908G0	9/1/2033	5.00%	Serial
2016B	5426908H8	9/1/2034	5.00%	Serial
2016B	5426908J4	9/1/2035	5.00%	Serial
2016B	5426908K1	9/1/2036	5.00%	Serial
2016B	5426908L9	9/1/2041	5.00%	Term

<u>Series</u>	<u>CUSIP</u>	<u>Maturity/ Mandatory Purchase</u>	<u>Coupon or Yield</u>	<u>Serial/Term</u>
2016B	5426908M7	9/1/2046	5.00%	Term
Current Interest Bonds				
2017	542691AC4	9/1/2023	5.000%	Serial
2017	542691AD2	9/1/2024	5.000%	Serial
2017	542691AE0	9/1/2025	5.000%	Serial
2017	542691AF7	9/1/2026	5.000%	Serial
2017	542691AG5	9/1/2027	5.000%	Serial
2017	542691AH3	9/1/2028	5.000%	Serial
2017	542691AJ9	9/1/2029	5.000%	Serial
2017	542691AK6	9/1/2030	5.000%	Serial
2017	542691AL4	9/1/2031	5.000%	Serial
2017	542691AM2	9/1/2032	5.000%	Serial
2017	542691AN0	9/1/2033	5.000%	Serial
2017	542691AP5	9/1/2034	5.000%	Serial
2017	542691AQ3	9/1/2035	5.000%	Serial
2017	542691AR1	9/1/2036	5.000%	Serial
2017	542691AS9	9/1/2037	5.000%	Serial
2017	542691AT7	9/1/2042	5.000%	Term
2017	542691AU4	9/1/2047	5.000%	Term
Current Interest Bonds				
2018	542691BE9	9/1/2023	5.000%	Serial
2018	542691BF6	9/1/2024	5.000%	Serial
2018	542691BG4	9/1/2025	5.000%	Serial
2018	542691BH2	9/1/2026	5.000%	Serial
2018	542691BJ8	9/1/2027	5.000%	Serial
2018	542691BK5	9/1/2028	5.000%	Serial
2018	542691BL3	9/1/2029	5.000%	Serial
2018	542691BM1	9/1/2031	3.375%	Serial
2018	542691BN9	9/1/2032	5.000%	Serial
2018	542691BP4	9/1/2033	5.000%	Serial
2018	542691BQ2	9/1/2034	5.000%	Serial
2018	542691BR0	9/1/2035	5.000%	Serial
2018	542691BS8	9/1/2036	5.000%	Serial
2018	542691BT6	9/1/2037	5.000%	Serial
2018	542691BU3	9/1/2038	5.000%	Serial
2018	542691BV1	9/1/2039	5.000%	Serial
Current Interest Bonds				
2019A	542691CA6	9/1/2023	5.00%	Serial
2019A	542691CB4	9/1/2024	5.00%	Serial
2019A	542691CC2	9/1/2025	5.00%	Serial
2019A	542691CD0	9/1/2026	5.00%	Serial
2019A	542691CE8	9/1/2027	5.00%	Serial
2019A	542691CF5	9/1/2028	5.00%	Serial
2019A	542691CG3	9/1/2029	5.00%	Serial
2019A	542691CH1	9/1/2030	5.00%	Serial

<u>Series</u>	<u>CUSIP</u>	<u>Maturity/ Mandatory Purchase</u>	<u>Coupon or Yield</u>	<u>Serial/Term</u>
2019A	542691CJ7	9/1/2031	5.00%	Serial
2019A	542691CK4	9/1/2034	4.00%	Serial
2019A	542691CL2	9/1/2035	4.00%	Serial
2019A	542691CM0	9/1/2036	3.00%	Serial
2019A	542691CN8	9/1/2037	4.00%	Serial
2019A	542691CP3	9/1/2038	4.00%	Serial
2019A	542691CQ1	9/1/2039	4.00%	Serial
Mandatory Tender Bonds				
2019B	542691CR9	9/1/2049	Variable	Term
Current Interest Bonds				
2020A	542691CT5	9/1/2023	5.00%	Serial
2020A	542691CU2	9/1/2024	5.00%	Serial
2020A	542691CV0	9/1/2025	5.00%	Serial
2020A	542691CW8	9/1/2026	5.00%	Serial
2020A	542691CX6	9/1/2027	5.00%	Serial
2020A	542691CY4	9/1/2028	5.00%	Serial
2020A	542691CZ1	9/1/2029	5.00%	Serial
2020A	542691DA5	9/1/2030	5.00%	Serial
2020A	542691DB3	9/1/2031	5.00%	Serial
2020A	542691DC1	9/1/2032	5.00%	Serial
2020A	542691DD9	9/1/2033	5.00%	Serial
2020A	542691DE7	9/1/2034	5.00%	Serial
2020A	542691DF4	9/1/2035	5.00%	Serial
2020A	542691DG2	9/1/2036	5.00%	Serial
2020A	542691DH0	9/1/2037	5.00%	Serial
2020A	542691DJ6	9/1/2038	5.00%	Serial
2020A	542691DK3	9/1/2039	4.00%	Serial
2020A	542691DL1	9/1/2040	4.00%	Serial
Mandatory Tender Bonds				
2020B	542691DM9	9/1/2050	Variable	Term
Federally Taxable Current Interest Bonds				
2020C	542691DP2	9/1/2023	0.764%	Serial
Medium Term Notes				
2021	542691DY3	9/1/2025	1.00%	Serial
Current Interest Bonds				
2021A	542691EA4	9/1/2023	5.00%	Serial
2021A	542691EB2	9/1/2024	5.00%	Serial
2021A	542691EC0	9/1/2025	5.00%	Serial
2021A	542691ED8	9/1/2026	5.00%	Serial
2021A	542691EE6	9/1/2027	5.00%	Serial
2021A	542691EF3	9/1/2028	5.00%	Serial

<u>Series</u>	<u>CUSIP</u>	<u>Maturity/ Mandatory Purchase</u>	<u>Coupon or Yield</u>	<u>Serial/Term</u>
2021A	542691EG1	9/1/2029	5.00%	Serial
2021A	542691EJ5	9/1/2030	1.50%	Serial
2021A	542691EH9	9/1/2030	5.00%	Serial
2021A	542691EK2	9/1/2031	5.00%	Serial
2021A	542691EL0	9/1/2032	4.00%	Serial
2021A	542691EM8	9/1/2033	4.00%	Serial
2021A	542691EN6	9/1/2034	5.00%	Serial
2021A	542691EP1	9/1/2035	5.00%	Serial
2021A	542691EQ9	9/1/2036	5.00%	Serial
2021A	542691ER7	9/1/2037	4.00%	Serial
2021A	542691ES5	9/1/2038	4.00%	Serial
2021A	542691ET3	9/1/2039	4.00%	Serial
2021A	542691EU0	9/1/2040	3.00%	Serial
2021A	542691EV8	9/1/2041	4.00%	Serial
2021A	542691EW6	9/1/2042	4.00%	Serial
Mandatory Tender Bonds				
2021B	542691EX4	9/1/2051	Variable	Term
Federally Taxable Current Interest Bonds				
2021C	542691EY2	9/1/2023	0.359%	Serial
Current Interest Bonds				
2022A	542691FF2	9/1/2023	5.00%	Serial
2022A	542691FG0	9/1/2024	5.00%	Serial
2022A	542691FH8	9/1/2025	5.00%	Serial
2022A	542691FJ4	9/1/2026	5.00%	Serial
2022A	542691FK1	9/1/2027	5.00%	Serial
2022A	542691FL9	9/1/2028	5.00%	Serial
2022A	542691FM7	9/1/2029	5.00%	Serial
2022A	542691FN5	9/1/2030	5.00%	Serial
2022A	542691FP0	9/1/2031	5.00%	Serial
2022A	542691FQ8	9/1/2032	5.00%	Serial
2022A	542691FR6	9/1/2033	5.00%	Serial
2022A	542691FS4	9/1/2034	5.00%	Serial
2022A	542691FT2	9/1/2035	5.00%	Serial
2022A	542691FU9	9/1/2036	5.00%	Serial
2022A	542691FV7	9/1/2037	5.00%	Serial
2022A	542691FW5	9/1/2038	5.00%	Serial
2022A	542691FX3	9/1/2039	5.00%	Serial
2022A	542691FY1	9/1/2040	5.00%	Serial
2022A	542691FZ8	9/1/2041	5.00%	Serial
2022A	542691GA2	9/1/2042	5.00%	Serial
2022A	542691GB0	9/1/2043	5.00%	Serial
2022A	542691GC8	9/1/2044	5.00%	Serial

<u>Series</u>	<u>CUSIP</u>	<u>Maturity/ Mandatory Purchase</u>	<u>Coupon or Yield</u>	<u>Serial/Term</u>
Fixed Mandatory Tender Bonds 2022B	542691GD6	9/1/2052	5.00%	Term
SIFMA Floating Rate Mandatory Tender Bonds 2022C	542691GE4	9/1/2038	Variable	Term

* CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the Authority's bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to the correctness of the CUSIP numbers as indicated in this Appendix A.