



Report to LIPA Finance & Audit Committee Power Supply Hedging Program - Credit Management

PSEG Services – Sean Adams

November 15, 2023



- **Compliance with LIPA's Board Policy – Counterparty Credit**
- **Sources of Credit Risk**
- **PSEG Services – Credit Management**
- **Counterparty Credit Monitoring and Reporting**



Compliance – Board Policy for Counterparty Credit

LIPA's Board Approved Policy for Power Supply Hedging Program contains a credit provision:

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

- LIPA's PRMC-approved *Power Supply Hedging Program Manual - Appendix F: “Procedures for Managing Counterparty Credit Risk”*

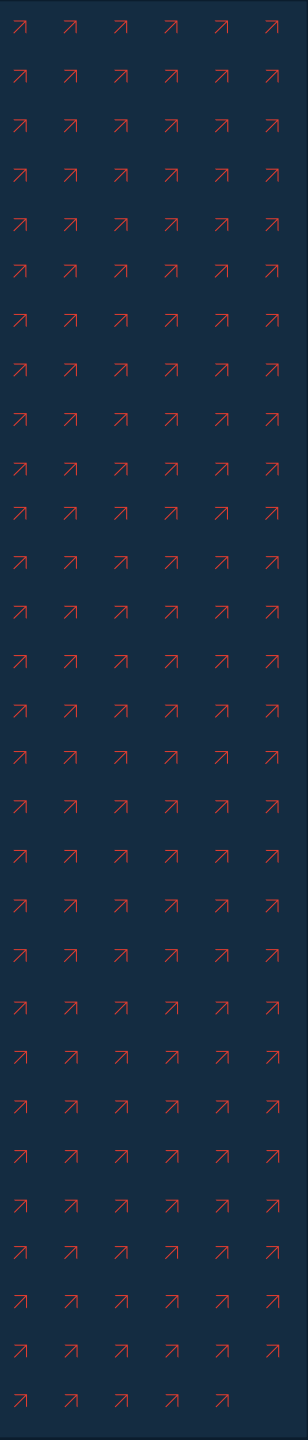
Sources of Credit Risk

For commodity transaction credit exposure occurs:

- Mark-to-market exposure
- Accounts receivable/payables

For supplier related transactions credit exposure occurs:

- When a contract includes milestone payments
- Warranty exposure
- Exceptions to insurance provisions
- Liquidated damages
- Credits or rebates
- Security breaches
- Use of subcontractors



PSEG Services – Credit Management

PSEG Services Role & Responsibilities

- Perform credit reviews of all financial and physical fuel and power counterparties including:
 - ISDAs – CSA
 - Fuel services contracts
 - LIPA's Purchased Power Agreements
 - Power Pool Credit Limit Utilization (NYISO, PJM and NEPOOL)
- Monitor ISDA and Clearing Broker Collateral exchanges
 - Stress Test analysis and Potential Collateral Exposure
 - Significant downward move in market
 - LIPA credit rating change
- 3rd Party Supplier Reviews For PSEG LI as agent to LILCO dba LIPA
- Prepare Counterparty Credit data for LIPA's Year-end Financials
- Counterparty credit enhancement and risk mitigation

Counterparty Credit Monitoring and Reporting

Daily

- Perform the margining process for ISDA counterparties
- Monitor any counterparty within 80% of its credit limit

Weekly

- Provide Credit Report on the hedging counterparties to LIPA management which includes information on all 3rd party suppliers that were approved that week

Monthly

- Present the most recent credit report to the LIPA PRMC
- Report credit rating update on all guarantees and LCs that support PPAs, hedge counterparties and 3rd party suppliers to LIPA management

Quarterly

- Report to the PRMC the latest financial information for the hedging counterparties and discuss any material changes



Report to LIPA Finance & Audit Committee Power Supply Hedge Update

PSEG Energy Resources & Trade – Raymond DePillo

November 15, 2023



- **Looking Back**
- **Fuel Outlook**
- **Weather Outlook**
- **Hedge Plan Effectiveness**
- **Rate Volatility**



Looking back ... and forward

Entering Last Winter

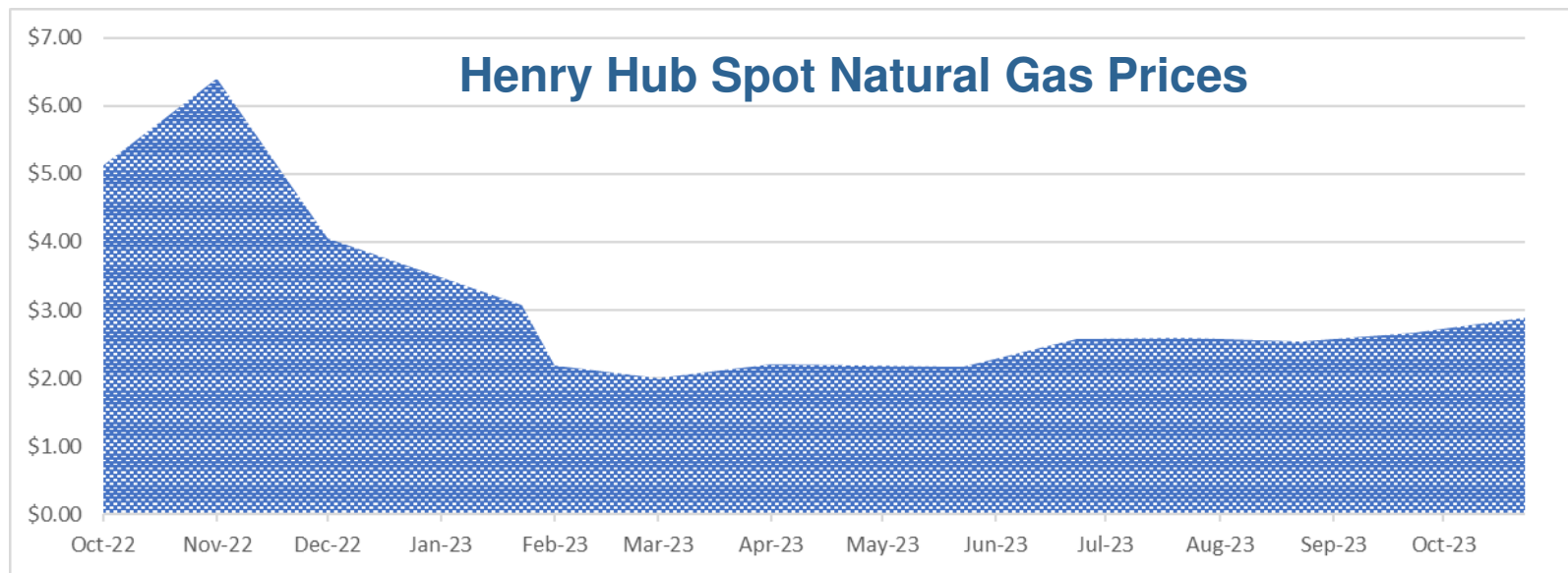
Uncertainty Going Forward

- War in Ukraine
- Dutch TTF (~\$25 premium to Henry Hub)
- US natural gas drilling
- Inflation / recession
- Low post winter storage levels
- Winter '22 / '23 weather

Exiting This Summer

Uncertainty Going Forward

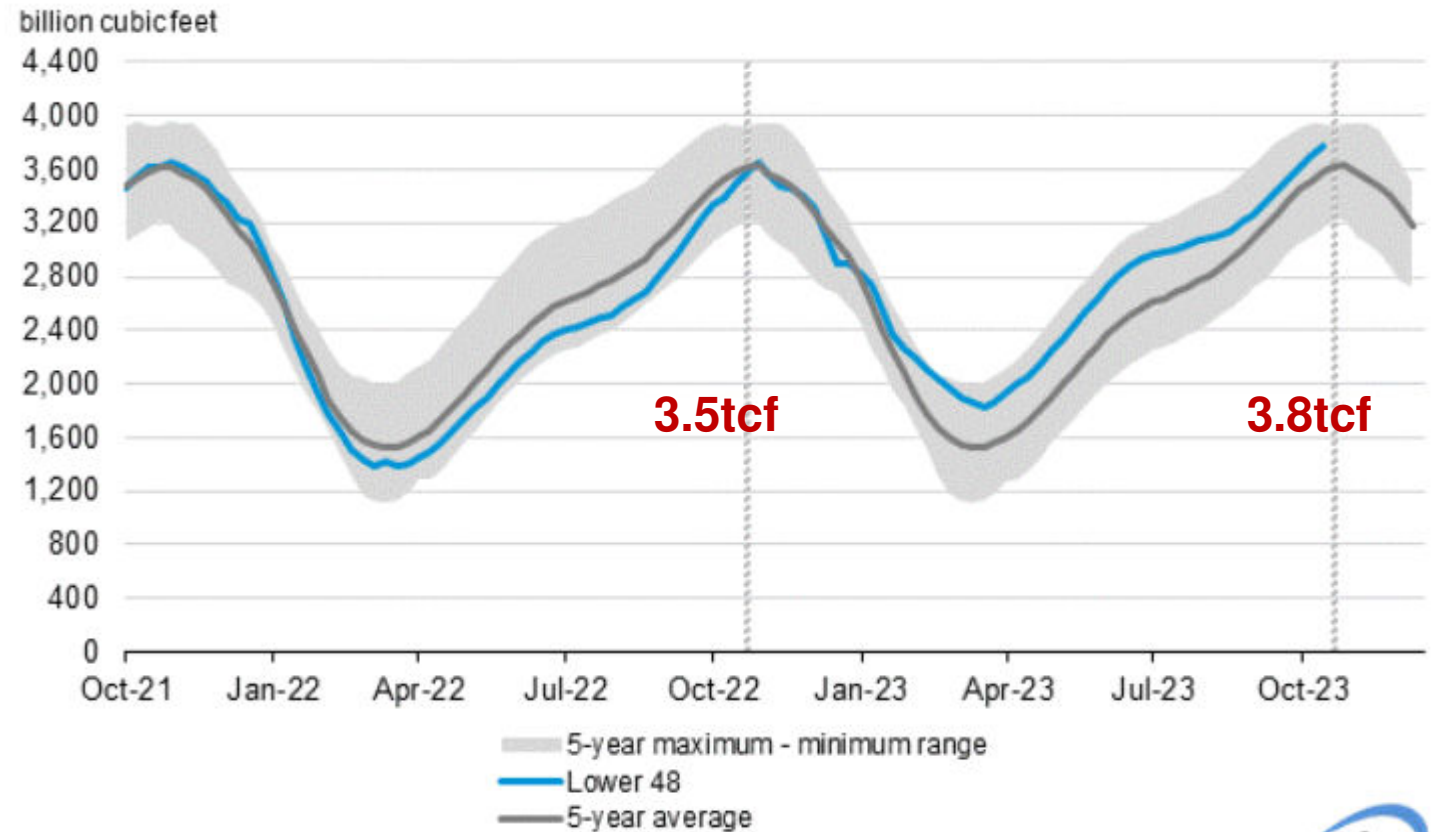
- War in Ukraine
- Middle East escalation
- Dutch TTF (~\$12 premium to Henry Hub)
- LNG and Exports
- Inflation / recession
- High post winter storage levels
- Weather - Another warm winter?



Fuel Outlook - Storage

- It is all about natural gas
- 2023 storage levels approach the high end of the range
- Storage surplus has been reduced through a hot summer season
- Europe at 99% of targeted storage levels entering winter

Working gas in underground storage compared with the 5-year maximum and minimum



Data source: U.S. Energy Information Administration

Fuel Outlook - Supply

Natural Gas Production (BCF per Day)



Baker Hughes U.S. Rig Count

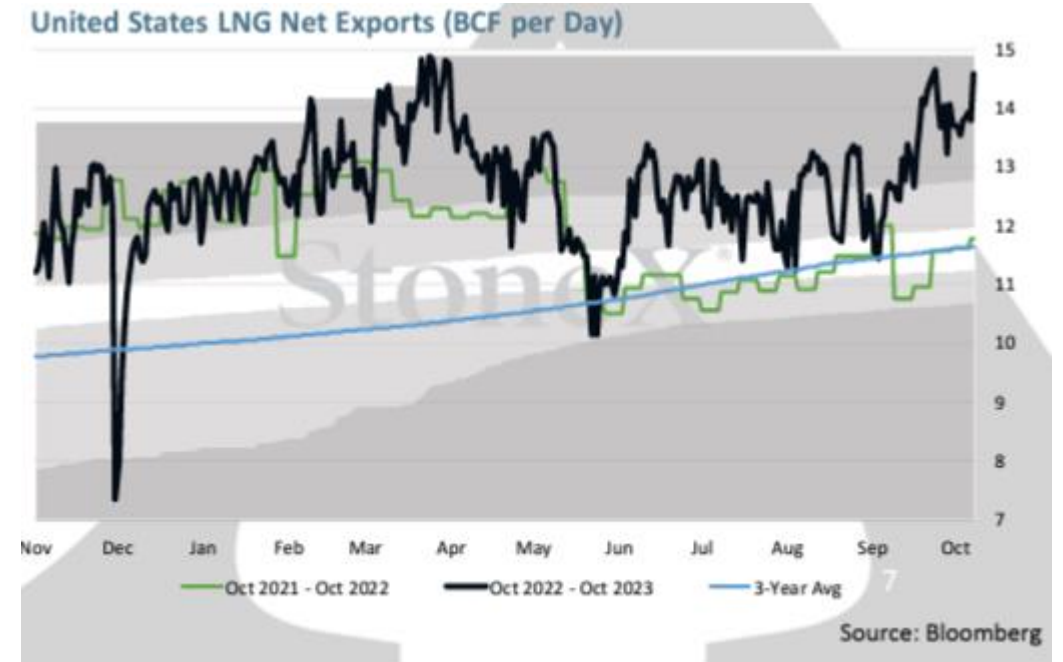
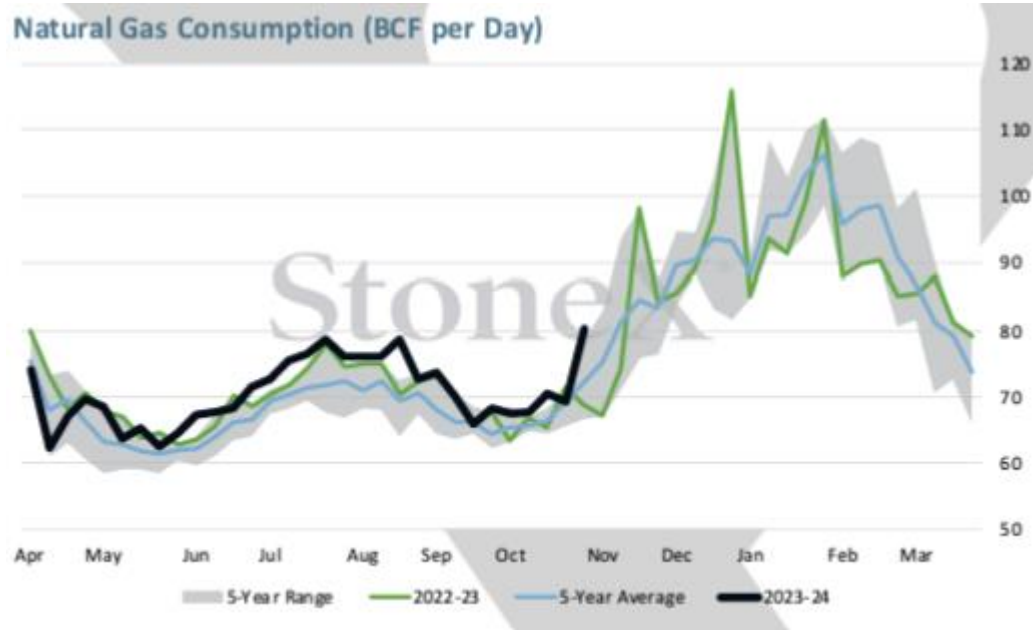
November 3, 2023

StoneX

Rotary Rig Count	Week Ending 11/03/23	Previous Week 10/27/23	Change	Last Year 11/04/22	Change	5 Year Average	Change	5 Year High	5 Year Low
Land	594	600	-6	754	-160	684	-90	1046	286
Inland Waters	3	1	2	2	1	2	1	3	1
Offshore	21	24	-3	14	7	16	5	22	12
U.S. Total	618	625	-7	770	-152	702	-84	1067	300
Oil Rigs	496	504	-8	613	-117	571	-75	874	226
Nat Gas Rigs	118	117	1	155	-37	130	-12	193	71
Gulf of Mexico	19	22	-3	13	6	15	4	21	12
Canada	196	196	0	209	-13	159	37	209	86
North America Total	814	821	-7	979	-165	861	-47	1265	386
NYMEX Crude	81.29	85.54	-4.25	92.61	-11.32	66.07	15.22	92.61	37.14

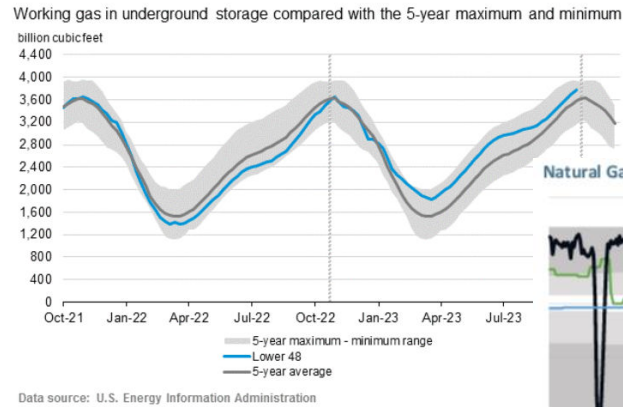
- Natural gas production increasing almost 5% year-on-year, but gains slowing of late
- Rig counts trending down, but efficiency is up
- Consolidation among the majors and interest rates likely to have impacts on supply

Fuel Outlook - Demand

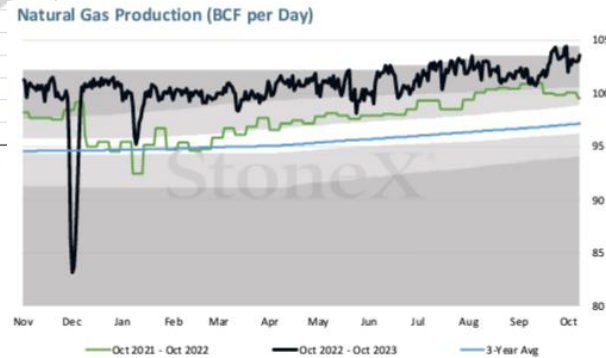


- Hot summer helped elevate demand to the top of the five-year range
- Despite a mild winter, short cold snaps brought demand to the top of the five-year range
- LNG exports operating near peak capacity – new facilities possible by late 2024

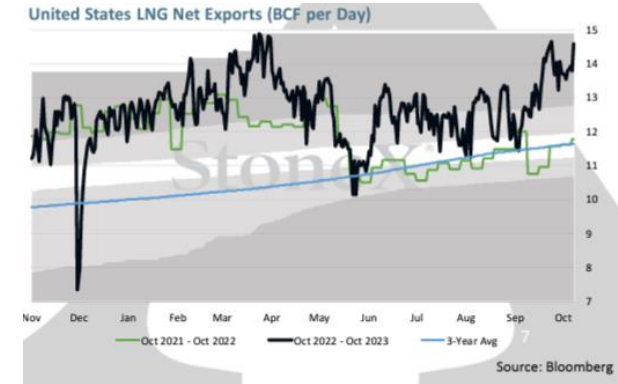
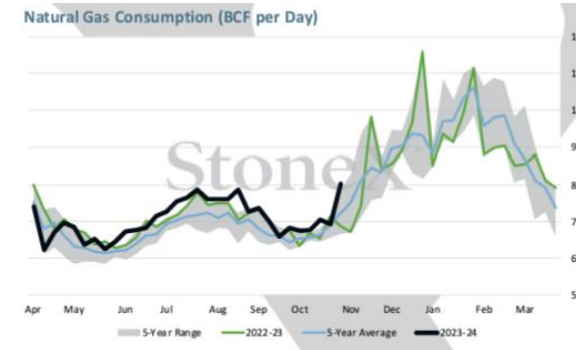
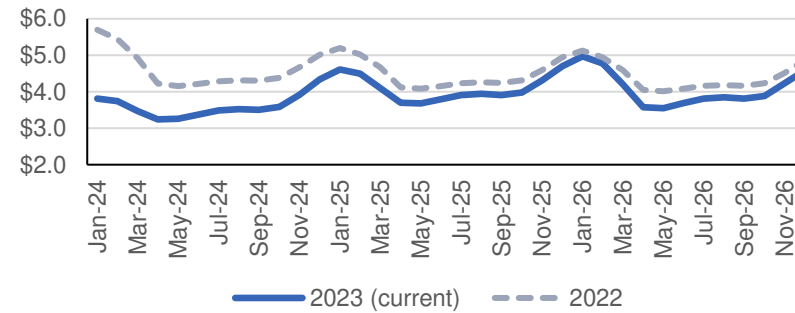
Fuel Outlook



Supply



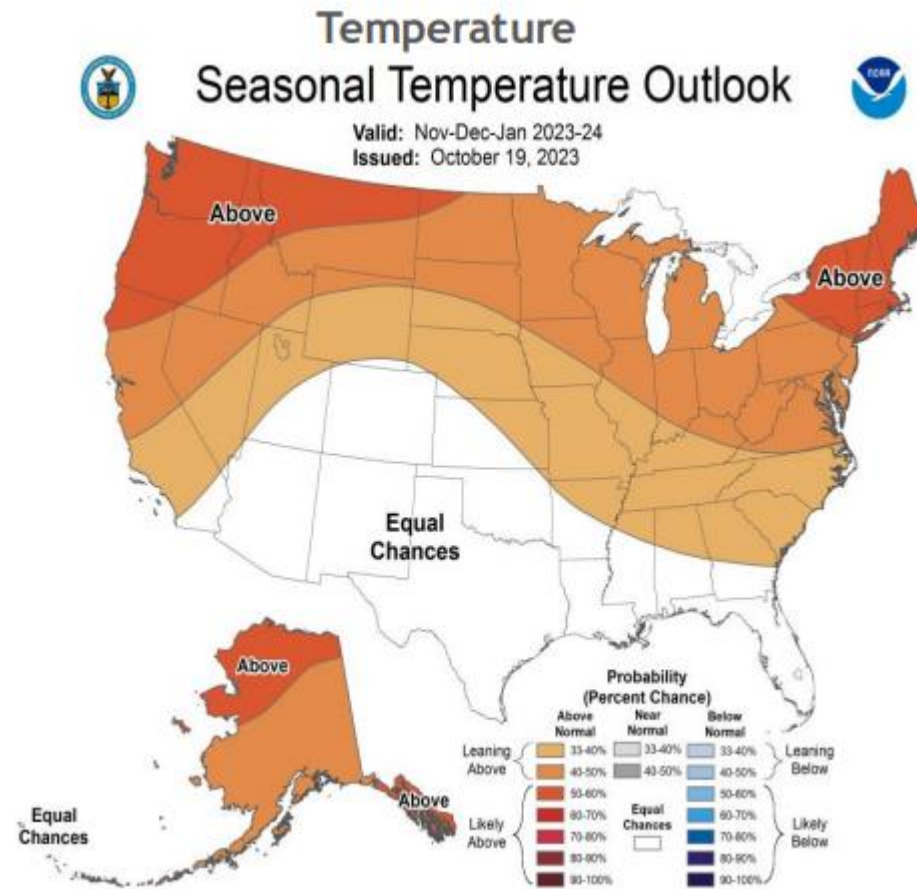
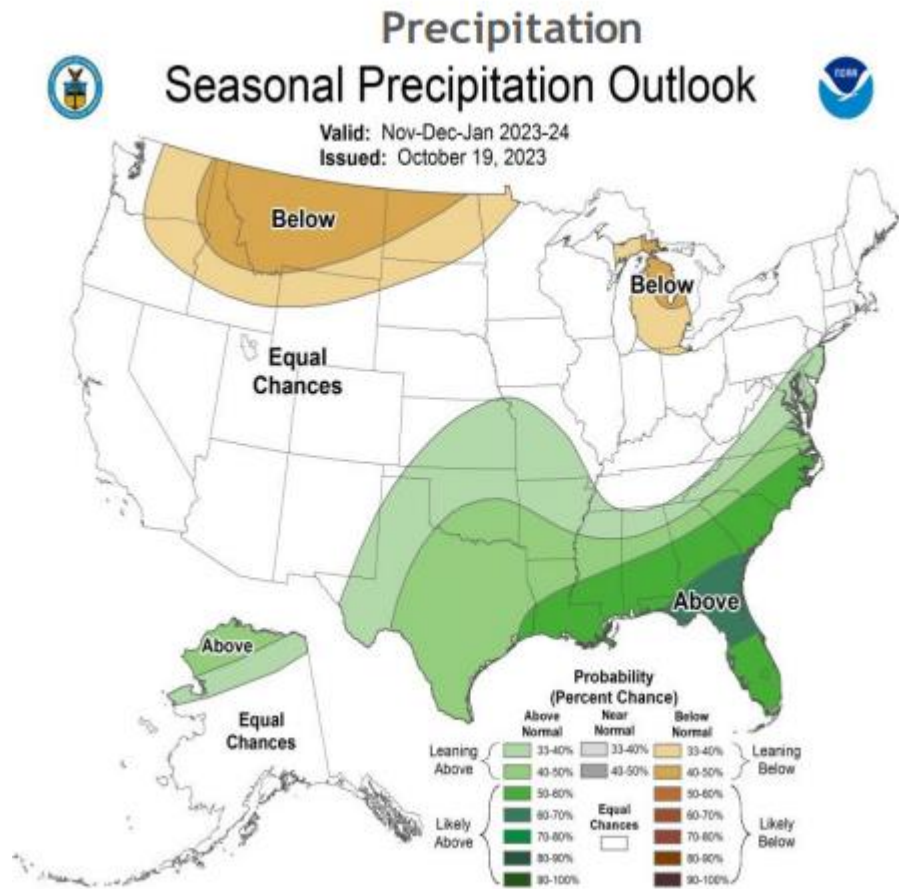
Henry Hub Forward Curve



Demand

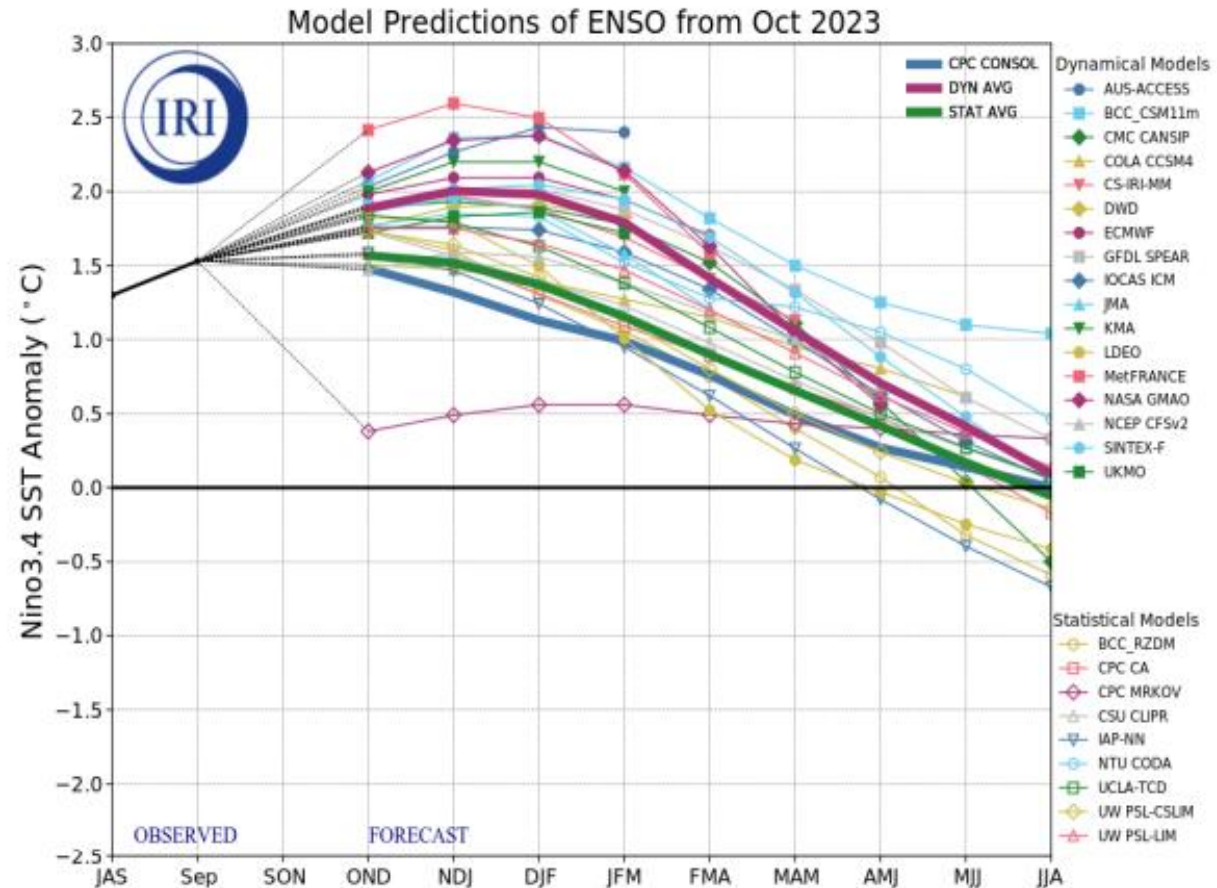
- Current conditions indicate adequate supply, and limited upside from LNG
- Demand and weather can both bring upside surprises to natural gas prices
- Economic conditions will play a major role in both supply and demand (recession / investment)
- Volatility expected to continue given the uncertainties

Weather Outlook (NOAA)



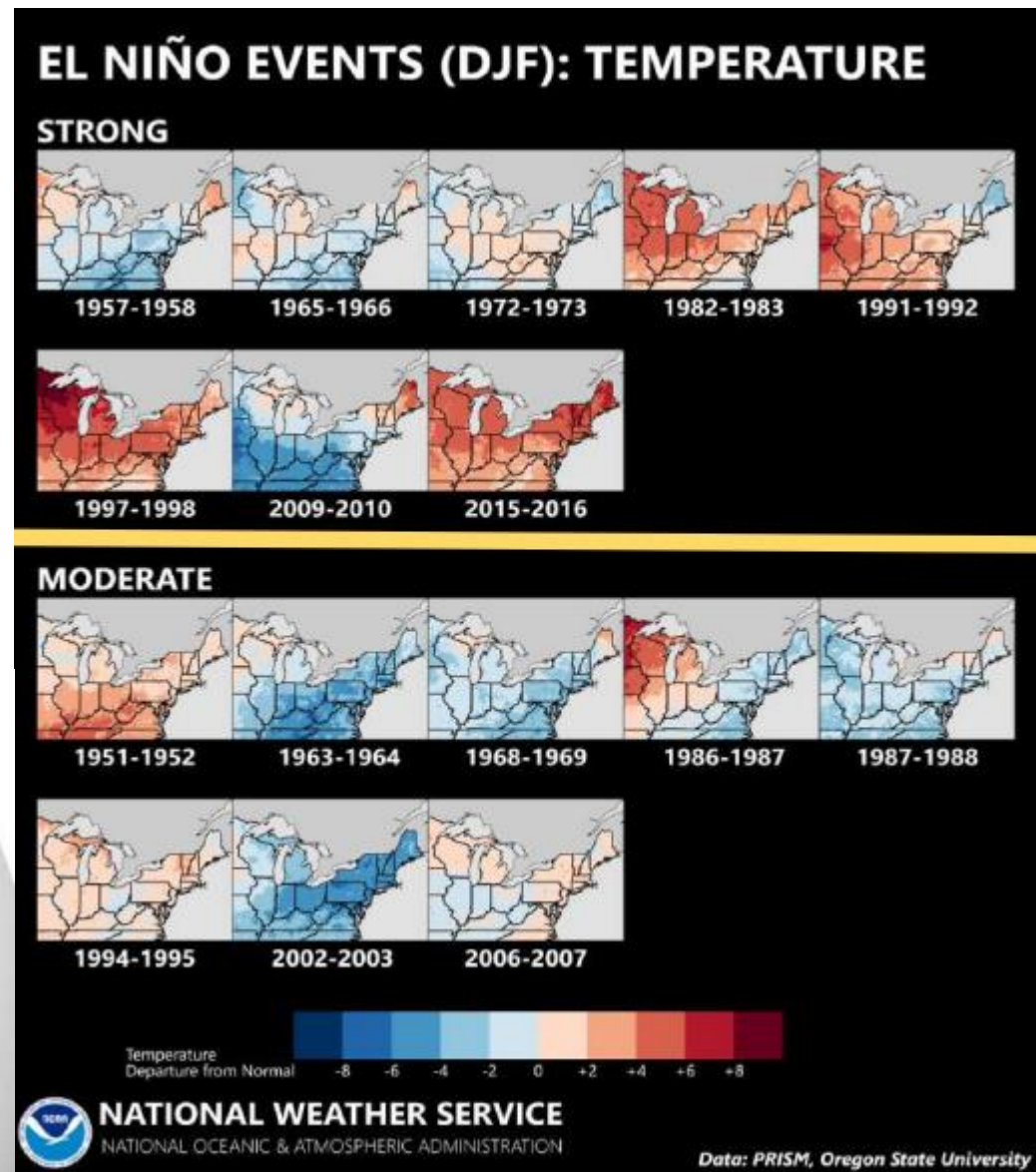
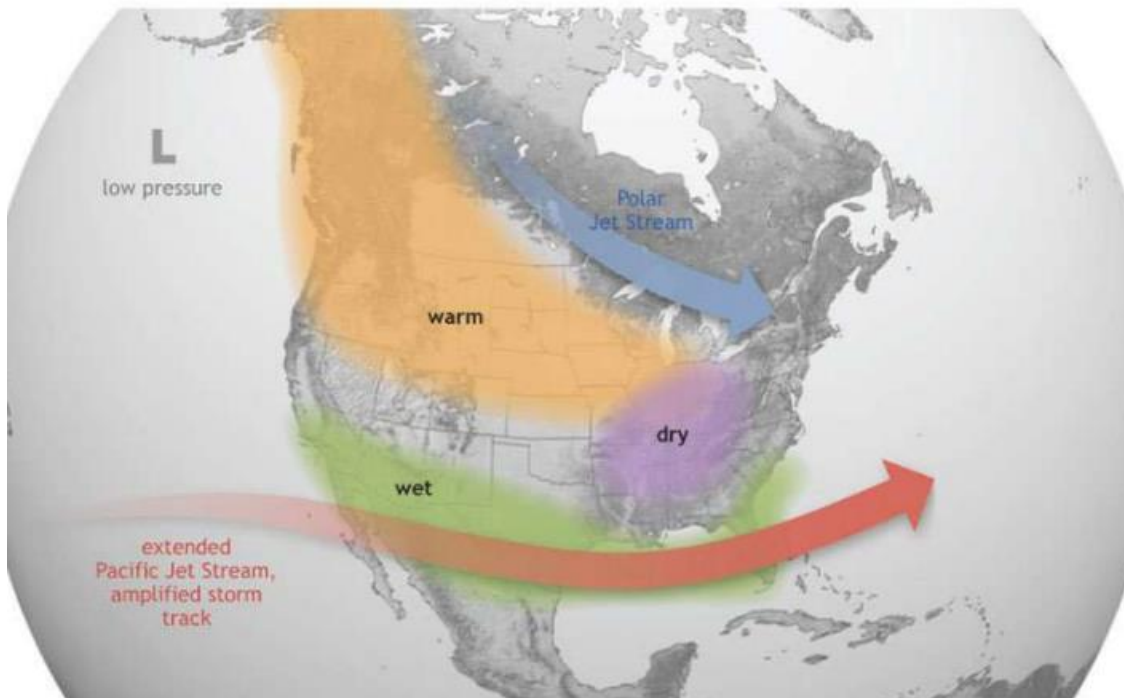
Weather Outlook

- Almost all models showing a “strong” El Nino peaking later this winter
- Most weather services showing forecasts consistent with NOAA outlook
- Generally warmer winter with a strong chance of several Nor’easters



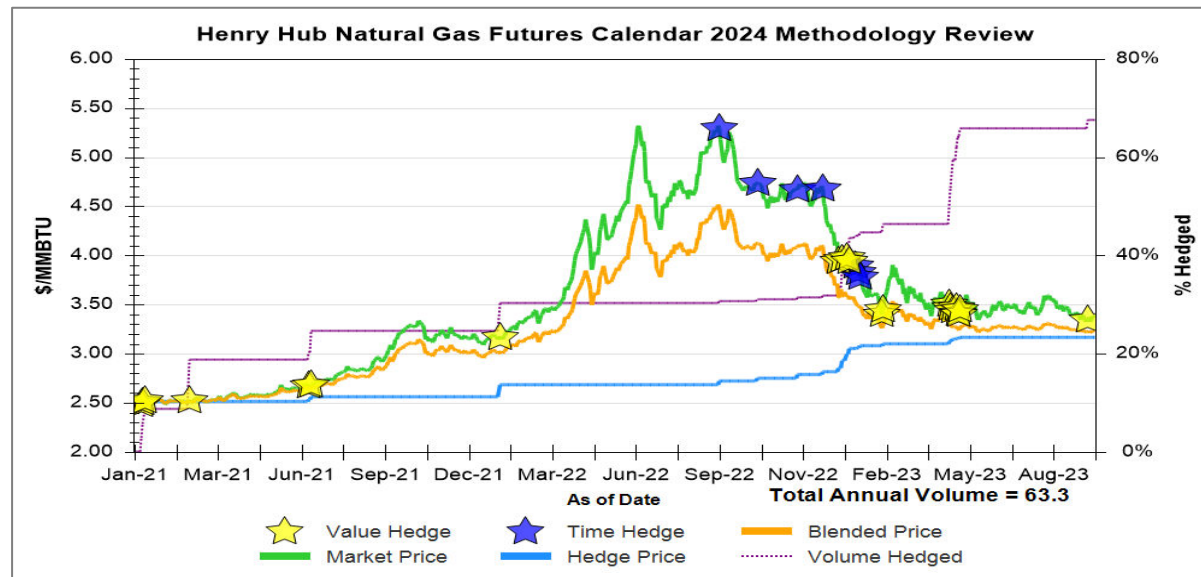
Weather Outlook

- Typical El Nino?
- Warm US could keep gas prices muted
- But can not discount spikes



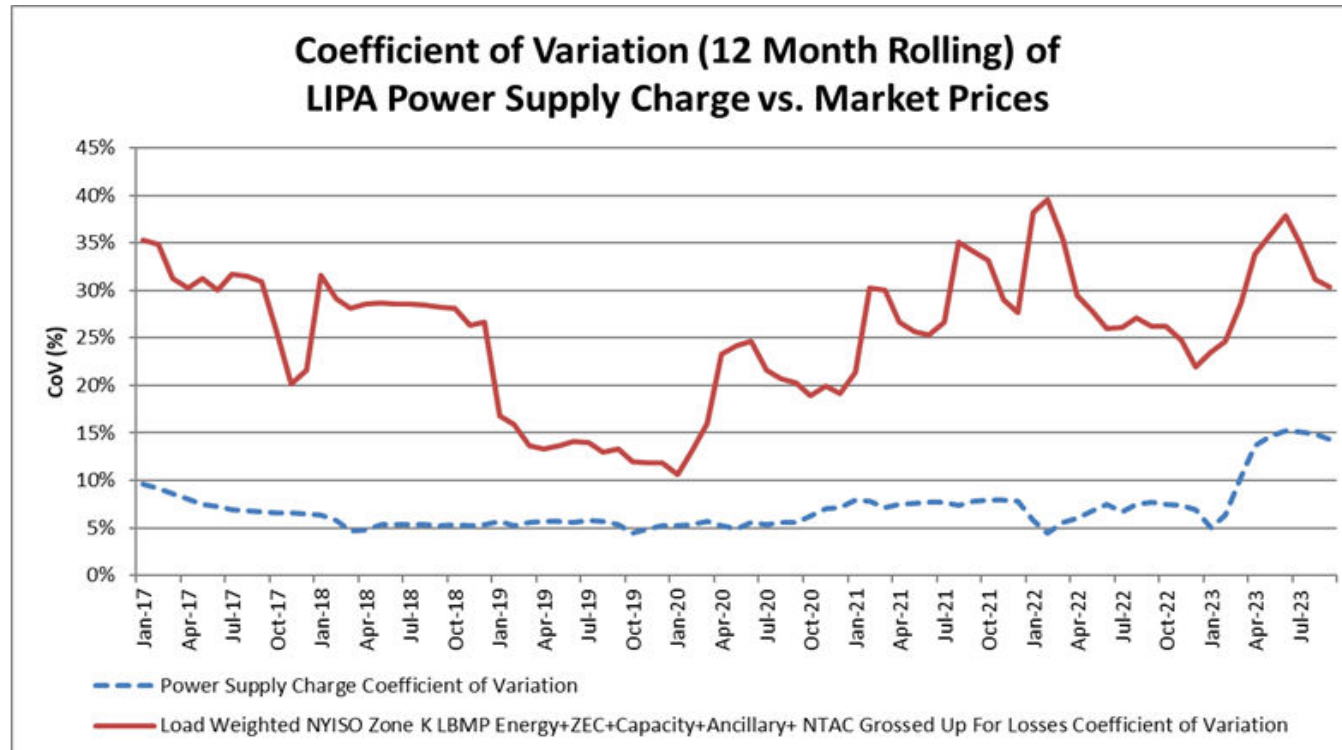
Hedge Plan Effectiveness

- LIPA's measured and programmatic approach to hedging continues to yield desired objective
- StoneX reports current hedge horizons consistent with other municipals and market participants
- StoneX sites the time and value-based approach across time as an industry best practice



Rate Volatility

- LIPA hedge plan continues to support customer rate volatility that is well below the wholesale market equivalent





 Thank
you