

LONG ISLAND POWER AUTHORITY

MINUTES OF THE 259TH MEETING

HELD ON OCTOBER 19, 2015

The Long Island Power Authority (the “Authority”) was convened for the two-hundred-and-fifty-ninth time at 11:02 a.m. at LIPA’s Headquarters, Uniondale, NY, pursuant to legal notice given on October 14, 2015; and electronic notice posted on the Authority’s website.

The following Trustees of the Authority were present:

**Ralph V. Suozzi, Chair
Sheldon L. Cohen
Matthew Cordaro
Mark Fischl
Thomas J. McAteer
Suzette Smookler**

Representing the Authority were Tom Falcone, Chief Financial Officer, Jon Mostel, General Counsel and Secretary to the Board of Trustees; and Rick Shansky, Managing Director of Contract Oversight.

Representing PSEG Long Island were David Daly, President; John O’Connell, Vice President of Transmission & Distribution; David Lyons, Director of Corporate Integration; Daniel Eichhorn, Vice President of Customer Service; and Paul Napoli, Vice President of Power Markets.

Chair Suozzi welcomed everyone to the 259th meeting of the Long Island Power Authority Board of Trustees and led the Pledge of Allegiance.

Chair Suozzi stated that the first item on the agenda is the discussion of DPS Rate Recommendation.

Mr. Mostel began the presentation and discussed the legal framework of the DPS Rate

Recommendation. Mr. Falcone then discussed the financial aspects of the rate case. After questions and a discussion by the Trustees, there was an opportunity for the public to be heard. Following public comment the chair asked if there was a motion to make a preliminary finding of inconsistency between the DPS Rate Recommendation and the standards established in the LIPA Reform Act No motion to make a preliminary finding of inconsistency was tendered.

The Chair then asked for a motion to adjourn to Executive Session to discuss privileged communication 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:

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 12:43 p.m. the Open Session of the Board of Trustees was adjourned on a motion to enter into Executive Session, which commenced at 12:44 p.m. and ended at 1:04 p.m.

At approximately 1:14 p.m. the Open Session of the Board of Trustees reconvened.

Chair Suozzi called for a motion to accept the minutes of the August 7, 2015 meeting of the Board of Trustees, which was seconded. He asked if there were any changes or deletions. Upon hearing none, the following resolution was then unanimously adopted by the Trustees:

APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE AUGUST 7, 2015 MEETING OF THE BOARD OF TRUSTEES OF THE LONG ISLAND POWER AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on August 7, 2015 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.

Chair Suozzi then remarked on the preparations made by PSEG Long Island and overseen by LIPA staff in advance of Hurricane Joaquin.

Chair Suozzi 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 Cordaro reported on the Contract Oversight Committee Meeting and Trustee Fischl reported on the Governance Committee.

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

Mr. Lyons started the presentation and reported on PSEG LI's operating results through September 2015. Mr. Daly then continued the presentation and reported on PSEG LI's scorecard results. Mr. Daly, Mr. Lyons, Mr. O'Connell, Mr. Eichhorn and Mr. Napoli took questions from the Trustees.

The Chair stated that the next item on the agenda is the presentation of the Authority's Financial Report, presented by CFO Tom Falcone.

Mr. Falcone then presented the Financial Report, which included the Authority's financial results through September 2015, and took questions from the Trustees.

The Chair stated that the next item on the agenda is the Consideration of Authorization to Engage Actuarial Services.

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

Mr. Kane presented the following action item:

Requested Action

The Trustees are being requested to approve a resolution authorizing the Chief Financial Officer, or his designee, to engage Cheiron, Inc. (“Cheiron”) to provide actuarial services to the Long Island Power Authority and its subsidiary, the Long Island Lighting Company d/b/a LIPA (collectively, “LIPA” or the “Authority”) for a term not to exceed 5 years.

Background

LIPA has an on-going need for actuarial services related to a variety of aspects of its business including calculations of ongoing pension and OPEB liabilities specific to the Authority employees and to advise Authority management on matters relevant to the pension and OPEB costs that are flowed through to the Authority by PSEG-LI through the A&R OSA, and by National Grid through the Power Supply Agreement.

Discussion

On August 27, 2015, LIPA issued a Request for Proposals (“RFP”) seeking qualified firms to provide actuarial services to LIPA. The RFP was distributed to 23 firms including 3 M/WBE firms, advertised in the NYS Contract Reporter, and posted on LIPA’s website.

On or before September 25, 2015, four firms responded to the RFP. A selection committee comprised of LIPA staff carefully examined each of the four proposals for compliance with the threshold criteria and terms of the RFP, including the cost and non-cost evaluation criteria set forth therein. LIPA staff concluded that all four proposals were responsive to the RFP.

LIPA staff then scored the four proposals on a quantitative basis. No interviews were conducted

Based upon the written submissions and an assessment of LIPA’s needs, Cheiron was judged to be best suited to provide LIPA actuarial services for the term of this engagement. Some of the strengths of Cheiron include its extensive experience advising some of the largest public companies, including utilities, in the country, as well as multiemployer and corporate pension and OPEB plans. In addition, Cheiron’s proposal noted specific experience serving as an independent actuary while another actuary is conducting the day-to-day actuarial results which is an expertise the Authority needs to assist in evaluating and overseeing the actuarial results presented by PSEG Long Island and National Grid’s actuaries.

Recommendation

Based upon the foregoing, Mr. Kane recommended approval of the above-requested action by adoption of the resolution in the form presented at the meeting.

After questions and a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was unanimously adopted by the Trustees:

ENGAGEMENT OF FIRM TO PROVIDE ACTUARIAL SERVICES

RESOLVED, that consistent with the above memorandum, the Chief Financial Officer or his designee be, and hereby is, authorized to engage Cheiron, Inc. to provide actuarial services to the Long Island Power Authority and its wholly owned subsidiary Long Island Lighting Company d/b/a LIPA and d/b/a Power Supply Long Island (together “LIPA”) on an as-needed basis, based on terms and conditions substantially consistent with LIPA’s standard form of consulting agreement with such modifications as the individual executing same shall consider reasonable as demonstrated by such individual’s execution of same.

The Chair stated that the next item on the agenda is the Consideration of Approval of Charter for Authority’s REV Committee.

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

Mr. Mostel presented the following action item:

Requested Action

The Trustees are requested to adopt a resolution adopting the Long Island Power Authority’s (the “Authority”) REV Committee Charter in the form presented at the meeting.

Background

Pursuant to Article V, Section 5 of the By-Laws of the Authority, the Board of Trustees may from time to time appoint new committees of the Board which shall have and exercise such powers and duties as shall be authorized by the Chair or the Trustees.

The Board of Trustees now desires to establish a committee to focus on the New York Public Service Commission’s (“PSC”) Reforming the Energy Vision (“REV”) which sets out the State’s vision of a transformed electricity delivery system that will reorient the electric industry and the ratemaking paradigm toward a customer-centered approach that harnesses technology and markets and uses distributed energy resources as a primary tool in planning and operation of electric distribution systems, to achieve optimal system efficiencies, secure universal, affordable service, and enable the development of a resilient, climate friendly energy system. This committee would be known as the REV Committee (the “Committee”). The Committee would focus on monitoring the policies, principles and recommendations being advanced by the PSC in its REV proceeding, as well as PSEG LI’s participation in the PSC’s REV proceeding, among other things.

The proposed Committee Charter (the “Charter”) has been developed, and if approved, would serve as the governing document for the Committee, and establish the purpose, powers, composition and key responsibilities of the Committee. Pursuant to the proposed

Charter, the Committee would consist of at least three Trustees to be appointed by and serve at the discretion of the Chair of the Board of Trustees. The Committee would meet no less than four times a year and report at least annually to the full Board on how it has discharged its duties and met its responsibilities under its Charter.

I note that the Governance Committee has reviewed the proposed Charter and has adopted a resolution recommending its approval by the Trustees.

Recommendation

Based upon the foregoing, it is recommended that the Trustees adopt a resolution in the form of the draft resolution presented at the meeting.

After a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was unanimously adopted by the Trustees:

ADOPTION OF THE LONG ISLAND POWER AUTHORITY REV COMMITTEE CHARTER

WHEREAS, the REV Committee (the “Committee”) of the Long Island Power Authority (the “Authority”) is being formed to assist the Authority in reaching its operational goals; and

WHEREAS, the proposed Committee Charter (the “Charter”) establishes the purpose, powers, composition and key responsibilities of the Committee and serves as the governing document for the Committee:

NOW, THEREFORE, BE IT RESOLVED, that the Trustees hereby adopt the Long Island Power Authority REV Committee Charter in the form presented at this meeting; and be it further

RESOLVED, that this resolution take effect immediately.

The Chair stated that the next item on the agenda is the Discussion of Possible Transco Settlement Agreement.

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

Mr. Shansky presented the following action item:

Requested Action

The Trustees are being requested to authorize the Authority's Chief Financial Officer or his designee to negotiate and execute a settlement agreement with New York Transco, LLC to establish a transmission rate formula for certain transmission projects in New York State, including the rates to be charged to customers in the Long Island Power Authority ("Authority" or "LIPA") transmission district.

Background

On November 4, 2013, the New York Public Service Commission ("NYPSC") accepted proposals by Consolidated Edison Company of New York ("Con Edison"), New York State Electric & Gas Corporation ("NYSEG"), and the New York Power Authority ("NYPA") to construct three transmission projects as part of the NYPSC's initiative to establish a contingency plan to address the potential shutdown of the Indian Point Energy Center ("IPEC") whose operating licenses were then scheduled to expire in 2013 and 2015, respectively¹².

The three projects, known as Transmission Owner Transmission Solutions ("TOTS"), were planned to be completed in 2016 and consisted of (1) a second 345 kV line connecting the Ramapo and Rock Tavern substations in Orange County and related upgrades; (2) rearrangements and upgrades of existing 345 kV feeders in New York City to permit increased power flow from New Jersey and Staten Island into the rest of New York City ("Staten Island Unbottling"); and (3) upgrades to existing 345 kV lines connecting the Fraser and Coopers Corners substations in Delaware and Sullivan County, respectively ("Marcy-South Series Compensation"). The first two projects were sponsored by Con Edison and the third was sponsored in part by NYSEG and in part by NYPA.

On December 4, 2014, Con Edison, NYSEG and the other New York investor-owned utilities ("NYTOs") submitted an application to the Federal Energy Regulatory Commission ("FERC") to recover the cost of the Con Edison and NYSEG portions of the TOTS projects, among other planned projects in upstate New York, as well as a request to transfer ownership of those projects to a newly formed transmission company consisting of affiliates of the NYTOs ("NY Transco"). NY Transco proposed a rate formula to recover construction costs of the projects, as well as operating and financing costs, including a return on equity. NY Transco also proposed to allocate these costs to all utilities in the state according to percentages developed by the NYTOs during earlier discussions with LIPA and NYPA, which were premised on circumstances and assumptions that did not materialize. In particular, those discussions contemplated that 16.7% of the projects' costs would be allocated to LIPA, assuming that LIPA became a member of NY Transco and that its portfolio included LIPA projects so that the overall cost and benefit sharing would be properly balanced³.

As those assumptions did not materialize, LIPA opposed the NY Transco's proposal, as did other affected parties. LIPA also submitted to FERC a study conducted by PSEG Long

¹ Case No. 12-E-0503, Proceeding on Motion of the Commission to Review Generation Retirement Contingency Plans, Issued November 4, 2013.

² IPEC continues in service while its license renewals remain pending.

³ LIPA's membership would have required enabling legislation, which has not been enacted.

Island which concluded that the 16.7% allocation factor was far in excess of the benefits that could be expected to accrue to Long Island consumers from the TOTS projects. On April 2, 2015, FERC determined that disputed issues concerning the rate formula and allocation of costs would require a hearing or a negotiated settlement.

On July 2, 2015, NYPA submitted a filing to FERC requesting that costs associated with its portion of the Marcy-South Series Compensation project be recovered through its existing tariff administered by the New York Independent System Operator (“NYISO”). Among other features, the existing tariff allocates certain NYPA transmission costs to all New York utilities based on their share of the statewide load. LIPA’s share is approximately 13.5%. LIPA opposed NYPA’s filing and FERC rejected NYPA’s filing on August 31, 2015. NYPA may submit a new filing.

Discussion

Thereafter, the NYTOs, NYPA, LIPA, the NYPSC and other parties held extensive settlement discussions that explored issues of capital structure, return on equity, cost control, and cost allocation. The parties shared data and economic projections and attempted to achieve a settlement that would meet FERC’s standard for cost allocation that costs be “roughly commensurate” with benefits.

Following months of effort, the parties have drafted a term sheet to which they have all tentatively agreed, subject to negotiating a formal agreement and receiving all necessary approvals. The settlement, which has not yet been submitted to FERC, would establish the following:

1. A rate formula for the NY Transco’s TOTS projects, including a base return on equity of 10% on aggregate project costs up to \$228 million and 9.5% on any costs above that. The rate formula would be implemented by the NYISO through a charge to all New York utilities or other load-serving entities (“LSEs”) in the state based on the amount of energy they supply to their customers.
2. An allocation to the LIPA Transmission District of 8.55% which will be converted by NYISO into a \$/MWh rate to be charged to all LSEs on Long Island, including LIPA and NYPA. Authority staff estimates that LIPA customers (including Long Island Choice customers) would pay a portion of this allocation equivalent to 8.4%, while NYPA customers would pay the balance of the 8.55% allocation.⁴
3. NYPA would agree to apply the same allocation percentage to its part of the Marcy-South Series Compensation project and would include same in a new filing with FERC.
4. Costs associated with the second phase of Staten Island Unbottling, which Con Edison may not need to construct, cannot be allocated to LIPA.
5. The allocation of costs associated with the other projects planned by NY Transco will be the subject of separate proceedings in accordance with the NYISO tariff.

Authority staff and PSEG Long Island staff have reviewed the proposed settlement terms and find them to be reasonable and commensurate with expected benefits to Long Island,

⁴ Allocations to the other parties’ transmission districts range from 6% to 63%.

which may include reduced costs of energy imported over LIPA's interties with Con Edison and reduced cost and/or quantity of capacity purchased in the NYISO market.

Based on the estimated cost of the TOTS projects and the proposed allocation factor, Authority staff estimates that the cost to LIPA customers resulting from this settlement would amount to approximately \$4 million per year, which amount is expected to be offset by an equal or greater amount of reduced purchased power costs, as described above.

Recommendation

Based upon the foregoing, Mr. Shansky recommended approval of the above-requested action by adoption of the resolution in the form presented at the meeting.

After a discussion by the Trustees and the opportunity for the public to be heard, the following resolution was unanimously adopted by the Trustees:

AUTHORIZATION TO NEGOTIATE AND EXECUTE A SETTLEMENT AGREEMENT WITH NEW YORK TRANSCO, LLC TO ESTABLISH A TRANSMISSION RATE FORMULA FOR CERTAIN TRANSMISSION PROJECTS IN New York STATE

RESOLVED, that, consistent with the terms of the accompanying memorandum to the Board, the Trustees hereby authorize the Chief Financial Officer or his designee to negotiate and execute a settlement agreement with New York Transco, LLC and any other related agreements, and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chief Financial Officer or his designee, to establish a transmission rate formula for certain transmission projects in New York State, including the rates to be charged to customers in the Long Island Power Authority transmission district.

The Chair then allowed public comment to be heard, after which he announced that the next Board meeting is scheduled for December 16, 2015 at 11:00 a.m. in Uniondale.

The Chair entertained a motion to adjourn, which was duly made and seconded. At approximately 2:29 p.m. the meeting was adjourned.