

LONG ISLAND POWER AUTHORITY

MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING

HELD ON DECEMBER 20, 2016

The Finance and Audit Committee of the Long Island Power Authority (the "Authority") was convened at 8:00 a.m. at LIPA Headquarters, Uniondale, NY, pursuant to legal notice given on December 15, 2016; and electronic notice posted on the Authority's website annually.

The following Trustees of the Authority were present:

**Shelly L. Cohen, Committee Chair
Elkan Abramowitz
Mark Fischl
Thomas J. McAteer**

Representing the Authority were Thomas Falcone, Chief Executive Officer; Joseph Branca, Chief Financial Officer; Jon Mostel, General Counsel & Secretary to the Board of Trustees; Bobbi O'Connor, Deputy General Counsel & Assistant Secretary to the Board of Trustees; Kenneth Kane, Managing Director of Financial Oversight; Donna Mongiardo, Controller; Corey Horowitz, Director of Risk Management; Kathleen Mitterway, Director of Audit; and John Little, Managing Director of Strategy and Policy.

Representing PSEG LI were David Lyons, Vice President of Business Operations; and Gary Ahern, Director of Finance.

Chair Cohen welcomed everyone to the Finance and Audit Committee meeting of the Long Island Power Authority Board of Trustees.

Chair Cohen stated that the first item on the agenda is the adoption of the minutes from the September 21, 2016 Committee meeting.

Chair Cohen made a motion to accept the minutes of the September 21, 2016 meeting. Upon motion duly made and seconded, the minutes were approved unanimously.

Trustee Cohen stated that next item on the agenda is the Overview of Financial Results & Hedge Report.

Ms. Mongiardo presented LIPA's financial results through November 2016, and Mr. Lyons and Mr. Ahern of PSEG LI reported on the PSEG LI Operating Results and then took questions from the Trustees

Mr. Horowitz presented the Hedge Report and then took questions from the Trustees.

Chair Cohen stated that next item on the agenda is Internal Audit Activities, which would be presented by Kathleen Mitterway.

Ms. Mitterway gave a presentation regarding the Authority's internal audit activities and then took questions from Trustees.

Chair Cohen stated that the next item on the agenda is discussion of 2017 Internal Audit Plan, which would be presented by Kathleen Mitterway.

Ms. Mitterway presented the 2017 Internal Audit Plan and then took questions from the Trustees.

Chair Cohen stated that the next item on the agenda is consideration of Recommendation to Approve 2017 Financings, which would be presented by Joseph Branca.

Mr. Branca presented the following item and then took questions from the Trustees:

Requested Action

The Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) is being requested to adopt a resolution recommending that the full Board 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 Committee is also being requested to recommend that the full Board 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 Committee is being requested adopt a resolution recommending that the full Board 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.

Recommendation

Based upon the foregoing, I recommend that the Committee adopts the resolutions attached hereto recommending that the Board adopts resolutions authorizing the issuance of up to \$550,000,000 aggregate principal of Electric System General Revenue Bonds, the execution and delivery of one or more new interest rate swap agreements, the termination or amendment of one or more interest rate swap agreements, and the amendment of the Twenty-Third Supplemental Bond Resolution, all as described above.

A motion was made and seconded, and the Trustees unanimously adopted the following resolution:

RECOMMENDATION FOR 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 THAT THE FINANCE AND AUDIT COMMITTEE OF THE BOARD OF TRUSTEES RECOMMENDS ADOPTION OF THE FOLLOWING RESOLUTIONS BY THE FULL BOARD:

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.

Chair Cohen stated that the next item on the agenda is an overview of 2016 ERM Process, which would be presented by Corey Horowitz.

Mr. Horowitz discussed the 2016 ERM Process and then took questions from the Trustees.

Chair Cohen then entertained a motion to adjourn, which was duly made and seconded, after which the meeting concluded at approximately 8:41 a.m.