

LONG ISLAND POWER AUTHORITY

MINUTES OF THE 265TH MEETING

HELD ON DECEMBER 20, 2016

The Long Island Power Authority (the "Authority") was convened for the two-hundred-and-sixty-fifth time at 11:27 a.m. at LIPA's Headquarters, Uniondale, NY, pursuant to legal notice given on December 15, 2016; and electronic notice posted on the Authority's website.

The following Trustees of the Authority were present:

**Ralph V. Suozzi, Chair
Elkan Abramowitz
Sheldon L. Cohen
Matthew Cordaro
Mark Fischl
Peter Gollon
Jeffrey Greenfield
Thomas J. McAteer
Suzette Smookler**

Representing the Authority were Thomas Falcone, Chief Executive Officer; Joseph Branca, Chief Financial Officer; Jon Mostel, General Counsel and Secretary to the Board of Trustees; Kenneth Kane, Managing Director of Financial Oversight; John Little, Managing Director of Strategy and Policy; and Rick Shansky, Managing Director of Operations Oversight.

Representing PSEG Long Island were David Daly, President and COO; John O'Connell, Vice President of Transmission & Distribution; David Lyons, Vice President of Business Operations; Daniel Eichhorn, Vice President of Customer Service and Paul Napoli, Vice President of Power Markets.

Chair Suozzi welcomed everyone to the 265th meeting of the Long Island Power Authority Board of Trustees and led the Pledge of Allegiance.

Chair Suozzi made some brief opening remarks and then stated that the chair of each board committee would provide a brief summary of its most recent committee meeting to the full board. Trustee Cohen reported on the Finance and Audit Committee, Trustee Fischl reported on the REV Committee Meeting and Governance Committee Meeting and Trustee Abramowitz reported on the Contract Oversight Committee Meeting.

Chair stated that the next item on the agenda is the presentation of the CEO's Report by Thomas Falcone.

Mr. Falcone presented LIPA's CEO Report and then took questions from the Trustees.

The Chair stated that the Board would take public comment on matters related to offshore wind and the Board has set aside approximately thirty minutes to hear public comments. He also discussed the procedure for public comments, including a reminder of the procurement lobbying laws applicable to public comments regarding Authority procurements. The Board then heard public comment on matters related to offshore wind.

The Chair then asked for a motion to adjourn to Executive Session to discuss pending litigation matters and announced that no votes would be taken and the Board would be returning to open session. The motion was duly seconded and the following resolution was adopted:

1325. EXECUTIVE SESSION - PURSUANT TO SECTION 105 OF THE PUBLIC OFFICERS LAW

RESOLVED, that pursuant to Section 105 of the Public Officers Law, the Trustees of the Long Island Power Authority shall convene in Executive Session for the purpose of discussing litigation matters.

At approximately 12:12 p.m. the open session of the Board of Trustees was adjourned into Executive Session, which commenced at 12:13 p.m. whereupon the Board resumed in open session at approximately 12:40 p.m.

The Chair stated that the next item on the agenda is the consideration of Consent Agenda Items.

After questions and a discussion by the Trustees and the opportunity for the public to be heard, upon motion duly made and seconded, the following resolutions were passed by the Trustees based on the memos summarized below.

1326. APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE SEPTEMBER 21, 2016 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on September 21, 2016 are hereby approved and all actions taken by the Trustees present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

Requested Action

The Trustees are being requested to adopt the resolution below approving revisions to the By-Laws of the Long Island Power Authority (the "Authority"), in the form presented to the Trustees.

The Authority's By-Laws provide for, among other things, the regulation and management of the Authority's business, and were last amended in 2014. The Governance Committee (the "Governance Committee") has been tasked in its charter with overseeing the implementation and effectiveness of the Authority's By-Laws and recommending modifications.

Accordingly, the Governance Committee has undertaken a periodic review of the By-Laws and determined that the following changes are appropriate to reflect the Authority's current and desired practices as well as best practices in governance generally:

- Updates to better reflect the roles and responsibilities of the Trustees and Officers;
- Updates to the emergency succession of the Chief Executive Officer, Chief Financial Officer and General Counsel;
- Changes to reflect the Authority's current organizational structure by eliminating the position of General Manager;

- Addition of a definition of the role of Controller; and
- Provision for the use of a consent agenda.

The Governance Committee has adopted a resolution recommending that the Trustees approve the revisions to the By-Laws.

1327. APPROVAL OF REVISED BY-LAWS OF THE LONG ISLAND POWER AUTHORITY

WHEREAS, the Long Island Power Authority (the “Authority”) has adopted By-Laws with respect to the regulation and management of the affairs of the Authority, as amended most recently in February 2014; and

WHEREAS, the Governance Committee (the “Committee”) has been tasked in its charter with overseeing the implementation and effectiveness of the Authority’s By-Laws and from time to time recommending modifications thereto; and

WHEREAS, the Committee has adopted a resolution recommending that the Board adopt revisions to the By-Laws in the form presented as this meeting:

NOW, THEREFORE, BE IT RESOLVED, that the Trustees hereby approve and adopt the “By-Laws of the Long Island Power Authority (as amended December 20, 2016)” in the form presented at this meeting; and be it further

RESOLVED, that such By-Laws of the Long Island Power Authority are to be effective with respect to the regulation and management of the affairs of the Authority as of December 20, 2016.

Requested Action

The Trustees are being requested to authorize the issuance of up to \$550,000,000 aggregate principal amount of Electric System Revenue Bonds (the “Authorized Bonds”) for the purposes of (i) funding costs of system improvements and/or reimbursing such costs already incurred (“New Money Bonds”), including refinancing of notes or revolving credit agreement borrowings incurred to finance such costs, of which no more than \$350,000,000 in principal amount shall be such New Money Bonds; (ii) refunding outstanding bonds of the Authority (“Refunding Bonds”), including without limitation, the Authority’s Series 2009A Bonds, as shall be determined by an Authorized Representative of the Authority; (iii) financing capitalized interest on the bonds to be issued; (iv) funding amounts due for the termination of Financial Contracts entered into in connection with any Authorized Bonds or refunded bonds; and (v) paying fees and expenses in conjunction with each of the foregoing and the issuance of the bonds, including reimbursement of fees and expenses expended by the Authority in connection therewith, all as described herein. The Trustees are also being requested to authorize the execution and delivery of one or more interest rate or basis swaps relating to the Authorized Bonds and the termination, assignment or amendment of any

swaps relating to any refunded bonds. Finally, the Trustees are being requested to approve an amendment to the Twenty-Third Supplemental Bond Resolution to permit the Electric System General Revenue Notes (the “GR Notes”) authorized thereby to have maturity dates less than 271 days from their respective dates of issue.

Plan of Finance

The Authority is considering issuing up to \$550,000,000 of the Authorized Bonds of which no more than \$350,000,000 will be New Money Bonds to fund the system improvements of the Authority’s capital budgets, with any remainder to be used to refinance already outstanding fixed rate bonds for present value savings, as described above. The Authority and its Financial Advisor continually monitor the bond market for opportunities to reduce the Authority’s cost of funds. Depending on market conditions, the Authority may refund some, or all, of the potential refunding candidates.

The Authority has determined that under certain market conditions entering into one or more interest rate or basis swaps (“Financial Contracts”) relating to the Authorized Bonds may provide debt service savings or mitigate interest rate risk for the Authorized Bonds as compared to merely issuing bonds and is requesting authorization to enter into such agreements with an aggregate notional amount of up to \$200,000,000. The material terms of the agreements relating to any such Financial Contracts are expected to be substantially similar to agreements previously entered into by the Authority and may include interest rate risk, basis risk, settlement risk, termination risk, counterparty risk, and certain continuing covenants. Any such Financial Contracts would be in conformance with the guidelines for the use of such agreements previously adopted by the Board.

Authorized Actions

The Authorized Bonds will be issued as either fixed rate or variable rate bonds or a combination thereof and sold either on a negotiated basis (i) to one or more underwriters for resale to investors or (ii) directly to one or more investors or financial institutions at such price or prices and on such terms and conditions as they shall determine to be the most cost effective and advantageous for the Authority. The new Authorized Bonds could be issued in conjunction with such previously authorized, but not yet issued, bonds or be sold separately.

To the extent that any variable rate bonds are secured by letters of credit, the selection of bank letters of credit providers to credit enhance such Bonds will be made by a selection committee comprised of Authority staff pursuant to a new procurement process. The proposed terms and conditions of the bank letter of credit agreements are expected to be substantially similar to the agreements previously executed by the Authority with letter of credit banks.

Any underwriter, dealer, or swap counterparty will be one of the firms selected pursuant to the Authority’s most recent procurement for underwriting, investment banking and swap counterparty services. The Trustees are requested to permit an Authorized Officer to designate, as necessary, the underwriters, remarketing agents, or swap counterparties, as applicable, assigned to each bond series from the list of firms established by that procurement.

As and to the extent that Refunding Bonds are issued for the purpose of refunding bonds with respect to which there are existing interest rate swap agreements, the Chief Executive Officer, Chief Financial Officer or Controller of the Authority will be authorized to allocate such interest rate swap agreements to other Authority bonds or notes or to terminate or amend such agreements, all as such officer may determine appropriate so as to permit the Authority to obtain the benefit of such interest rate swap agreements or to minimize the cost associated with the refunding and to the extent that such agreements are terminated or amended, some or all of the costs of such termination or amendment may be funded with the proceeds of the Refunding Bonds.

The Twenty-Third Supplemental Bond Resolution adopted by the Authority on August 6, 2014 authorizes the issuance of General Revenue Notes (“GR Notes”) with maturity dates not more than five years and not less than 271 days after the respective dates of issuance thereof. At the time the Twenty-Third Supplemental Bond Resolution was adopted, the Authority’s General Bond Resolution specified that 271 days was the shortest permitted maturity for senior lien bonds or notes issued thereunder. The Authority has obtained consents from sufficient bondholders to amend the General Bond Resolution, consistent with the terms of the Twenty-Second Supplemental Resolution adopted by the Authority on August 6, 2014, so that senior lien bonds or notes can be issued under the General Bond Resolution with maturities of less than 271 days and we plan to submit the necessary documentation and notices under the General Bond Resolution to effectuate such amendment. Making this change will facilitate the issuance of GR Notes on more favorable terms. The Trustees are requested to approve an amendment to the Twenty-Third Supplemental Bond Resolution to eliminate the requirement that the General Revenue Notes mature not less than 271 days from their date of issuance. The requirement that such Notes mature not later than five years from date of issuance would remain. The Trustees are also requested to permit the Authorized Officers to enter into reimbursement or other agreements in connection with such Notes on substantially similar terms to such agreements previously entered into related to such Notes.

1328. AUTHORIZATION RELATING TO THE ISSUANCE OF ELECTRIC SYSTEM GENERAL REVENUE BONDS FOR THE PURPOSES OF FUNDING COSTS OF SYSTEM IMPROVEMENTS AND CERTAIN OTHER COSTS

WHEREAS, on May 13, 1998, Long Island Power Authority (the “Authority”) adopted its Electric System General Revenue Bond Resolution (the “General Resolution”), which authorizes bonds, notes or other evidences of indebtedness of the Authority, such bonds to be designated as “Electric System General Revenue Bonds” (the “Bonds”), for, among other purposes, funding Costs of System Improvements (as defined in the General Resolution) and other lawful purposes of the Authority; and

WHEREAS, the Authority may sell Bonds on a negotiated basis to one or more underwriters for resale to the public or by private placement to one or more investors or institutions at such price or prices as the Authority shall determine; and

WHEREAS, Article II of the General Resolution requires that the issuance of each series of Bonds by the Authority shall be authorized by a supplemental resolution or resolutions of the Authority adopted at or prior to the time of issuance, subject to further delegation to certain officers to establish the details of the terms of such Bonds; and

WHEREAS, the Authority wishes to authorize the issuance of one or more series of Bonds (the “Authorized Bonds”) for the purpose of funding Costs of System Improvements (as defined in the General Resolution) and/or reimbursing such costs already incurred, including refinancing of notes or revolving credit agreement borrowings incurred to finance such costs and for the purpose of refunding all or a portion of outstanding Authority bonds, which Authorized Bonds shall be in an aggregate principal amount not to exceed \$550,000,000, of which no more than \$350,000,000 in principal amount shall be issued for the purpose of funding Costs of System Improvements; and

WHEREAS, the Authority wishes to issue the Authorized Bonds as either a fixed rate or variable rate or a combination thereof; and

WHEREAS, in order to achieve such purposes there has been prepared and submitted to the Trustees a form of Twenty-Sixth Supplemental Resolution (the “Twenty-Sixth Supplemental General Resolution”);

WHEREAS, the General Resolution permits the Authority to enter into Financial Contracts (as defined therein), which include interest rate caps or collars and forward rate, future rate and certain swap agreements with Qualified Counterparties (as defined therein); and

WHEREAS, the Authority has determined that the use of such swap agreements is appropriate in certain circumstances but recognizes that certain risks can arise in connection with their use and the Authority has adopted guidelines (the “Guidelines”) for the use of such agreements in order to assure that such agreements are used for appropriate purposes and to assure that the risks potentially associated with such agreements are effectively managed and minimized; and

WHEREAS, under current market conditions the Authority has determined that it may achieve debt service savings by entering into one or more such interest rate swap agreements in an aggregate notional amount of up to \$200,000,000 relating to all or a portion of the Authorized Bonds pursuant to which the Authority and the counterparties thereto would agree to make payments to one another based principally upon certain indices, formulae or methods to be specified therein; and

WHEREAS, the decision as to which specific strategy or strategies to be employed in connection with such new or existing interest rate swap agreements and the indices, formulae or methods to be used in calculating payments to be made to the Authority or the counterparties will be made pursuant to the Guidelines adopted by the Board, taking into account market conditions and the advice of the Authority’s Financial Advisor, with the intention of lowering the effective rate of interest payable in connection with the Authority’s indebtedness or mitigating risks associated with such indebtedness consistent with interest rate and other risk considerations; and

WHEREAS, the Authority has obtained consents from sufficient bondholders to amend the General Bond Resolution, consistent with the terms of the Twenty-Second Supplemental Resolution adopted by the Authority on August 6, 2014, so that once such amendment is effectuated, senior lien bonds or notes can be issued under the General Bond Resolution with maturities of less than 271 days and we plan to submit the necessary documentation and notices under the General Bond Resolution to effectuate such amendment;

WHEREAS, the Twenty-Third Supplemental Bond Resolution adopted by the Authority on August 6, 2014 (the “Twenty-Third Supplemental Bond Resolution”) authorizes the issuance of Electric System General Revenue Notes (“Revenue Notes) with maturity dates not more than five years and not less than 271 days after the respective dates of issuance thereof and the Authority wishes to amend the Twenty-Third Supplemental Bond Resolution to eliminate the requirement contained therein that the Revenue Notes mature not less than 271 days from their date of issuance;

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

The Twenty-Sixth Supplemental General Resolution, in the form presented to this meeting and made a part of this resolution as though set forth in full herein, is hereby approved and adopted. The Chief Executive Officer, Chief Financial Officer, Controller and General Counsel (collectively, the “Authorized Officers”) are each hereby authorized to deliver the Twenty-Sixth Supplemental General Resolution to The Bank of New York Mellon, as the Trustee for the Bonds, with such amendments, supplements, changes, insertions and omissions thereto as may be approved by such Authorized Officer, which amendments, supplements, insertions and omissions shall be deemed to be part of such resolution as approved and adopted hereby.

The Authorized Officers, are each authorized to sell all Bonds issued on a negotiated basis either (i) to one or more underwriters for resale to investors or (ii) by private placement to one or more investors or financial institutions at such price or prices as determined to be the most cost effective and advantageous for the Authority.

Each Authorized Officer is hereby authorized with respect to each series of the Authorized Bonds, to execute and deliver a Bond Purchase Agreement (a “Bond Purchase Agreement”) in substantially the form of the bond purchase agreement executed by the Authority in connection with the issuance of the Authority’s Electric System General Revenue Bonds, Series 2016B, with such modifications thereto as any Authorized Officer, upon the advice of counsel to the Authority, approves, or in in connection with any private placement of the Authorized Bonds, a placement continuing covenant or other financing, loan or credit agreement (each a “Placement Agreement”) with the purchaser(s) thereof in such form, upon advice of counsel to the Authority, as may be approved by such Authorized Officer, which approval in each case shall be conclusively evidenced by the execution thereof by such Authorized Officer.

Each Authorized Representative is hereby authorized and directed to execute and deliver any and all documents, including but not limited to the execution and delivery of one or more official statements or other disclosure documents and instruments and to do and cause to be done any and all acts necessary or proper for carrying out each Bond Purchase Agreement

or Placement Agreement, the issuance, sale and delivery of the Authorized Bonds and for implementing the terms of each Bond Purchase Agreement or Placement Agreement, and the transactions contemplated thereby, the Twenty-Sixth Supplemental General Resolution and this resolution.

Any such Authorized Officer is hereby authorized to arrange for the execution and delivery of a new interest rate agreement on substantially the same terms as such agreements previously entered into by the Authority, including without limitation, the basis swap entered into in connection with the Authority's Series 2016A Bonds or the reallocation of any existing interest rate agreement to another counterparty or the amendment of any such agreement, to the extent determined to be advisable.

As and to the extent that an Authorized Officer determines that it would be advantageous in current market conditions to issue bond anticipation notes, such officer is hereby authorized to determine whether such bond anticipation notes shall be issued as "Bonds" or "Subordinated Indebtedness" (as defined in the General Resolution). In the event that bond anticipation notes are issued as Subordinated Indebtedness, the details thereof shall be incorporated in a Note Certificate executed by such officer and delivered to the trustees under the General Resolution and the Authority's Electric System General Subordinated Revenue Bond Resolution, along with a copy of this resolution. Such Note Certificate may include such amendments and modifications to the provisions of this resolution as such officer shall determine necessary and appropriate to effectuate such determinations and details. A copy of such Note Certificate also shall be filed with this resolution into the records of the Authority and, upon such filing, shall be deemed to be a part of this resolution as if set forth in full herein.

The Authorized Officers of the Authority are, and each of them hereby is, authorized to enter into interest rate swap agreements in an aggregate notional amount of up to \$200,000,000 relating to the Authorized Bonds with such Qualified Counterparties (as defined in the General Resolution) as such officers may select in accordance with the Guidelines, which agreements shall (i) commence on such date or dates as such Authorized Officer specifies, (ii) have a term ending on or prior to the anticipated final maturity of the bonds to which they relate, as the Authorized Officer specifies, (iii) provide for payments to the Authority determined based upon such index, formula or method as may be approved by the Authorized Officer, and (iv) otherwise be in accordance with the Guidelines and substantially in the form of interest rate swap agreements entered into by the Authority in relation to other interest rate swap transactions, with such changes and additions to and omissions from such form as such authorized executing officer deems in his discretion to be necessary or appropriate, such execution to be conclusive evidence of such approval. In connection with the authorizations herein set forth, the Authority has determined, after consideration of the risks inherent in the use of interest rate swap agreements, including those outlined in the memo submitted to the Trustees in connection with the financing authorized hereby and the advice of the Authority's financial advisor relating to the use of the proposed interest rate swap agreements, that (a) the use of such interest rate swap agreements will, in the judgment of the Authority, result in lowering the effective rate of interest payable in connection with the Authority's indebtedness, (b) the risks of the proposed interest rate swap agreements are both manageable and reasonable in relation to

the potential benefits; and (c) the proposed interest rate swap agreements are necessary or convenient in the exercise of the power and functions of the Authority under the Act.

The Authorized Officers are, and each of them hereby is, authorized to enter into reimbursement or other agreements with banks or other financial institutions providing Credit Facilities (as defined in the General Resolution) in connection with the Authorized Bonds, which agreements shall be substantially similar to such agreements previously entered into by the Authority in relation to other Credit Facilities, with such changes and additions to and omissions from such prior agreements as such authorized executing officer deems in his discretion to be necessary or appropriate, such execution to be conclusive evidence of such approval. Such agreements may be entered into with Barclays Bank PLC, Bank of Montreal, Citibank NA, Royal Bank of Canada, State Street Bank and Trust Company, TD Bank NA, US Bank, and/or Wells Fargo Bank, NA.

Clause (a) of Section 2.03 of the Twenty-Third Supplemental Bond Resolution is hereby amended to strike the words “less than 271 days or” from the proviso therein contained as shown below:

(a) Subject to the conditions and limitations contained herein, Revenue Notes (i) shall be dated the date of their delivery from time to time hereunder, (ii) shall mature on such dates, bear interest at such rates and be payable at such times as shall be determined by an Authorized Representative; provided that (A) the term of any Revenue Note shall not be ~~less than 271 days or~~ more than five years from the date of its issue and (B) no Revenue Note shall bear interest at a rate in excess of fifteen percent (15%) per annum, (iii) shall be issued in (A) bearer form or (B) registered form as issued through the book-entry system of a Securities Depository, as shall be determined by an Authorized Representative, (iv) shall be issued in the denomination of \$100,000 or any integral multiple thereof as determined by an Authorized Representative, (v) shall be numbered consecutively from 1 upwards in order of their issuance, prefixed by the applicable designation to identify the appropriate series (e.g., 2014-A-1) and may bear such other or alternative identification as an Authorized Representative may deem appropriate and (vi) shall be subject to redemption prior to maturity to the extent so determined by an Authorized Representative.

Each Authorized Officer is hereby authorized to deliver to the Trustee (as defined in the General Bond Resolution) a conformed copy of the Twenty-Third Supplemental Bond Resolution reflecting such amendment and such amendment shall take effect upon the delivery of such conformed copy to the Trustee and shall apply solely to Revenue Notes issued on or after such delivery.

Each Authorized Officer is hereby further authorized and directed to execute and deliver any and all documents and instruments and to do any and all acts necessary or proper for

carrying out and implementing the terms of, and the transactions contemplated by this resolution and each of the documents authorized thereby and hereby.

This resolution shall take effect immediately.

Requested Action

The Department of Public Service (“DPS”) is recommending that the Trustees adopt a resolution authorizing the Chief Executive Officer, or his designee, to engage NorthStar Consulting Group, Inc. (“NorthStar”), to provide management and operations audit services for and under the direction of DPS in accordance with the LIPA Reform Act of 2013 (the “LIPA Reform Act”).

Background

In July 2013, the New York State Legislature enacted and Governor Cuomo signed the LIPA Reform Act, which provided for, among other things, periodic management and operational audits of LIPA and its service provider, PSEG Long Island, in the context of the Authority's duty to set rates consistent with standards and procedures provided in the Act, including: (i) the service provider's construction and capital program planning in relation to the needs of customers for reliable service; (ii) the overall efficiency of the authority's and service provider's operations; (iii) the manner in which the authority is meeting its debt service obligations; (iv) the authority's Fuel and Purchased Power Cost Adjustment clause and recovery of costs associated with such clause; (v) LIPA and PSEG Long Island's annual budgeting procedures and process; (vi) the application, if any, of the performance metrics designated in the operations services agreement and the accuracy of the data relied upon with respect to such application; and (vii) LIPA's compliance with debt covenants. The last audit was completed in 2013. The LIPA Reform Act requires that the next audit be initiated by DPS by December 15, 2016. Under the LIPA Reform Act, the audit may be conducted by either DPS staff or an independent contractor, as determined by DPS. If performed by an independent contractor, LIPA is required to enter into a contract with and pay for the services of such contractor, who will be selected by and work for DPS. LIPA received a letter from DPS on December 15, 2016 (see Exhibit B), indicating that it was initiating the second audit and that DPS had selected NorthStar as the independent contractor to conduct the audit.

DPS issued a Request for Proposals (“RFP”) on August 5, 2016, seeking an experienced consulting firm to conduct the audit. The RFP was (i) distributed to all 54 firms on a list maintained by DPS (identifying firms which have indicated an interest in receiving requests for proposals regarding management and operations audits of utilities in New York State), (ii) posted on the website of the National Association of Regulatory Utility Commissioners, which is commonly used for projects of this nature, and (iii) posted on the DPS website.

On September 19, 2016, DPS received five proposals in response to the RFP which were carefully evaluated by a selection committee made up of 14 representatives from various offices within DPS. The evaluation criteria was based on the following factors: (1) Audit Approach – considers and evaluates a) proposed methods to perform the audit, b) how well the firm demonstrates an understanding of the scope areas to be reviewed, c) amount of research the firm did regarding LIPA and its Service Provider and audit related subject matter, d) customer benefit analyses approach, e) proposed schedule, and f) time allocated for each scope area to be reviewed; (2) Quality – considers and evaluates the consulting firm’s quality of writing and its ability to clearly convey an understanding of each scope area in the proposal evaluation and then considers and evaluates the preparation and presentation exhibited by the proposed team during the finalist interviews; (3) Experience of the Firm and Individuals – considers and evaluates the relevant experience of the firm performing an audit, the proposed team’s ability to work together, and the experience of the proposed members of the team relative to their scope area assignments; and (4) Cost – based on a formula.

Based on DPS Staff’s proposal evaluations, interviews were conducted of the three highest scored firms based on the evaluation criteria outlined above. Following the interviews, the selection committee determined that NorthStar Consulting Group, Inc. scored the highest points and provides the highest value also taking into account prior audit experience that is aligned with this audit and NorthStar’s proven ability to be responsive to changes.

NorthStar is located in Santa Maria, California and specializes in services to the utility, transportation and public service industries. NorthStar’s core members have worked on numerous engagements for utilities and public utility commissions, including the following five prior DPS audits (year indicates when the final audit report was released publicly): National Grid Electric MA (2009), Central Hudson Gas and Electric MA (2011), LIPA MOA (2013), National Grid Gas Companies MA (2014), and CECONY and O&R MOA (2016). Furthermore, based on NorthStar’s proposal and interview, DPS determined that each member of NorthStar’s proposed team demonstrated a sufficient understanding of LIPA and had sufficient experience to properly conduct the audit which set NorthStar apart from its nearest competitor. NorthStar has proposed to conduct the audit for not-to-exceed cost of \$1,635,000.

Based on the foregoing, DPS recommends approval of the above-requested action by adoption of a resolution in the form of the attached draft resolution.

1329. ENGAGEMENT OF CONSULTANT TO PROVIDE MANAGEMENT AND OPERATIONS AUDIT SERVICES TO THE DEPARTMENT OF PUBLIC SERVICE

RESOLVED, that consistent with the accompanying memorandum, the Chief Executive Officer, or his designee be, and hereby is, authorized to engage NorthStar Consulting Group, Inc., to provide management and operations audit services for and under the direction of the Department of Public Service consistent with the LIPA Reform Act of 2013, and to take such other and further actions necessary to effectuate and implement such audit.

Requested Actions

The Trustees are being asked to approve the following changes to the Tariff:

- (1) Update the Fuel and Purchase Power Cost Adjustment (also known as the Power Supply Charge) to make it consistent with standard ratemaking practice in New York State by: (a) transferring all operating expenses and taxes related to power supply that remain in delivery rates into the Power Supply Charge; (b) adopting the term “Power Supply Charge” throughout the Tariff in place of the term Fuel and Purchase Power Cost Adjustment; and (c) including recovery of the costs for compliance with the successor program to the Renewable Portfolio Standard which is known as the Clean Energy Standard;**
- (2) Improve the balanced billing program in order to (a) reduce the frequency and magnitude of resets to customers’ monthly balanced billing charges; (b) provide residential customers with the option to roll over annual reconciliation amounts; and (c) clarify eligibility for the program;**
- (3) Reduce the frequency and volatility of changes to the revenue decoupling mechanism rate adjustments and align the adjustments with other changes in electric rates on January 1st of each year;**
- (4) Effectuate a settlement agreement between the Authority and the Town of Southampton regarding collection of arrears owed to the Authority pursuant to the Visual Benefits Assessment; and**
- (5) Modify the PSEG Long Island Smart Grid Small Generator Interconnection Procedures to be substantially consistent with the March 2016 updates made to the New York State Standardized Interconnection Requirements and Application Process for New Distributed Generators 5 MW or Less Connected in Parallel with Utility Distribution Systems and to provide for implementation of an online application portal.**

Power Supply Charge Improvements

The Tariff includes a Fuel and Purchased Power Cost Adjustment (“FPPCA”), also known as the Power Supply Charge. The Power Supply Charge provides for the monthly adjustment of rates due to changes in fuel and purchased power and other related costs set forth in the Tariff. Three changes to the Power Supply Charge are proposed: (1) transferring operating expenses and taxes related to power supply that remain in delivery rates into the Power Supply Charge; (2) adopting the term “Power Supply Charge” throughout the Tariff (in place of FPPCA); and (3) including the costs for compliance with the successor program to the Renewable Portfolio Standard known as the Clean Energy Standard.

The Power Supply Charge currently does *not* recover (a) the costs of the Power Supply Agreement with National Grid for the use of their legacy power plants on Long Island, (b) the costs for O&M and property taxes of LIPA's 18% ownership share in the Nine Mile Point Unit 2 nuclear power station in upstate New York, or (c) property taxes paid by LIPA on behalf of certain power plants under contract to LIPA on Long Island. Those costs are currently recovered through LIPA's base rates for delivery service. Staff is proposing to move these costs to the Power Supply Charge so that all fuel and purchased power related costs will be recovered through the Power Supply Charge. These costs amount to approximately \$500 million, which is approximately 2.5 cents per kWh. This restructuring of the Power Supply Charge is revenue neutral, in that corresponding reductions are made to the Delivery Service Charge, and there is no financial impact to LIPA or our customers. LIPA's Delivery Service would be reduced by the same amount that the Power Supply Charge would be increased and customers would continue to pay only the actual costs incurred, as is presently the case.¹ This proposed change is beneficial because it will send a more accurate price signal to customers regarding the true cost of their power supply, it will stabilize the Power Supply Charge from month to month, and it will make the Authority's tariff and rate mechanisms more consistent with those of other New York utilities, which have separated power supply costs and delivery service costs into distinct charges on customer bills.

The proposed change has implications for two related programs. First, the Energy Service Companies ("ESCOs") participating in the Long Island Choice program would effectively see their payments for the Power Supply Charge increase, while their participating customers would see a corresponding decrease in their bill from LIPA. While there may be sales tax implications for the participants, this change places those ESCOs on equal footing with ESCOs in the rest of the state. Second, this proposal also eliminates the need for the Recharge New York Delivery discount that is applied to the generation capacity costs in delivery rates as such customers would no longer pay for these power supply related charges in delivery rates. However, the elimination of this discount will be revenue neutral to these customers, since their Delivery Service rates will be correspondingly lower by the amount of the discount they formerly received for power supply related costs.

Additionally, to provide further clarity to customers, the term "Power Supply Charge" will be used instead of the term "Fuel and Purchased Power Costs (FPPCA)" throughout the Tariff. The term "Power Supply Charge" is what customers already see on both their bills and in PSEG Long Island communications.

Staff is also proposing to update the Tariff to reflect that costs of compliance with the Clean Energy Standard ("CES") are to be recovered through the Power Supply Charge, consistent with the recovery method proposed by the Department of Public Service for the other New York utilities.² The Power Supply Charge already includes the recovery of costs for renewable energy purchases and costs incurred under the New York Renewable Portfolio Standard ("RPS"). The Public Service Commission recently replaced the RPS with the CES and Staff seeks to clarify that CES costs will be recovered through the Power Supply Charge.

¹ The power supply costs in base rates are already subject to annual reconciliation to actual cost through the Delivery Service Adjustment.

² Case 15-E-0302 – Proceeding on Motion of the Commission to Implement a Large-Scale Renewable Program and a Clean Energy Standard.

Balanced Billing Improvements

The balanced billing program improvements include better forecasting of customer bills, reducing the number of times the bill amount changes during the year, and offering customers greater flexibility regarding treatment of any balance outstanding at the end of the plan year. The goal of the proposed changes to the balanced billing program is to create a more stable annual budget program for PSEG Long Island residential customers, where residential customers would enroll and pay a set monthly amount for twelve months based on a twelve-month projection of costs including fuel. For residential customers, underpaid balances at the end of the Balanced Billing plan year will rollover automatically into the customer's next Balanced Billing plan unless the customer elects to pay the balance in a lump sum. This feature will be applicable only to residential customers participating in the new Balanced Billing program that are current or that have arrears of 30 days or less. As in the current Tariff, the accounts of residential customers enrolled in Balanced Billing will be reviewed twice a year including the year-end review, and if warranted the Service Provider may reset the Balanced Billing monthly payment amount in order to reduce seasonal variances and minimize customer's final balance at the end of each plan year.

For non-residential customers, the reviews will continue to be made every quarter in the Balanced Billing plan year and the Balanced Billing monthly charge will be adjusted as required. As under the existing Tariff, non-residential customers will continue to be ineligible for rollover at the end of the Balance Billing plan year.

The proposed Tariff changes will also clarify customer eligibility as follows: 1) eligible customers must have sufficient usage history available to accurately project the Balanced Billing yearly projected amount; 2) for Net Metering Customers, the usage history must be derived from billing periods during which the Customers were enrolled in net metering; and 3) Service Classification No. 2 MRP customers cannot participate.

Revenue Decoupling Mechanism Improvements

The Authority implemented a revenue decoupling mechanism ("RDM") on April 1, 2015, in order to ensure that it collects only its approved revenues for Delivery Service from customers. The purpose of the RDM is to help the Authority achieve financial stability without the conflicting pressures that are created by the pursuit of energy efficiency and renewable goals which reduce electric sales.

The RDM rate currently resets semi-annually in March and September. The Authority Staff proposes to change the current semi-annual recovery periods to annual recovery periods. This change will align the start of the annual RDM recovery period with annual rate changes in January and smooth the amount of refunds or charges over twelve months based on forecast sales, with the goal of increasing customer rate stability and reducing the frequency of rate changes. The change is revenue and financially neutral to LIPA and its customers over the year.

Visual Benefits Assessment Improvements

The Tariff contains a Visual Benefits Assessment (“VBA”) charge to recover incremental costs incurred under a 2008 settlement between the Authority and the Town of Southampton (the “Town”) stipulating that the Authority would fully bury a transmission line running through a portion of the Town. The VBA Charge recovers the incremental costs of burying the line from those customers residing in the Benefited Area that is designated by the Town as benefiting from the undergrounding.

The recommended changes concern the handling of uncollectible VBA charges. The existing VBA mechanism contains a provision that the Town will reimburse the Authority for the VBA amounts that are not collected from customers in the Benefited Area and sets forth a process by which this reimbursement will occur. In 2016, the Authority and the Town settled a legal dispute regarding amounts invoiced to the Town under this provision (the “2016 Settlement”). Pursuant to the 2016 Settlement, \$320,487.97 of currently outstanding unpaid VBA charges billed to the Town through December 2015 and all future uncollectible VBA charges billed to customers will be returned to the VBA balance for future recovery from customers in the Benefited Area only. The Town will no longer be responsible for reimbursing the Authority for VBA charges that are billed to, but not collectible from, benefited customers.

The Authority Staff proposes to modify the Tariff to effectuate the 2016 Settlement by removing (1) the provisions of the Tariff obligating the Town to reimburse the Authority for the VBA amounts that are not collectible from customers and (2) the provisions setting forth the process by which such reimbursement will occur. Going forward, any uncollectible VBA amounts will be added back into the total VBA balance and recovered under the VBA’s standard recovery provisions in future bills to customers located within the VBA Designated Area as had been designated by the Town.

Small Generator Interconnection Procedures (“SGIP”) Improvements

Staff proposes to update the current Smart Grid SGIP in order to be substantially consistent with recent changes in Public Service Commission policies for the regulated, investor-owned utilities with respect to interconnection procedures. These proposed updates include (a) streamlining and automating the interconnection process, (b) implementing an online interconnection portal, and (c) modernizing the technical and safety requirements of the interconnection process. The proposed changes to the Smart Grid SGIP—including the proposed fees—are substantively the same as the PSC’s March 18, 2016 “Order Modifying Standardized Interconnection Requirements” for the electric utilities subject to the jurisdiction of the PSC.

In addition to updating the SGIP, the Staff is also proposing to update the existing generation capacity requirement associated with maintenance charges for interconnection equipment. Currently customers with more than 2,000 kW of generating capacity will pay an annual charge of 8.1% based on the total investment in the interconnection equipment. Staff is proposing to increase the 2,000 kW requirement to 5,000 kW.

The proposed changes to the Smart Grid SGIP are summarized as follows:

- **Pre-Application**: The proposed changes introduce a new pre-application step in the SGIP process available for all applications. An applicant may now request a Pre-Application Report that would be provided by PSEG Long Island. The applicant shall provide a non-refundable fee of \$750 with its request for completion of the Pre-Application Report. The goal of the Pre-Application Report is to provide prospective developers with an early indication of the viability of a proposed interconnection, so as to reduce the volume of applications that are unlikely to proceed to development.
- **Expedited Process**: This proposed change would make the Fast Track Process more widely available by increasing the upper threshold for eligibility for this process to projects 50 kW and below rather than the current threshold of 25 kW and below. For inverter-based systems, the upper eligibility threshold is to be increased from 200 kW to 300 kW.
- **Additional Documentation Submittal**: In the current SGIP, there is no time limit for a customer to submit requested additional information (such as missing documentation) in response to any requirement of the Smart Grid SGIP. A requirement has been added indicating that after notification by PSEG Long Island, the applicant has thirty (30) days to submit the additional information.
- **Application Fees**: The proposed changes, which conform to the March 2016 Standardized Interconnection Requirements (“SIR”), will raise the application fee for projects over 25 kW AC from \$350 to \$750, with additional provisions to:
 - Apply the application fee to the interconnection costs; and
 - Apply the amount of the pre-application fee as a credit toward the application fee if application is submitted within fifteen (15) days of Pre-Application Report.
- **Coordinated Electric System Interconnection Review (“CESIR Study”)**: The proposed changes would increase the size of generators for which a CESIR study applies and would configure the CESIR Study in three primary steps: Preliminary Screening Analysis, Supplementary Review, and a Full CESIR Study.
- **Interconnection Portal**: The proposed implementation of an online Interconnection Portal will provide for automation and streamlining of the Smart Grid SGIP application and screening process by allowing online application submittals and ensuring timely and efficient processing of the related applications, documents, and payments as well as the completion of interconnection feasibility studies. The Interconnection Portal will also allow for better monitoring of Distributed Energy Resources (“DER”) penetration thresholds and feeder analysis across LIPA systems.

Financial Impacts:

None of the requested tariff changes will result in a material financial impact.

1. The proposed change to the Power Supply Charge is a revenue neutral transfer of approximately \$500 million from Delivery Service rates to the Power Supply Charge comprised of costs related to LIPA's power purchase agreement with National Grid, LIPA's operating expenses for its 18% ownership in the Nine Mile Point 2 nuclear power station, and property taxes paid by the Authority for certain Long Island power plants from which it purchases power.
2. The proposed balanced billing changes will give residential customers the option to roll over balanced billing program balances from the previous year into their new balanced billing projection. This will extend the time a customer has to pay the reconciliation amount from one month to one year (in a series of 12 equal monthly payments). Using 2015 as a study period, customers owed LIPA \$16.7 million dollars in rollover payments. Using LIPA's effective 2016 cost of debt (4.17%), and assuming that 100% of customers exercise the rollover option, the interest on the \$16.7 million in expected rollover payments as extended in the budget billing program would be approximately \$287,000 annually, which is de minimus in comparison to LIPA's total interest cost.
3. The proposed change to the RDM does not impact the ultimate charges to customers or LIPA's revenues but rather modifies when and how often RDM adjustments are made so as to reduce the volatility and frequency of RDM adjustments. The amount of revenue LIPA's rates are intended to collect from customers for delivery service is fixed within LIPA's three-year rate plan and the approved budgets. The RDM ensures that LIPA collects only the authorized amount of revenue for delivery service. Individual customers are still charged based on their actual usage, so any individual customer who uses less electricity continues to save money, and all customers in the aggregate enjoy savings from avoided power supply costs in addition to any savings on delivery service.
4. The proposed change to the VBA will not increase the VBA charge currently in effect. Staff estimates that notwithstanding the proposed change, the VBA will be paid off in full by 2029, as originally planned, due to higher than anticipated energy sales in the VBA Designated Area.
5. The financial impact of the new Smart Grid SGIP is estimated to be immaterial. The estimated annual cost of administering the new Smart Grid SGIP process is approximately \$1.13 million, or about \$155,000 more than the current process. This increase will be offset by the higher fees that are anticipated to increase annual application fee revenue by approximately \$170,000. Additionally, the financial impact to updating the existing generation capacity requirement associated with maintenance charges for interconnection equipment from 2,000 kW to 5,000 kW would result in reduced bills for 14 customers and a revenue reduction of approximately \$5,000.

Comments Received from the Public:

Public hearings were held on November 28th, 2016 in Nassau and Suffolk Counties, and written comments were accepted through December 5th, 2016. No one from the public spoke at either session and no written comments were received.

Comments Received from the Department of Public Service:

The Department of Public Service (“DPS”) provided generally favorable comments in support of the five tariff proposals, and made substantive comments on the balanced billing and RDM tariff proposals. Regarding the balanced billing proposal, the DPS recommended edits to the tariff that provide for monitoring of customer balances for customers on the balanced billing program and would allow a customer to apply any balance due to the customer at the end of the balanced billing year to the next bill and receive a refund check for any credit exceeding the amount of the next bill. The DPS also commented on the Revenue Decoupling Mechanism and in discussion with LIPA staff, two adjustments were made to the proposal. One adjustment authorizes the staff to reflect anticipated variances for the coming year in the calculation, up to the amount of variance that has been experienced as of the date the calculation is performed. The other adjustment leaves the trigger value for early adjustment of the Revenue Decoupling Mechanism before the end of any year at \$20 million due to or due from customers. The Authority Staff has incorporated these adjustments into the attached tariff leaves. With incorporation of the changes, DPS supports the tariff revisions.

1330. APPROVAL OF MODIFICATIONS TO LIPA’S TARIFF FOR ELECTRIC SERVICE IMPLEMENTING IMPROVEMENTS TO THE POWER SUPPLY CHARGE

WHEREAS, the Tariff for Electric Service (“Tariff”) of the Long Island Power Authority (“LIPA” or the “Authority”) includes a Fuel and Purchased Power Cost Adjustment (“FPPCA”), also known as the “Power Supply Charge”, a provision that allows for the monthly adjustment of rates due to changes in fuel and purchased power and other related costs set forth in the tariff; and

WHEREAS, the Power Supply Charge currently does not recover certain costs related to power supply, which are: (a) the costs of the Power Supply Agreement with National Grid for the use of their legacy power plants on Long Island, (b) O&M and property taxes on LIPA’s 18% ownership share in the Nine Mile Point Unit 2 nuclear power station in upstate New York, and
(c) property taxes paid by LIPA on behalf of certain merchant power plants under contract to LIPA on Long Island; and

WHEREAS, because the above-referenced costs are related to power supply, recovering them through the Power Supply Charge rather than through delivery rates, where they are currently recovered, would send more accurate price signals to customers, would reduce the monthly volatility in the Power Supply Charge, would make LIPA’s tariff and rate adjustment mechanisms more consistent with those of other New York utilities,

and would make for simpler and more meaningful comparisons to the costs of neighboring utilities; and

WHEREAS, the amount of costs effected by this proposal is approximately \$500 million dollars, which is equivalent to approximately 2.5 cents to kWh; and

WHEREAS, using the term Power Supply Charge consistently throughout the Tariff and related materials, instead of interchanging it with FPPCA, would improve clarity and customer comprehension; and

WHEREAS, the Power Supply Charge currently recovers costs for renewable energy purchases and costs incurred under the New York Renewable Portfolio Standard, which the Public Service Commission recently replaced with a successor program called the Clean Energy Standard (“CES”); and

WHEREAS, recovery of the costs of utility compliance with the CES, as power supply costs, is consistent with the direction of the New York State Public Service Commission as set forth in Case 15-E-0302, Large-Scale Renewable Program and a Clean Energy Standard, and Case 16-E- 0270, Constellation Energy Nuclear Group LLC, et al. - Facility Costs, Order Adopting a Clean Energy Standard (issued August 1, 2016);

WHEREAS, the Department of Public Service is supportive of this proposal; and

WHEREAS, following the issuance of public notice in the State Register on October 12, 2016, two public hearings were held in Nassau and Suffolk counties on November 28, 2016, comments were received at the hearing from the public and written comments were received during the comment period, and the public comment period has since expired;

NOW, THEREFORE, BE IT RESOLVED, that for the reasons set forth herein and in the accompanying Memorandum, the proposed modifications to LIPA’s Tariff are hereby adopted and approved; and be it further

RESOLVED, that the Chief Executive Officer and his designees are authorized to carry out all actions deemed necessary or convenient to implement this Tariff; and be it further

RESOLVED, that the Tariff amendments reflected in the attached redlined Tariff leaves are approved.

The Chair stated that the next item on the agenda is the presentation of the Authority’s

Financial Report by CFO Joseph Branca.

Mr. Branca then presented the Financial Report, which included the financial results through November, 2016. Mr. Branca also discussed the recent bond financings and current plans for 2017 financings.

Mr. Branca concluded his report and took questions from the Trustees.

Chair Suozzi stated that the next item on the agenda is the Operating Report, to be presented by Dave Daly and his team.

Mr. Daly started the presentation and Mr. Lyons reported on PSEG LI's operating results through November 2016. Mr. Daly then continued the presentation and reported on PSEG LI's scorecard results. Mr. Daly and Mr. Lyons took questions from the Trustees.

The Chair stated that the next item on the agenda is the consideration of Approval of 2017 Operating and Capital Budgets.

After requesting a motion on the matter, which was seconded, the Chair indicated that the matter would be presented by Joseph Branca.

Mr. Branca presented the following action item:

Requested Action

The Trustees are requested to adopt a resolution (i) approving the proposed 2017 Operating and Capital Budgets (the "Budget"), consistent with the 2015 Rate Recommendation (as defined below), for the Long Island Power Authority and its subsidiary, the Long Island Lighting Company d/b/a LIPA (collectively the "Authority" or "LIPA"), which is attached hereto as Exhibit B; and (ii) to formalize existing regulatory accounting practices in the Authority's financial statements for non-cash mark-to-market valuation changes of certain instruments.

Background on 2017 Operating and Capital Budgets

The proposed 2017 Budget sets forth the revenue, grant, other income, and expenditure forecasts for the year ending December 31, 2017, including the Operating and Capital Budgets submitted by PSEG Long Island in accordance with the Amended and Restated Operations Services Agreement ("OSA").

The proposed 2017 Budget totals \$4.3 billion, including an Operating Budget of \$3.59 billion and a Capital Budget of \$716 million. The proposed 2017 Budget furthers the mission of the Authority by (i) investing in reliability, resiliency and storm response; (ii) enhancing

customer service and value; (iii) promoting affordability for our customers; (iii) building a clean energy future; (iv) transitioning to a 21st century utility; and (v) maintaining fiscal responsibility and maximizing the benefits of public ownership, as further described in Exhibit B.

The proposed 2017 Budget includes rates and charges that are consistent with the Rate Recommendation (the “2015 Rate Recommendation”) of the Three Year Rate Proposal for the Long Island Power Authority and its Service Provider, PSEG Long Island LLC provided by Audrey Zibelman, Chief Executive Officer of the Department of Public Service to Chairman Ralph Suozzi on September 28, 2015. The 2015 Rate Recommendation established the level of revenue used to budget expenditures for 2017, subject to certain specified updates based on actual experience and the latest available assumptions.

The proposed 2017 Budget is also consistent with the financial policy adopted by the Board of Trustees in December 2015 to reduce the Authority’s borrowing and interest cost and raise the Authority’s credit ratings over five years. That policy established a fixed obligation coverage target of 1.30x for LIPA debt payments for 2017. Staff projects that the 2017 Budget will achieve slightly below the 2017 target at 1.28x due to a \$10.7 million shortfall relative to the 2015 Rate Recommendation principally caused by higher than originally forecast write-offs of \$9 million and higher than forecast pension trust contributions of \$4 million, in part offset by other variances in revenues and expenses. However, staff projects that 2017 results will be \$13 million better than originally forecast on a cash flow coverage basis, thereby netting to roughly no change across the two years.

The Board’s financial policy also calls for new debt issues to fund no more than 64 percent of the Capital Budget. For 2017, staff projects LIPA will fund 60 percent of the \$716 million Capital Budget from debt issues, achieving the Board’s fiscal goal.

The 2017 Capital Budget includes a deferral of certain specified 2016 capital projects totaling \$44.3 million into 2017, as detailed in Schedule B-1 of Exhibit E. The net effect is to amend and reduce the approved 2016 Capital Budget by this amount and include these projects in the 2017 Capital Budget.

The Proposed 2017 Budget in Exhibit B has immaterial differences from that provided at the Board of Trustee’s Budget Workshop on November 28, 2016. The principal change was a request by the Department of Public Service to recalculate variable interest rates on the Authority’s short term debt for projection purposes to reflect a modest decline in LIPA’s short-term borrowing costs that occurred between our calculation of such costs using actual interest rates in mid-October 2016 and interest rates then prevailing on the same debt in mid-November 2016. Prevailing short-term interest rates change on a near daily basis. The effect of this reduction is to lower projected interest expense and revenue by approximately \$4 million. This change has no net effect on the Authority’s financial results or electric rates as the Authority recovers only its actual interest cost from customers, with under or over collections from budgeted levels trued up to actual costs in the following year.

Allocation of Intra-Year Power Supply Capacity Costs

In December 2015, the Trustees approved a regulatory asset to affect the recovery of certain fixed generation capacity costs in the Power Supply Charge within each year. The effect is to collect from customers a greater share of these fixed generation capacity costs during the summer months when generation capacity is needed most rather than recovering these fixed costs equally through the year. Staff believes this more accurately reflects cost causation in electric rates. The December 2015 approval by the Trustees specified that the schedule of deferrals and amortization of such costs in future years would be presented in future budgets. There is no net impact on an annual basis from the reallocation of these costs within the year, with allocations by month from plus \$35 million to minus \$30 million, as shown in the table below.

	Reallocation of the Proposed Fixed Capacity Costs in the Power Supply Charge
January	(\$30,000,000)
February	(\$30,000,000)
March	(\$10,000,000)
April	(\$5,000,000)
May	None
June	\$17,500,000
July	\$35,000,000
August	\$35,000,000
September	\$17,500,000
October	None
November	(\$15,000,000)
December	(\$15,000,000)
Annual	\$0 Million

Public Comment on the 2017 Operating and Capital Budgets

The Authority held two public comment sessions on the 2017 Budget, one each in Nassau and Suffolk Counties, on November 28, 2016. No spoken or written comments were received from the public at either session, and no written or e-mailed comments have been received subsequently.

The Department of Public Service reviewed the Authority's Staged Update filing and provided comments, as described above.

Approval of Regulatory Accounting Related to Mark-to-Market of Certain Investments

The Trustees are requested to approve the creation of a regulatory asset or liability to formalize the existing treatment in the Authority's financial statements of mark-to-market valuation changes for (i) the Authority's Nuclear Decommissioning Trust Fund for its 18 percent share of the Nine Mile Point Nuclear Station, Unit 2; (ii) the OPEB Account established by the Trustees to pre-fund the Authority's liabilities associated with employee

retirement benefits; and (iii) the Authority's commodity and interest rate derivatives. In accordance with Governmental Accounting Standards, these unrealized mark-to-market fluctuations in the value of the assets should be recorded as revenue. However, the Authority is afforded regulatory accounting treatment under GASB No. 62 for ratemaking purposes and can recognize such changes in the fair value of these instruments as regulatory debits or credits on the statement of net position (more commonly known as the balance sheet) until realized. The effect of this accounting treatment is for unrealized gains or losses on these instruments to be deferred on the balance sheet until the assets are sold or settled and the gain or loss is realized and to be recorded as a revenue and taken into account in electric rates at that time.

Recommendation

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

After questions and a discussion by the Trustees and the opportunity for the public to be heard, upon motion duly made and seconded, the following resolution was passed by the Trustees.

1331. APPROVAL OF THE 2017 OPERATING AND CAPITAL BUDGETS

WHEREAS, the Long Island Power Authority ("Authority"), through its wholly owned subsidiary, LIPA, owns the electric transmission and distribution system serving the counties of Nassau and Suffolk and a small portion of the County of Queens known as the Rockaways; and

WHEREAS, the Board of Trustees is required to approve annual budgets for the operations of the Authority and for capital improvements; and

WHEREAS, the Board of Trustees approved implementation of the Department of Public Service's Rate Recommendation regarding the Three Year Rate Proposal for the Long Island Power Authority and Service Provider, PSEG Long Island LLC (the "Rate Recommendation") on December 16, 2015 and the level of revenues used to budget expenditures for the 2017 Budget presented to the Board is consistent with the Rate Recommendation; and

WHEREAS, the Authority released its proposed 2017 Operating and Capital Budgets on November 15, 2016 and held two public comment sessions on November 28, 2016; and

WHEREAS, the memorandum accompanying this resolution includes a schedule of deferrals and amortizations of certain generation capacity costs within the months of the year to affect the more accurate reflection of cost causation in electric rates within each month of the year;

WHEREAS, the Board of Trustees approved certain changes to the Tariff for Electric Service regarding the Power Supply Charge that have been reflected in the Operating Budget presented to the public and the Trustees.

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the proposed 2017 Operating and Capital Budgets, which are attached hereto, are hereby approved; and

BE IT FURTHER RESOLVED, that the Authority amends its approved 2016 Capital Budget to reduce expenditures by \$44.3 million so as to defer these expenditures to 2017;

BE IT FURTHER RESOLVED, that the Authority intends to finance the requirements of the 2017 and 2018 Capital Budgets, as adjusted from time to time, through a combination of internally-generated funds and the issuance of tax-exempt or taxable debt of the Authority and authorizes the Officers of the Authority to evidence such intent by appropriate certifications.

BE IT FURTHER RESOLVED, that the Authority approves the creation of a regulatory asset or liability to formalize the existing treatment in the Authority's financial statements for its non-cash mark-to-market valuation changes for (i) the Authority's Nuclear Decommissioning Trust Fund for its 18 percent share of the Nine Mile Point Nuclear Station, Unit 2; (ii) the OPEB Account established by the Trustees to pre-fund the Authority's liabilities associated with employee retirement benefits; and (iii) the Authority's commodity and interest rate derivatives. The effect of this accounting treatment is for unrealized gains or losses on these instrument in the specified accounts to be deferred on the balance sheet until the assets are sold or settled and the gain or loss is realized.

The Chair stated that the next item on the agenda is the consideration of Approval of a Policy Regarding Trustee Communications.

After requesting a motion on the matter, which was seconded, the Chair indicated that the matter would be presented by John Little.

Mr. Little presented the following action item:

Requested Action

The Trustees are being requested to adopt the resolution attached hereto as Exhibit A approving the Policy Statement on Trustee Communications and Conduct, in the form attached hereto as Exhibit B.

The Finance and Audit Committee of the Board of Trustees (the "F&A Committee") of the Long Island Power Authority (the "Authority"), in its Charter, was delegated the responsibility for overseeing the strategic planning process of the Authority. The strategic

planning process anticipates that the direction of the Authority will be developed and periodically reviewed through a series of policy statements to be developed and reviewed by the various respective Board Committees for ultimate adoption by the full Board. Such policy statements are also a key element of the Authority's Enterprise Risk Management program, which was adopted by the Board at its August 7, 2015 meeting.

This policy statement regarding Trustee Communications and Conduct was identified by the members of the Governance Committee for development and is hereby presented for your review and consideration. The intent of this policy statement is to (i) summarize the practical implications of each Trustee's fiduciary responsibilities; and (ii) recognize and reaffirm a Board member's right to express his or her own opinion while reinforcing and defining the Trustees' obligations with regard to statements of fact or opinion that are made directly to the public, media, or the various other communications channels regarding Authority matters.

Staff notes that other public power authorities have found it appropriate to develop policy statements regarding communications and conduct by individual members of their governing boards that are similar to the proposed language, that doing so avoids confusion between the personal opinions of Trustees and statements attributable to the Board and Authority, and that the proposed language derives from and reinforces the obligations of individual board members as contained in existing legislation and the Authority's Trustee Code of Ethics and Conduct. Examples of such policies adopted by other public power authorities are attached hereto as Exhibit C.

To ensure that the Policy Regarding Trustee Communications and Conduct is providing appropriate guidance to the members of the Board and safeguarding the reputation and mission of the Authority, the Governance Committee recommends an annual review of the effectiveness of the Policy so as to recommend any changes to the policy or actions to make the policy more effective.

The Authority is in receipt of a copy of an advisory opinion from the New York Committee on Open Government delivered to Trustee Cordaro regarding the definition of confidential information. Staff addressed the comments of the Committee on Open Government by making a clarifying revision to the proposed Policy.

The Policy on Trustee Communications and Conduct has undergone extensive review and revision by the members of the Board of Trustees over the last several months. The Governance Committee has recommended that the Board adopt the Policy on Trustee Communications and Conduct attached hereto as Exhibit B.

Recommendation

Based upon the foregoing, I recommend approval of the above-requested action by adoption of the resolutions attached hereto.

After questions and a discussion by the Trustees and the opportunity for the public to be heard, upon motion duly made and seconded, the following resolution was passed by the Trustees; Trustee Cordaro opposed this resolution.

1332. APPROVAL OF LONG ISLAND POWER AUTHORITY POLICY STATEMENT ON TRUSTEE COMMUNICATIONS AND CONDUCT

WHEREAS, the Board of Trustees of Long Island Power Authority (the “Authority”) oversees the management of the Authority, the contractual relationship with the Authority’s Service Provider, and fulfillment of the Authority’s mission; and

WHEREAS, as stewards of the Authority, the Trustees have a natural role in setting the Authority’s strategic policies and overseeing their fulfillment; and

WHEREAS, the Finance and Audit Committee (“F&A Committee”) of the Board of Trustees, in its Charter, was delegated the responsibility for overseeing the strategic planning process of the Authority; and

WHEREAS, the F&A Committee of the Board of Trustees, has assigned the responsibility for developing certain Policies related to corporate governance to the Governance Committee; and

WHEREAS, the Governance Committee recognizes that a statement of the policy on Trustee Communications and Conduct is in the best interest of the Authority and its customers; and

WHEREAS, a policy addressing Trustee Communications and Conduct has been recommended by the Governance Committee for adoption by the Board, in accordance with this process;

NOW, THEREFORE, BE IT IS RESOLVED, that the Trustees hereby approve and adopt a Policy Regarding Trustee Communications and Conduct in the form attached to this resolution; and

BE IT FURTHER RESOLVED, that the policy be subject to annual review and evaluation by the Governance Committee in accordance with the accompanying memorandum.

The Chair stated that the next item on the agenda is the discussion of LIPA Staff’s Operations and Oversight Plan, to be presented by John Little.

After requesting a motion on the matter, which was seconded, Mr. Little discussed LIPA Staff's Operations and Oversight Plan and then took questions from the Trustees.

The Chair stated that the next item on the agenda is the discussion of 2017 Board Meeting Schedule and Proposed Agenda Plan, to be presented by John Little.

After requesting a motion on the matter, which was seconded, Mr. Little discussed the 2017 Board Meeting Schedule and Proposed Agenda Plan and then took questions from the Trustees.

The Chair then allowed public comment to be heard, after which he announced that the next Board meeting is scheduled for January 25, 2017 at 11:00 a.m. in Uniondale.

The Chair then asked for a motion to adjourn, upon motion duly made and seconded, the meeting adjourned at approximately 2:02 p.m.
