FOR CONSIDERATION
November 18, 2026

TO: The Board of Trustees

FROM: Carrie Meek Gallagher

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

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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; and (ii) finding that LIPA has complied with 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 May 2025.

The Finance and Audit Committee (the "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 The Energy Authority ("TEA"), have remained in compliance with the Policy. PSEG Energy Resources and Trade ("PSEG ER&T") served as LIPA's Power Supply Management-Fuel Management service provider through December 31, 2025, and TEA assumed that role effective January 1, 2026. This report covers the activities of both service providers during the review period. 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.

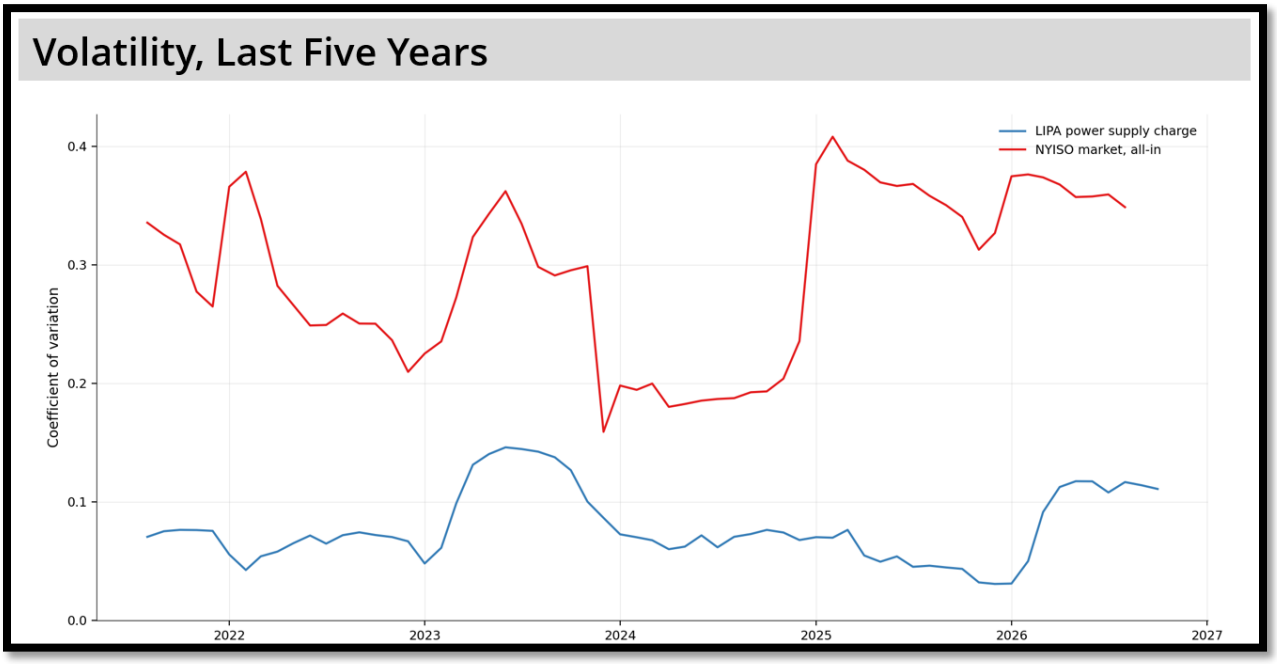
Specifically, the Policy provides that "the Chief Executive Officer, or his or her designee, will provide an annual compliance report on the Power Supply Hedging Program to the Finance and Audit Committee."

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 November 18, 2026, Mr. Jamie Mahne from TEA will present to the F&A Committee a graph indicating the actual PSC volatility as compared to the volatility customers would be exposed to based upon unhedged market prices. The following graph indicates that LIPA's PSC volatility through August 2026 is approximately 12%, while market price volatility is nearly three times that amount at 35%.



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."

- TEA authorized traders to execute both financial and physical hedge transactions on LIPA's behalf for defined volumes that as of November 18, 2026, would be within a 48-month hedge horizon. All transactions are monitored for compliance by TEA's Middle Office ("TEA Middle-Office"), which also generates and distributes daily, weekly, and monthly hedge ratio position reports to the appropriate LIPA SMEs. 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-approved annual sales forecast. Specific power supply component volumes are also validated against historical actual consumption data. Each hedge transaction is reviewed by TEA Risk group ("TEA Risk Group") 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 results."

- TEA provides 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	Intra-Day, Daily, Weekly	Front Office Middle Office
Position Report	PRMC Traders	Weekly	Middle Office (Risk)
Credit Risk Exposure Reports	PRMC Traders	Weekly	Middle Office (Risk)
PRMC Meeting Minutes	PRMC	As Meetings are Held	Middle Office (Risk)
Benchmarking	PRMC	Quarterly	Independent third-party hedge advisor

Power Supply Hedging Program	Board Finance & Audit Committee	Bi-annually	TEA
Annual Compliance Report	Board Finance & Audit Committee	Annually	CEO or Designee

The Policy requires that "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, 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"), The Energy Authority ("TEA"). The key provisions of the PRMC's activities shall include":

"Oversight and ensuring that all Program activities conducted by LIPA and TEA 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 TEA Credit Risk Management on behalf of LIPA for managing and monitoring counterparty credit risk on an on-going basis. TEA 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."

- TEA 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 ensure 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 is one risk related to the Policy, that is related to volatility.

The risk is "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 TEA, which separates the front and middle office responsibilities. In addition, the TEA Credit Department 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. LIPA believes the risk is being effectively managed.

Annual Review of the Policy

The Policy was last amended by the Board pursuant to Resolution No. 1493, dated May 22, 2025, at which time the Policy was marginally updated. LIPA Staff has completed its annual review of the Policy and has made no amendments to the Policy.

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 "A"

RESOLUTION APPROVING THE ANNUAL REPORT 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 and amended by the Board on May 22, 2025; 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.

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.

Dated: November 18, 2026