



Power Supply Hedging Program Policy Annual Compliance Report

Presented by: Pervez Khaled, Senior Manager of Strategy
Prepared for: LIPA Board of Trustees

May 22, 2025



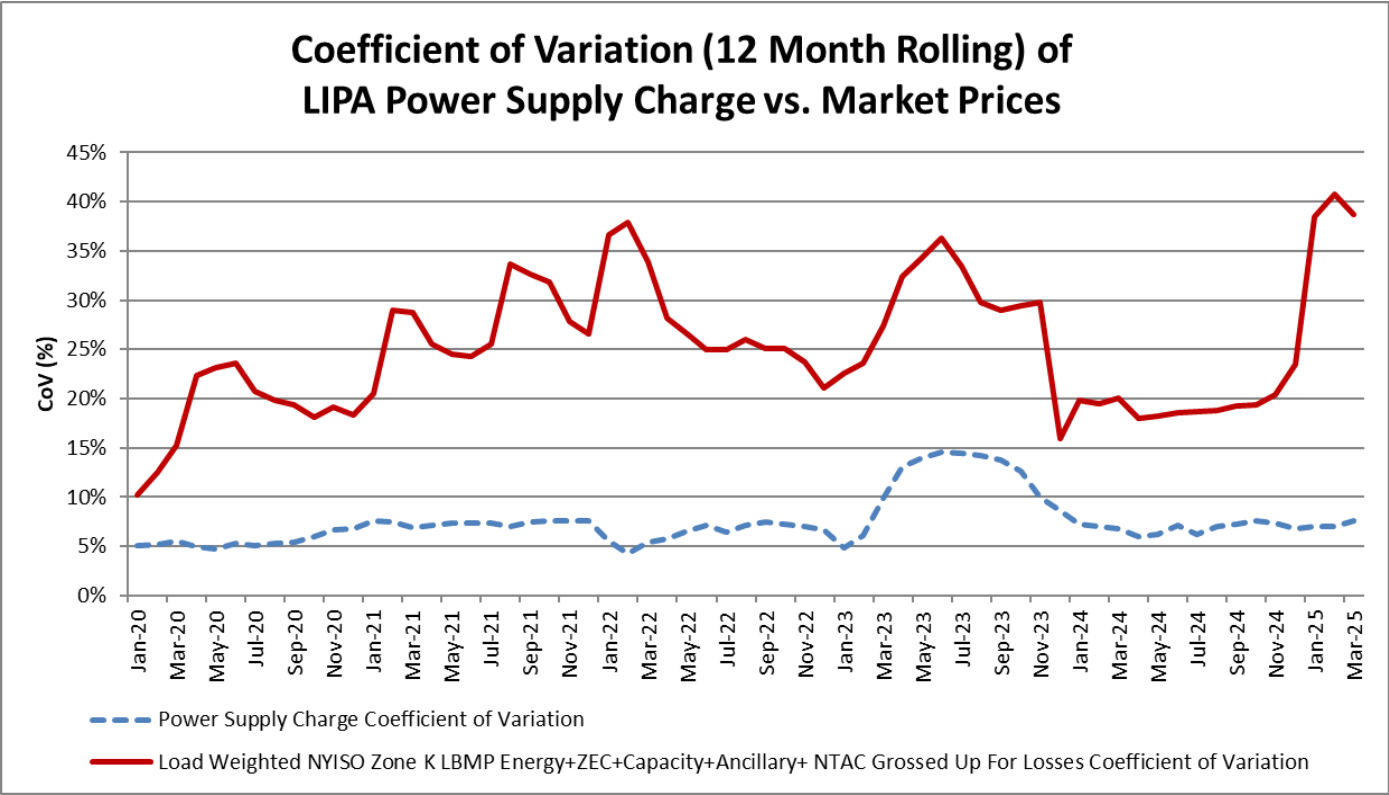
Recommended Amendments to Power Supply Hedging Program Board Policy

- The revised draft *Power Supply Hedging Program Policy* includes several administrative amendments to the wording of key provisions of the Board Policy to make them more concise.
- Appendix added to the Policy to document current PSM-FM Service Provider, reducing future Policy edits.

A redline version of the proposed amended *Power Supply Hedging Program Policy* is provided in the Acting CEO's Memo and Resolution to the Trustees as Exhibit "A".

Meeting the Board Policy Vision

Mitigate a portion of Power Supply Charge (PSC) volatility



Hedging activity has resulted in PSC volatility through March 2025 at 7.7%, while wholesale spot market volatility is more than 4x that at 38.7%



Governance of Power Supply Hedging Program

Power Supply Risk Management Committee (PRMC)

Must have at least 3 members, 2 from senior staff

- 7 LIPA staff sit on the PRMC, chaired by the CFO and comprised of 3 senior staff
- PRMC meets monthly with the PSEG ER&T staff to discuss:
 - Current hedge position, market changes, counterparty credit health, compliance with the LIPA Hedge Plan protocols and limits stated in LIPA's Procedures Manual, and review quarterly benchmarks of the program to ensure optimal Hedge Program performance
 - Conduct annual review of the Internal Policy, Controls, and Procedures Manual

Transparency of the Power Supply Hedging Program

- PSEG ER&T provides the PRMC daily, weekly, and monthly hedging activity reports

Key Provisions of the Power Supply Hedging Program Policy

Maximum net hedge level: 90% of projected fuel and power needs

- Current yearly and individual monthly hedge levels are below 90%

	Balance of 2025	Calendar 2026	Calendar 2027	Calendar 2028
Hedge Level	61%	47%	28%	17%

Date as of: May 12, 2025

Maximum hedge term: 72 months

- PRMC approved hedge term is 48 months in LIPA Hedge Plan. Currently, hedges extend out 43 months to December 2028 and in January 2026 new hedges will extend out to December 2029, or 47-month horizon

All hedges are for the purpose of appropriate risk mitigation

- Transactions are based on time or value triggers not market speculation

Counterparty Credit Review

- PSEG Credit Risk Management reports credit exposure weekly and monthly, and performs quarterly counterparty credit health reviews
- Currently there are no credit concerns with any of LIPA’s financial counterparties



Questions?

Pervez Khaled
Senior Manager of Strategy

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FOR CONSIDERATION

May 22, 2025

TO: The Board of Trustees

FROM: John Rhodes

SUBJECT: Consideration of Approval of the Annual Report and Amendments on the Board's Policy on the Power Supply Hedging Program

Requested Action

The Board of Trustees (the "Board") of the Long Island Power Authority ("LIPA") is requested to adopt a resolution: (i) approving the annual report on the Board Policy on the Power Supply Hedging Program (the "Policy") for the period since the last annual review; (ii) finding that LIPA has complied with the Policy; and (iii) approving certain amendments to the Policy, which resolution is attached hereto as **Exhibit "A"**.

Background

By Resolution No.1352, dated March 29, 2017, the Board adopted the Policy to maintain an effective commodity hedging program ("Program"), focused on meeting the expectations of LIPA's customers for reasonable stability and predictability in power supply costs. The Policy was last reviewed by the Board in November 2022.

The Finance and Audit Committee (the "F&A Committee"), in its charter, was delegated the responsibility of reviewing LIPA's practices relating to commodity risk management. The Committee considers as part of its review whether LIPA and its service provider, currently PSEG Energy Resource & Trade ("PSEG ER&T"), have remained in compliance with the Policy. As set forth in the Policy, certain responsibilities were delegated by the Board to the Chief Executive Officer, including maintaining a Power Supply Risk Management Committee ("PRMC") to oversee the activities of the service provider.

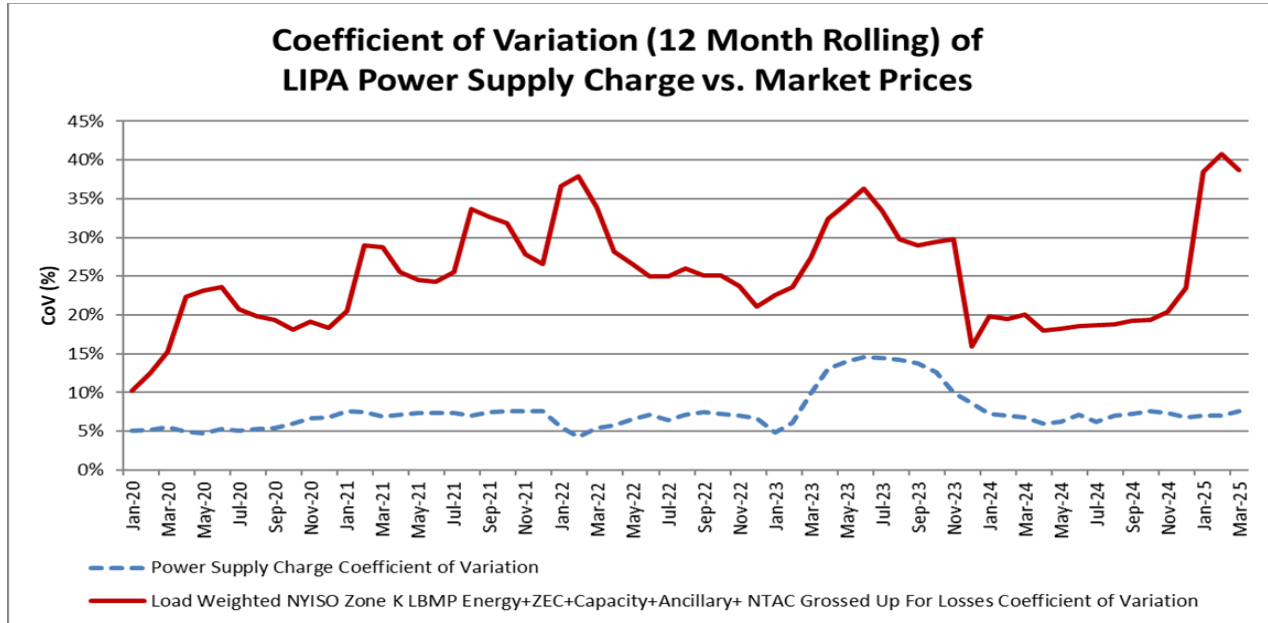
Specifically, the Policy provides that "the Chief Executive Officer, or his or her designee, will provide an annual compliance report on the Power Supply Hedging Program to the Finance and Audit Committee."

Compliance with the Policy

LIPA staff recommends that, for the reasons set forth below, the Board find that LIPA has complied with the objectives of the Policy for the period since the last annual review.

The Policy is intended to "Mitigate a portion of the volatility of power supply costs in a programmatic and reasonable way on behalf of the LIPA's customers."

The PRMC approves the LIPA Hedge Plan, which identifies certain power supply cost components that can be hedged to create reasonable and stable rates. In general, actively hedging these cost components has proven to reduce the Power Supply Charge (“PSC”) volatility for LIPA’s customers compared to purchasing power and fuel in the open market. As part of its biannual Hedge Program update, on May 22, 2025, Mr. Ray DePillo from PSEG ER&T will present to the F&A Committee a graph indicating the actual PSC volatility as compared to the volatility customers would be exposed to from unhedged market prices. The following graph indicates that LIPA’s PSC volatility through March 31, 2025, is approximately 8%, while market price volatility is greater than four times that amount at approximately 39%.



The Policy shall be “executed using financial derivative and physical supply and delivery contracts for a portion of LIPA’s projected fuel and purchased power purchases, provided, however that: the net hedge position does not exceed 90% of projected fuel and purchased power needs; and the term of any such hedge does not exceed ten years without the prior approval of the Board or a term in excess of seventy-two (72) months without the prior approval of the Finance and Audit Committee of the Board.”

- PSEG ER&T authorized traders to execute both financial and physical hedge transactions on LIPA’s behalf for defined volumes that as of May 9, 2025, would be within a 48-month hedge horizon. All transactions are monitored by PSEG Enterprise Risk Management Back-Office operations (“PSEG Back-Office”) for compliance; PSEG Back-Office generates and distributes hedge position reports daily, weekly, and monthly to LIPA’s PRMC.
- Hedge transactions are triggered based on a time or value trigger protocol that has been established with an independent third-party hedge advisor. Time-trigger transactions allow for the accumulation of minimum required volume hedge levels under all price environments. Value-triggered transactions allow for the accumulation of additional hedge levels based on lower decile pricing levels of value versus four-year historical pricing. In

addition, volumes associated with Board-approved Purchase Power Agreements (“PPAs”) having fixed prices, and LIPA’s 18% ownership of Nine Mile Point 2 are included as part of the hedged volume. Currently, the PRMC has set a maximum hedge level limit of 85%.

- No hedges exceed a term of seventy-two months, and the net hedge position does not exceed 90% of projected fuel and purchased power requirements, meeting the requirements of the Policy.

The Policy states that the Program shall “Achieve appropriate risk mitigation and is not for purposes of financial speculation.”

- All transactions are based on PRMC Approved projected fuel and power requirements associated with LIPA Board-approved annual sales forecast. Specific power supply component volumes are also validated against historical actual consumption data. Each hedge transaction is reviewed by PSEG Enterprise Risk Management’s Middle-Office group (“PSEG Middle-Office”) for compliance with the PRMC-approved LIPA Hedge Plan, which is part of the LIPA Policies, Controls and Procedures Manual for Power Supply Hedging Program (“Manual”).

The Policy states that the Program shall “Provide transparency regarding LIPA’s commodity risk management activities and the results of such activities.”

- PSEG ER&T, PSEG Back-Office, and PSEG Middle-Office provide to the PRMC staff on a daily, weekly, and monthly basis a hedge transaction report, hedge position report, and position valuation report. In addition, the following table identifies several other required reports to the PRMC and LIPA’s F&A Committee, their distribution and reporting frequency, and the originator of the reports.

Report	Distribution	Normal Frequency	Originator
Trading Activity Summary	PRMC Traders	Daily Weekly	Front Office Middle Office
Position Report	PRMC Traders	Weekly	Middle Office
Credit Risk Exposure Reports	PRMC Traders	Weekly	PSEG Credit Risk Management
PRMC Meeting Minutes	PRMC	As Meetings are Held	PRMC Designated Secretary
Benchmarking	PRMC	Quarterly	Independent third-party hedge advisor
Power Supply Hedging Program	Board Finance & Audit Committee	Bi-annually	PSEG ER&T
Annual Compliance Report	Board Finance & Audit Committee	Annually	CEO or Designee

The Policy requires that “LIPA’s Chief Executive Officer shall appoint a Power Supply Risk Management Committee (“PRMC”) consisting of at least three LIPA staff, two of which must be drawn from LIPA senior management. The PRMC will establish, maintain, and monitor processes and controls, the conduct of LIPA’s Power Supply Hedging Program, and the activities of its Service Provider, PSEG Energy Resource and Trade (“PSEG ER&T”). The key provisions of the PRMC’s activities shall include”:

“Oversight and ensuring that all Program activities conducted by LIPA and PSEG ER&T are in accordance with the Board Policy.”

- LIPA’s CEO has established a PRMC in compliance with the Board Policy. All active participants of the Power Supply Hedging Program are required to read and comply with the PRMC Approved Policies, Controls and Procedures Manual for Power Supply Hedging Program, which incorporates the Board Policy. All active participants are required to certify compliance with the Manual and Policy by executing the Yearly Certification of Compliance with Risk Management Policy and Procedures Form.

“Determining LIPA’s tolerance for exposure to fuel and purchased power price movements and power supply cost volatility considering the costs of limiting such exposure.”

- The PRMC has approved a Manual for the hedging Program that establishes LIPA’s tolerance for exposure to fuel and purchased power price movements. The PRMC has established minimum and maximum hedging limits by time period as well as collateral posting limits.
- The cost of the hedging Program is evaluated each day in the form of mark-to-market value of the positions and stress testing collateral exposure potential of all positions executed to limit PSC volatility.

“Addressing all risk factors that are demonstrably quantifiable, actionable and material to the Program.”

- The PRMC-approved Manual specifically identifies authorized markets and delivery points, permissible hedge instruments, and the terms and volumes available for hedging to reduce PSC volatility. Within the Manual, there is also a specific LIPA Hedge Plan that addresses the PSC hedge components that are quantifiable, actionable and there is market liquidity available to hedge the required products and delivery points (i.e., natural gas, gas basis, power, power basis).

“Establishing risk boundaries consistent with such tolerances and evaluating allowable financial and physical instruments in executing the Program.”

- The PRMC-approved Manual specifically identifies authorized markets, delivery points, permissible hedge instruments, terms, and volumes associated with hedging to reduce PSC

volatility. Within the Manual, there is also a specific LIPA Hedge Plan which addresses the minimum and maximum hedge levels by time-period – consistent with utility peers.

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

- The Manual identifies specific procedures carried out by PSEG Credit Risk Management on behalf of LIPA for managing and monitoring counterparty credit risk on an on-going basis. PSEG Credit Risk Management provides the PRMC with a credit report each week as noted above.

“Monitoring Commodity Futures Trading Commission rulemaking and all other regulatory and legal requirements to ensure that LIPA is taking all actions required to maintain compliance with respect to any transactions under the Power Supply Hedging Program.”

- PSEG ER&T, PSEG Corporate Legal department and LIPA’s internal and outside counsel monitor Commodity Futures Trading Commission regulatory rulemaking to determine what actions, if any, LIPA is required to undertake to assure continued compliance.

Enterprise Risk Management Discussion

The Board has adopted a policy on Enterprise Risk Management (“ERM”). Enterprise risks are brought to the Board’s attention throughout the year. Currently, there are two risks related to the Policy, one is related to volatility and the other with transition to a new service provider.

Risk #1: “Ineffective management of excessive fuel and purchased power market price volatility could result in an increase to the power supply charge, cause poor customer perception, and a negative reputational impact”.

This risk is rated as a medium level risk for LIPA. To mitigate this risk LIPA maintains a PRMC which approves a defined hedging strategy and meets monthly to review LIPA hedge plan compliance and benchmarking, trading details and performance. LIPA currently contracts out the daily responsibilities of trading to PSEG’s ER&T, which separates the front and middle office responsibilities. In addition, the PSEG Credit Risk Management staff monitors counterparty credit and publishes any potential exposures.

LIPA staff reviews all hedges and maintains a Daily Hedge Transaction Review Log to ensure hedge transactions were completed accurately, timely and in compliance with the LIPA Hedge Plan. LIPA’s Daily Hedge Transaction Log is also reviewed periodically by LIPA’s Internal Audit Department.

Risk #2: "Failure to completely and effectively transition to the new PSMFM Service Provider, The Energy Authority (“TEA”) by December 31st, 2025, could result in significantly higher transition costs, inadequate generation system dispatch, higher fuel and power costs, which would increase the Power Supply Charge and negatively impact customers."

This risk is rated as a medium level risk for LIPA. To mitigate this risk TEA, PSEG ER&T and LIPA have created function-specific working groups that meet weekly to guide a timely transition of roles and responsibilities including complete cut-over to TEA. Risks to fully and successfully transitioning all responsibilities by the contract end date are identified and mitigated through these working groups.

LIPA staff believe both risks are being effectively managed; noting with the successful transition to TEA this risk will be removed in 2026.

Annual Review of the Policy

The Policy was last amended by the Board pursuant to Resolution No. 1493, dated September 25, 2019, at which time the Policy was significantly updated. LIPA Staff has completed its annual review of the Policy and has suggested minor amendments to the Policy including: (i) certain other minor word changes; (ii) adding Appendix #1 at the end of Policy to note the PSMFM Service Provider. All proposed amendments are more particularly shown on **Exhibit “B.”**

Recommendation

Based upon the foregoing, I recommend approval of the above requested action by adoption of a resolution in the form attached hereto.

Attachments

Exhibit “A” Resolution

Exhibit “B” Policy (redline)

RESOLUTION APPROVING THE ANNUAL REPORT AND AMENDMENTS ON THE BOARD POLICY ON THE POWER SUPPLY HEDGING PROGRAM

WHEREAS, the Board Policy on the Power Supply Hedging Program (the “Policy”) was originally approved by the Board of Trustees by Resolution No.1352, dated March 29, 2017; and

WHEREAS, the Policy was last reviewed by the Board in November 2022; and

WHEREAS, the Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) has conducted an annual review of the Policy and has recommended that the Policy has been complied with, and that the proposed amendments to the Policy are due and proper.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Board hereby approves the annual report on the Policy and finds that LIPA has complied with the Policy for the period since the last annual review; and

BE IT FURTHER RESOLVED, the Board hereby approves the amendments to the Policy more particular show on **Exhibit “B”** to the accompanying memorandum.

Dated: May 22, 2025

Board Policy: **Power Supply Hedging Program**

Policy Type: **Operating Policies**

Monitored by: **Finance and Audit**

Board Resolution: **#1352, approved March 29, 2017**
#1429, amended September 27, 2018
#1493, amended September 25, 2019
#xxxx, amended May 22, 2025



Board Policy on Power Supply Hedging Program

The Long Island Power Authority's ("LIPA") objective for a Power Supply Hedging Program (the "Program") is to mitigate a portion of the volatility of purchased power and fuel commodity costs in a programmatic and reasonable way, and to provide greater stability in power supply costs for LIPA's customers. Electric utilities are exposed to volatile commodity prices in the normal conduct of their operations. The costs to either purchase and deliver fuel to produce electricity in power plants or to purchase power from other suppliers are recovered from the Long Island Power Authority's ("LIPA") customers at cost through a Power Supply Charge that changes each month. An effective commodity hedging program provides LIPA's customers with greater stability in power supply costs and is a utility best practice to help achieve the above objective.

It is the policy of the Board of Trustees for LIPA shall to maintain a Power Supply Hedging Program (the "Program") that with the following key provisions:

- Create a Power Supply Risk Management Committee, for which Committee members will be appointed at the discretion of LIPA's Chief Executive Officer. Mitigates a portion of the volatility of power supply costs in a programmatic and reasonable way on behalf of LIPA's customer owners;
- Is Executed the Program using financial derivatives and physical supply and delivery contracts with a net position not to exceed 90% for a portion of LIPA's projected fuel and purchased power requirements. Hedge positions shall not have a term in excess of seventy-two (72) months without the prior approval of the Finance and Audit Committee of the Board. purchases, provided, however that:
- the net hedge position does not exceed 90% of projected fuel and purchased power needs;
- the term of any such hedge does not exceed ten years without the prior approval of the Board or a term in excess of seventy two (72) months without the prior approval of the Finance and Audit Committee of the Board;
- The hedge Program should achieves appropriate risk mitigation and is not for purposes of financial speculation; and
- pProvides transparency regarding LIPA's commodity risk management activities and results.

LIPA's Chief Executive Officer shall appoint the members of a Power Supply Risk Management Committee ("PRMC") consisting of at least three other LIPA staff, two of which must be drawn from LIPA senior management. The PRMC will establish, maintain,

Board Policy: **Power Supply Hedging Program**

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#1429, amended September 27, 2018
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#xxxx, amended May 22, 2025



and monitor processes and controls, the conduct of LIPA's Power Supply Hedging Program, and the activities of its contracted Power Supply Management-Fuel Management External Service Provider ("PSMFM Service Provider"), ~~PSEG Energy Resource and Trade ("PSEG-ER&T")~~. The key provisions of the PRMC's activities shall include:

- Oversight and ensuring that all Program activities conducted by LIPA and its external PSMFM Service Provider ~~PSEG-ER&T~~ are in accordance with the Board Policy;
- Determining LIPA's tolerance for exposure to fuel and purchased power price movements and power supply cost volatility considering the costs of limiting such exposure;
- Addressing all risk factors that are demonstrably quantifiable, actionable, and material to the ~~p~~Program;
- Establishing risk boundaries consistent with such tolerances and evaluating allowable financial and physical instruments in executing the Program;
- Establishing appropriate processes and protocols to review and monitor counterparty credit worthiness on a regular basis; and
- Monitoring Commodity Futures Trading Commission rule making and all other regulatory and legal requirements to ensure that LIPA is taking the actions required to maintain compliance with respect to any transactions under the Program.

The ~~PSEG-ER&T-PSMFM Service Provider~~ will report to the Finance and Audit Committee of the Board ~~Finance & Audit Committee~~ biannually on the Program. Additionally, the Chief Executive Officer, or his or her designee, will provide an annual compliance report on the Program to the Finance and Audit Committee.

Board Policy: **Power Supply Hedging Program**

Policy Type: **Operating Policies**

Monitored by: **Finance and Audit**

Board Resolution: **#1352, approved March 29, 2017**
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Appendix #1: Board Policy on Power Supply Hedging Program - PSMFM Service Provider

As of 1/1/2015: PSEG Energy Resources and Trade