

February 12, 2024

To: Finance & Audit Committee  
LIPA Board of Trustees

Re: Quarterly Report on Interest Rate Exchange Agreements  
Quarter Ended December 29, 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 December 29, 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 December 29, 2023, the estimated total mark-to-market value of the transactions was approximately negative \$44 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 December 29, 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 at market. In addition, LIPA has the right to terminate the swap with Citibank at par on any fixed rate payer period end date beginning September 1, 2027, which mitigates the termination risk that LIPA has with Citibank. 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 December 29, 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. <sup>1</sup> | A1      | Stable  | AA     | Stable  | -      | -        |

<sup>1</sup>Insurer 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 December 29, 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                |
|-----------------------------|--------------------------|-----------------------|----------------------|
| Counterparty                | UBS                      | Citibank              |                      |
| Original Notional Amount    | \$587,225,000            | \$251,510,000         | <b>\$838,735,000</b> |
| Outstanding Notional Amount | \$587,225,000            | \$251,510,000         | <b>\$838,735,000</b> |
| 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    | -             | <b>\$82,000,000</b>    |
| Payments Made by LIPA as of 12/29/2023                                 | (\$618,773,336) | (\$6,240,698) | <b>(\$625,014,034)</b> |
| Payments Received by LIPA as of 12/29/2023 (excluding upfront payment) | \$137,101,777   | \$9,535,275   | <b>\$146,637,052</b>   |
| LIPA Accrued Interest as of 12/29/2023                                 | (\$2,505,493)   | (\$402,207)   | <b>(\$2,907,700)</b>   |
| Counterparty Accrued Interest as of 12/29/2023                         | \$1,952,254     | \$854,238     | <b>\$2,806,491</b>     |

  

|   |                |              |                       |
|---|----------------|--------------|-----------------------|
| Mid Mark-to-Market Valuation @ 12/29/2023                               | (\$69,838,992) | \$25,675,927 | <b>(\$44,163,065)</b> |
| DV01 (Sensitivity to 1bp Increase in SOFR Swap Rates) @ 12/29/2023      | \$194,846      | \$165,645    | <b>\$360,491</b>      |
| Ratio 01 (Sensitivity to 1% Increase in SIFMA/SOFR Ratios @ 12/29/2023) | -              | -            | -                     |
| Collateral Posted by LIPA @ 12/29/2023                                  | -              | -            | -                     |
| Collateral Held by LIPA @ 12/29/2023                                    | -              | -            | -                     |

## Appendix B: Additional Termination Events/Collateral Posting Thresholds

| LIPA Electric System General Revenue: A2 (Moody's), A (S&P), A (Fitch)<br>Assured Guaranty Municipal Corp.: A1 (Moody's), AA (S&P) |  |                                       |
|--|--|---------------------------------------|
| ISDA Terms for LIPA  | Uninsured  | Insured                               |
|  | <b>Citibank</b>  | <b>UBS<br/>(AGM)</b>                  |
| <b>Original ISDA Date</b>  | 6/25/2004  | 9/25/2002                             |
| <b>Source of Payment</b>   |  |                                       |
| Scheduled Payments   | Parity to Subordinate Debt   | Parity to Subordinate Debt            |
| Termination Payments   |  | Parity to Subordinate Debt            |
| <b>ATE (below)</b>   | Baa2 (Moody's) or BBB (S&P or Fitch) <sup>1</sup><br>Baa3 (Moody's) or BBB- (S&P or Fitch)   | A3 (Moody's) or A- (S&P) <sup>2</sup> |
| <b>Insurer Event (below)</b>   |  | A2 (Moody's) and A (S&P) <sup>2</sup> |
| <b>CSA Terms</b>   | No CSA   | No CSA                                |
| <b>Threshold (Lowest Rating)</b>   |  |                                       |
| 4 Aa3 or AA- and above   |  |                                       |
| 5 A1 or A+   |  |                                       |
| 6 A2 or A  |  |                                       |
| 7 A3 or A-   |  |                                       |
| Baa1 or BBB+   |  |                                       |
| Baa2 or BBB  |  |                                       |
| Baa3 or BBB-   |  |                                       |
| Below Baa3 or BBB- / NR  |  |                                       |
| <b>Minimum Transfer</b>  |  |                                       |
| <b>Valuation Date</b>  |  |                                       |
| <b>Notes:</b>  | <sup>1</sup> 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.<br><sup>2</sup> 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. |                                       |

Appendix B (continued):

| LIPA Electric System General Revenue: A2 (Moody's), A (S&P), A (Fitch) |  |                                       |
|--|--|---------------------------------------|
| ISDA Terms for Dealers   |  |                                       |
|  | Citibank   | UBS                                   |
| Original ISDA Date   | 6/25/2004  | 9/25/2002                             |
| Dealer Rating (M / S / F)  | Aa3 / A+ / A+  | Aa3 / A+ / A+                         |
| ATE (below)  | A3 (Moody's) or A- (S&P or Fitch) <sup>1</sup><br>Baa3 (Moody's) or BBB- (S&P or Fitch)  | A3 (Moody's) or A- (S&P) <sup>2</sup> |
| CSA Terms  | No CSA   | No CSA                                |
| Threshold (Lowest Rating)  |  |                                       |
| 4 Aa3 or AA- and above   |  |                                       |
| 5 A1 or A+   |  |                                       |
| 6 A2 or A  |  |                                       |
| 7 A3 or A-   |  |                                       |
| Baa1 or BBB+   |  |                                       |
| Baa2 or BBB  |  |                                       |
| Baa3 or BBB-   |  |                                       |
| Below Baa3 or BBB- / NR  |  |                                       |
| Minimum Transfer<br>Valuation Date                                     |  |                                       |
| Notes:   | <sup>1</sup> 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.<br><sup>2</sup> 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. |                                       |