

October 26, 2023

To: Finance & Audit Committee
 LIPA Board of Trustees

Re: Quarterly Report on Interest Rate Exchange Agreements
 Quarter Ended September 30, 2023

Dear Finance & Audit Committee Members:

The Long Island Power Authority (“the Authority”, “LIPA”) is filing this report pursuant to reporting requirements outlined in the Comprehensive Guidelines for the Use of Interest Rate Exchange Agreements, as approved by the Board of Trustees on March 29, 2017.

Description of the Interest Rate Exchange Agreements

As of September 30, 2023, LIPA had the following interest rate swap agreements outstanding:

Counterparty	Type of Swap	Notional Outstanding (\$000)	Effective Date	Maturity Date
UBS AG	Floating-to-Fixed	\$587,225	6/1/2003	12/1/2029
Citibank, N.A.	Floating-to-Fixed	\$251,510	9/1/2022	9/1/2042

As of September 30, 2023, the estimated total mark-to-market value of the transactions was approximately negative \$19 million (please see Appendix A). The mark-to-market value excludes transaction costs and is calculated at prevailing mid-market rates. Therefore, it represents the hypothetical amount that LIPA would owe to the counterparties if the transactions were terminated on that date, absent transaction costs.

Counterparty Ratings

As of September 30, 2023, the Authority’s counterparties had the following ratings and outlooks:

Counterparty	Moody’s		S&P		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
UBS	Aa3	Stable	A+	Stable	A+	Stable
Citibank	Aa3	Stable	A+	Stable	A+	Stable

Risks

The Authority is subject to certain risks under its interest rate swap transactions, including:

Counterparty Risk: the risk that a counterparty (or its guarantor) will fail to make a payment or default under the swap agreement and LIPA will lose the benefit of the hedge. If a counterparty were to default under its agreement when owing a termination payment to LIPA, LIPA may have to pay another entity to assume the position of the defaulting counterparty. The swap agreements contain various termination events and collateral posting provision to mitigate counterparty risk for lower-rated entities (see Appendix B).

Termination Risk: the risk that a counterparty will terminate a swap with LIPA owing a termination payment. Only LIPA is entitled to terminate these transactions from time-to-time for any reason; the counterparties may only terminate upon the occurrence of certain events such as payment defaults, other defaults which remain uncured for 30 days after notice, the bankruptcy or insolvency of LIPA (or similar events), certain downgrades of LIPA’s and a swap insurer’s (if any) credit rating, and events related to the underlying bonds. As of September 30, 2023, the credit ratings of LIPA and its swap insurer were as follows:

Entity	Moody’s		S&P		Fitch	
	Rating	Outlook	Rating	Outlook	Rating	Outlook
LIPA	A2	Stable	A	Stable	A	Positive
Assured Guaranty Municipal Corp. ¹	A1	Stable	AA	Stable	-	-

¹Insurer on swap with UBS.

Collateral Posting Risk: the risk that LIPA will be required to post collateral to its counterparties to secure a negative mark-to-market valuation. LIPA is only required to post collateral should its ratings fall to certain levels (see Appendix B). As of September 30, 2023, there was no collateral posted by either LIPA or its counterparties.

Basis Risk: the risk of a mismatch in the variable rates paid and received by LIPA.

Under the floating-to-fixed swap with UBS, LIPA is subject to the risk that the variable-rate received (69.47% SOFR + 0.0795%) does not offset the payments on the underlying bonds.

Under the floating-to-fixed swap with Citibank, LIPA is subject to the risk that the variable rate received (70% SOFR + 0.0801%), may be different than the rate payable on any variable-rate refunding bonds.

The Authority views basis risk as a limited form of variable-rate exposure, and therefore takes Basis Risk into account when analyzing outstanding interest rate exposure.

Discontinuation of LIBOR:

On March 5, 2021, ICE Benchmark Administration Limited (“IBA”) and the Financial Conduct Authorities (“FCA”) announced that the LIBOR cessation date for most USD LIBOR tenors, including 1 Month LIBOR, is June 30, 2023.

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. The Authority has adhered to the Fallback Protocol to address the LIBOR discontinuation. Under the floating-to-fixed swap with UBS, the effective fallback rate is 69.47% SOFR + 0.0795%. Under the floating-to-fixed swap with Citibank, the effective fallback rate is 70% SOFR + 0.0801%.

/s/ Vinay T. Dayal

Vinay T, Dayal, Director of Finance and Treasury

Appendix A: Swap Details

Swap Type	Floating-to-Fixed		Total
	UBS	Citibank	
Counterparty			
Original Notional Amount	\$587,225,000	\$251,510,000	\$838,735,000
Outstanding Notional Amount	\$587,225,000	\$251,510,000	\$838,735,000
Termination Date	12/1/2029	9/1/2042	-
LIPA Pays	5.12%	1.8571%	-
LIPA Receives	69.47% of SOFR + 0.0795%	70% of SOFR + 0.0801%	-
First Counterparty Payment Date	7/1/2003	10/3/2022	-
First LIPA Payment Date	7/1/2003	10/3/2022	-
Up Front Cash Payment to LIPA	\$82,000,000	-	\$82,000,000
Payments Made by LIPA as of 9/30/2023	(\$611,256,856)	(\$5,073,000)	(\$616,329,856)
Payments Received by LIPA as of 9/30/2023 (excluding upfront payment)	\$131,502,663	\$8,680,087	\$140,182,749
LIPA Accrued Interest as of 9/30/2023	(\$2,505,493)	(\$402,207)	(\$2,907,700)
Counterparty Accrued Interest as of 9/30/2023	\$1,881,704	\$823,366	\$2,705,070
Mid Mark-to-Market Valuation @ 9/30/2023	(\$56,470,979)	\$37,387,782	(\$19,083,197)
DV01 (Sensitivity to 1bp Increase in SOFR Swap Rates) @ 9/30/2023	\$195,724	\$153,667	\$349,391
Ratio 01 (Sensitivity to 1% Increase in SIFMA/SOFR Ratios @ 9/30/2023	-	-	-
Collateral Posted by LIPA @ 9/30/2023	-	-	-
Collateral Held by LIPA @ 9/30/2023	-	-	-

Appendix B: Additional Termination Events/Collateral Posting Thresholds

Electric System General Revenue: A2 (Moody's), A (S&P), A (Fitch)			
Assured Guaranty Municipal Corp.: A1 (Moody's), AA (S&P)			
ISDA Terms for LIPA	Uninsured		Insured
	Citibank	Wells Fargo³	UBS (AGM)
Original ISDA Date	6/25/2004	11/1/2012	9/25/2002
ATE (below)	Baa2 (Moody's) or BBB (S&P or Fitch) ¹ Baa3 (Moody's) or BBB- (S&P or Fitch)	Baa3 (Moody's) or BBB- (S&P or Fitch)	See Note 2
Insurer Event (below)			A2 (Moody's) and A (S&P) ²
CSA Terms	No CSA		No CSA
Threshold (Lowest Rating)		<i>(Moody's / S&P / Fitch):</i>	
4 Aa3 or AA- and above		Infinite	
5 A1 or A+		Infinite	
6 A2 or A		Infinite	
7 A3 or A-		Infinite	
Baa1 or BBB+		Infinite	
Baa2 or BBB		Infinite	
Baa3 or BBB-		Zero	
Below Baa3 or BBB- / NR		Zero	
Minimum Transfer Valuation Date		\$250,000 Daily	
Notes:	¹ ATE if Citi has notified LIPA of the downgrade, and LIPA does not either (a) provide a guarantee/insurance, (b) transfer to an acceptable counterparty, or (c) execute a CSA within 20 days. ² ATE if, within 30 days of receiving notice of an Insurer Event, LIPA does not provide a Credit Support Provider, deliver proof of ratings of A3 (Moody's) or A- (S&P), or execute a CSA. ³ No existing trades		

Appendix B (continued):

Electric System General Revenue: A2 (Moody's), A (S&P), A (Fitch)			
ISDA Terms			
	Citibank	Wells Fargo³	UBS
Original ISDA Date	6/25/2004	11/1/2012	9/25/2002
Dealer Rating (M / S / F)	Aa3 / A+ / A+	Aa2 / A+ / AA-	Aa3 / A+ / A+
ATE (below)	A3 (Moody's) or A- (S&P or Fitch) ¹ Baa3 (Moody's) or BBB- (S&P or Fitch)	Baa1 (Moody's) or BBB+ (S&P or Fitch)	A3 (Moody's) or A- (S&P) ²
CSA Terms	No CSA		No CSA
Threshold (Lowest Rating)	<i>(Moody's / S&P / Fitch):</i>		
4 Aa3 or AA- and above		Infinite	
5 A1 or A+		Infinite	
6 A2 or A		Infinite	
7 A3 or A-		Infinite	
Baa1 or BBB+		Zero	
Baa2 or BBB		Zero	
Baa3 or BBB-		Zero	
Below Baa3 or BBB- / NR		Zero	
Minimum Transfer		\$250,000	
Valuation Date		Daily	
Notes:	¹ ATE if LIPA has notified Citi of the downgrade, and Citi does not either (a) provide a guarantee/insurance, (b) transferred to an acceptable counterparty, or (c) executed a CSA within 20 days. ² May also include an equivalent rating determined by a nationally-recognized ratings service acceptable to both parties. It shall constitute an ATE if, within 30 days, UBS does not execute a CSA. ³ No existing trades		