

LONG ISLAND POWER AUTHORITY

MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING

HELD ON DECEMBER 16, 2015

The Finance and Audit Committee of the Long Island Power Authority (the "Authority") was convened at 8:03 a.m. at LIPA Headquarters, Uniondale, NY, pursuant to legal notice given on December 11, 2015; and electronic notice posted on the Authority's website.

The following Trustees of the Authority were present:

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

Representing the Authority were Tom Falcone, 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 Finance; Donna Mongiardo, Controller; Corey Horowitz, Director of Risk Management; Kathleen Mitterway, Director of Audit; Rick Shansky, Managing Director of Contract Oversight; John Little, Managing Director Planning & Strategy; and Sanna Wong-Chen, Director of Finance.

Representing PSEG LI were Daniel Eichhorn, Vice President of Customer Services; Gary Ahern, Director of Finance; Scott Payant, Senior Manager of Treasury; and Paul Napoli, Vice President of Power Markets.

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 October 19, 2015 Committee meeting.

Chair Cohen made a motion to accept the minutes of the October 19, 2015 meeting, which was 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 and Mr. Horowitz presented LIPA's financial results through November 2015, and Mr. Ahern and Mr. Payant of PSEG LI reported on the PSEG LI Operating Results.

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 a presentation by PSEG Long Island and Authority on Power Supply Charge which would be presented by Mr. Napoli and Mr. Little. Mr. Napoli and Mr. Little gave a presentation regarding Power Supply Charge and then took questions from the Trustees.

Chair Cohen stated that the next item on the agenda is consideration of recommendation to Approve Amendments to the 2015 Operating and Capital Budgets, Changes in Accounting Practices and Waiver of Certain Net Metering Provisions which would be presented by Mr. Falcone. Mr. Falcone presented the following item:

Requested Action

The Finance and Audit Committee (the "Committee") of the Board of Trustees (the "Board") is requested to adopt a resolution recommending that the Board approve certain amendments to the 2015 Operating and Capital Budgets, in accordance with the terms of

the Amended and Restated Operations Services Agreement (“OSA”), changes to the intra-year recovery of certain fixed capacity costs through the approval of an accounting regulatory asset, changes to certain accounting reserves, and a tariff amendment temporarily waiving the enrollment cap on net metering.

2015 Operating and Capital Budget Amendments

Section 5.2(B)(7) of the OSA recognizes that certain events or conditions beyond the reasonable control of the Service Provider may occur that result in the Service Provider incurring non-budgeted expenses to provide Operations Services in accordance with the Contract Standards or to repair, replace, or restore damaged components of the T&D System, which are referred to as “Non-Storm Emergencies”. Under the terms of the OSA, PSEG Long Island requests that the Board of Trustees approve a budget amendment for two such Non-Storm Emergencies that occurred during 2015.

A dielectric fluid leak in the 138 kV transmission cable located at Lawson Boulevard in Oceanside was detected in late December 2014. Repairs to that cable continued through the first quarter of 2015 and PSEG Long Island requested a budget amendment for \$4,856,105 in April 2015. In addition, beginning on September 9, 2015, PSEG Long Island responded to a dielectric fluid leak at the Atlantic Avenue / Mill River Bridge in East Rockaway. The total cost to mitigate the leakage and repair the cable was \$967,641. PSEG Long Island is seeking and staff is recommending an aggregate budget amendment of \$5,823,746 in 2015 for expenses related to these two non-storm emergencies.

Various capital projects that were approved for 2015 have been delayed, and it is requested that \$52.074 million in approved 2015 capital spending be removed from the approved 2015 Capital Budget and carried forward into 2016, as detailed in the proposed 2016 Capital Budget. Among the largest of these projects are the new substations intended for Shelter Island and Berry Street in Lindenhurst. In addition, certain metering projects and information technology improvements, as well as facility upgrades covering leasehold improvements, furniture and fixtures and property purchases, are proposed for deferral into 2016. Also included in the \$52 million request is formal approval and deferral into 2016 of \$3.9 million of Advanced Metering Infrastructure (AMI) which was described in the 2015 Capital Budget as subject to separate Board action and whose implementation was recommended by DPS in April 2015. Staff recommends that \$52.074 million be removed from the approved Capital Budget for 2015 and be added to the capital spending authorized for 2016.

Approve a Regulatory Asset for Intra-year Power Supply Charge Capacity Costs

LIPA staff seeks approval of a regulatory asset for accounting purposes to implement a recommendation made by PSEG Long Island regarding the monthly calculation of the Power Supply Charge¹. The regulatory asset alters the timing of the recovery within the year but not the amount of the fixed generation and transmission capacity costs in the Power Supply Charge. The purpose of this change is to more accurately reflect cost causation in electric rates in each month. LIPA recovers through the Power Supply Charge approximately \$420 million per year in such third-party capacity costs,

¹ PSEG Long Island assumed responsibility for calculating the monthly Power Supply Charge during 2015.

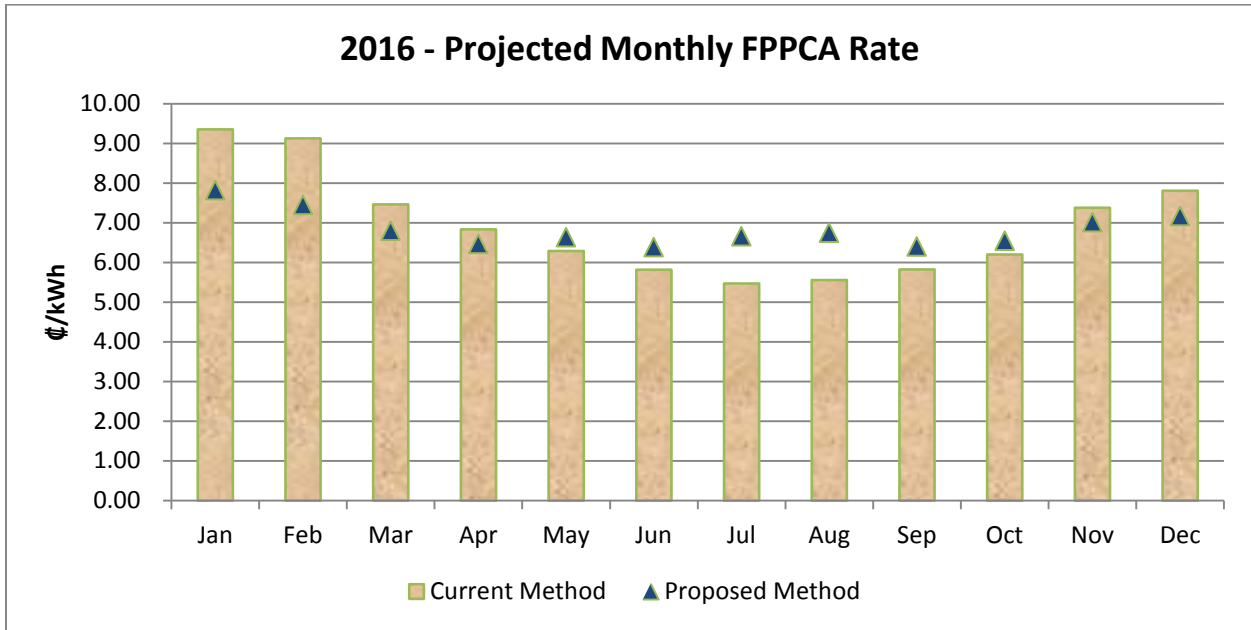
approximately \$395 million of which represent fixed costs incurred under existing power and transmission purchase agreements². These costs are charged to LIPA in essentially equal payments each month. However, capacity costs are incurred primarily to meet capacity requirements in the peak summer months and LIPA's rates should reflect greater cost responsibility in the summer months as opposed to the winter months. Indeed, LIPA's delivery rates (as opposed to the Power Supply Charge, which is impacted by this change) are higher in the summer than the winter months to reflect exactly this consideration, and the capacity prices in the NYISO wholesale markets show a similar winter/summer pattern. Lastly, the DPS has endorsed this seasonal pattern of cost recovery for Delivery Rates in their Recommendation, and LIPA staff would like to extend this concept to the Power Supply Charge through adoption of this accounting change.

To implement this proposal, LIPA staff seeks authorization for a regulatory asset to defer recovery of capacity costs in the Power Supply Charge during the winter months of November through April, and amortize their recovery into the summer months of May through October. The net annual impact of this deferral and amortization will be zero, and the Power Supply Charge will continue to adjust to recover LIPA's actual fuel and purchased power costs on a monthly basis within each calendar year. The recommended deferral and amortization for 2016 is shown on the table below, and the proposed schedule for future years will be presented with each future budget.

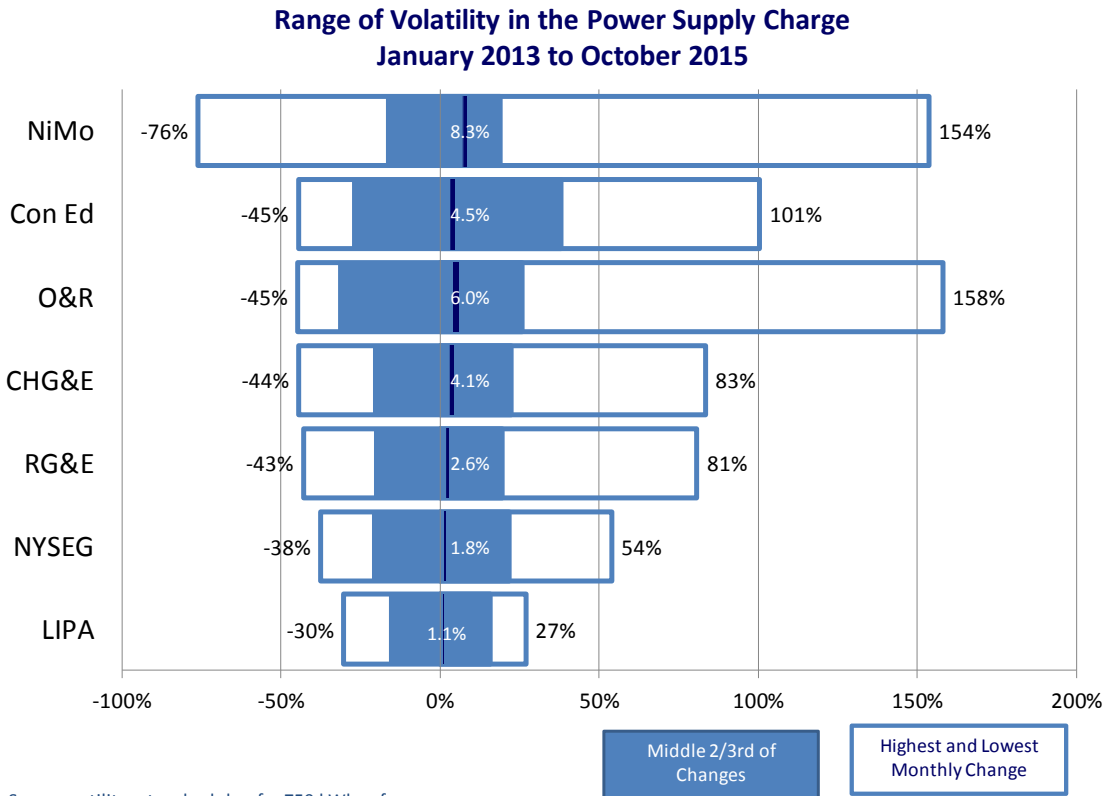
Month	Amortization or (Deferral)	Month	Amortization or (Deferral)
January 2016	(\$25 Million)	July 2016	\$25 Million
February 2016	(\$25 Million)	August 2016	\$25 Million
March 2016	(\$10 Million)	September 2016	\$10 Million
April 2016	(\$5 Million)	October 2016	\$5 Million
May 2016	\$5 Million	November 2016	(\$5 Million)
June 2016	\$10 Million	December 2016	(\$10 Million)

The estimated Power Supply Charge in each month of 2016, consistent with the anticipated costs included in the 2016 Budget and adoption of this proposal, is shown in the chart below.

² In addition, costs related to the Amended and Restated Power Supply Agreement with National Grid and operating costs related to the Authority's ownership interest in Nine Mile Point 2 are recovered in delivery charges.



It is worth noting that LIPA’s electric rates, including the Power Supply Charge, remain the least volatile among electric utilities in the State, as shown on in the chart below.



Source: utility rate schedules for 750 kWhs of use.

Write-off of the Regulatory Asset Related to the OSA Transition Costs

LIPA staff seeks to write down the regulatory asset approved by the Board (to be amortized over the 12-year initial term of the OSA contract) for the cost of transitioning to

the new Service Provider using other excess reserves and credits on the balance sheet. This change does not impact the Authority's expenditures or the level of Delivery Rates but does provide a less complex and more informative going forward view of the Authority's financial condition to stakeholders, rating agencies, and investors.

Following the termination of National Grid's transitional financial support services on January 1, 2015, PSEG Long Island assumed responsibility for the Authority's utility accounting functions and completed a comprehensive review of all accounting estimates and amortization periods for which they assumed accounting responsibility from National Grid. With changes in personnel, processes, and policies during the 2015 transition, such review resulted in differences in reserves and estimates in certain circumstances.

PSEG Long Island identified approximately \$10 million of non-cash reserves³ which they believe are no longer necessary. In addition, certain amortization periods used since 1998 by National Grid were based on different assumptions than specified by PSEG Long Island, which resulted in an additional \$37 million of excess reserves⁴. As such, approximately \$47 million was identified as total excess reserves. For an investor-owned utility, regulatory assets and liabilities/credits (such as excess reserves) would be reflected in customer rates over time. However, as LIPA adopts the Public Power Model, the amortization of regulatory assets and liabilities no longer has an impact on LIPA's Delivery Rates. Therefore, LIPA staff proposes to net this excess reserve against the deferred regulatory asset for OSA transition costs. The alternative would be to realize such excess reserves in net income in 2015 (which would still cause the Authority to report net income roughly on budget for the calendar year). Netting these regulatory assets and liabilities reduces complexity on the financial statements and better reflects LIPA's statement of net position. As such, LIPA staff seeks permission to offset the Regulatory Asset resulting from the "Operations Services Agreement – Transition Costs" in the amount of \$47 million as of December 31, 2015 against the balance of these identified excess reserves.

Waiver of the Cap on Net Metering

Net metering is a rate program applicable to many forms of customer-owned renewable generation (most commonly solar PV) that allows customer to pay for the net amount of electricity delivered to them by the utility. If a customer produces more electricity in a month than it uses, the excess generation flows "backwards" through the meter and is "banked" by the utility until some future month when the customer's energy consumption exceeds its generation. LIPA's tariff sets a cap on participation in net metering at 153 MW, which is approximately 3% of LIPA's peak load in 2005, which is the reference year for net metering in the NY Public Service Law, section 66-j. In the already-approved tariff the Board reserved the authority to increase that cap.

The Public Service Commission has increased the cap for the regulated utilities over the past year, but has also indicated that the appropriate mechanism to compensate customers with renewable generation is a topic for *Reforming The Energy Vision* ("REV"). The

³ In accrual basis accounting, many accounting estimates and assumptions are used to record reserves for contingent liabilities that may be realized in the future.

⁴ One assumption in particular was the timing difference between the school tax year versus the calendar year, which is an accrual basis accounting estimate at any point in time that does not impact the actual payments when due.

Commission initially ordered the regulated utilities to raise the cap from 3% to 6%, and subsequently directed those utilities to accept all applications for net metering without regard to the cap, while the REV proceeding works through the appropriate compensation mechanism. At this point, the relevant PSC policy is under further review, and the Commission itself has indicated that the appropriate mechanism may not be developed until the end of 2016.

LIPA is approaching the 3% cap on net metering, and requests the Board to exercise its authorization to increase the cap. Staff considered a request to raise the cap to 306 MW (6%) but feels that the approach most consistent with current New York policy is to seek authorization to accept all requests beyond the current limit, without regard to a specific new value for cap, pending developments in the REV proceeding to evaluate the compensation mechanism during 2016. Staff has evaluated the current rate of applications for net metering and estimates that enrollment would not exceed 6% by the end of 2016, which is the date that the Commission has established for resolving the issues surrounding the compensation issue, but feels that a general authority to exceed the cap would allow greater flexibility for managing customer expectations as REV progresses in the coming year.

Recommendation

Based upon the foregoing, Mr. Falcone recommend approval of the above requested action by adoption of a resolution in the form of the draft resolution presented below.

A motion was made and seconded, and the Trustees unanimously adopted the

following resolution:

RECOMMENDATION FOR APPROVAL OF AMENDMENTS TO THE 2015 OPERATING AND CAPITAL BUDGETS, APPROVAL OF A REGULATORY ASSET FOR FIXED-CAPACITY COSTS, WRITE-DOWN OF A REGULATORY ASSET, AND WAIVER OF THE CAP ON NET METERING

WHEREAS, Authority staff has recommended changes to the Authority's accounting procedures with regard to the recovery of certain fixed costs of power supply which are consistent with generally accepted accounting principles; and

WHEREAS, Authority staff has recommended changes to the Authority's accounting procedures with regard to the reconciliation of certain regulatory assets, which is consistent with generally accepted accounting principles and does not alter the Rate Recommendation of the Department of Public Service dated September 28, 2015 or the annual revenues to be recovered from customers in 2016; and

WHEREAS, Authority staff has recommended that the cap on net metering of customer generation for certain renewable generation be waived temporarily to conform the Authority's Tariff with current New York State policy; and

BE IT RESOLVED, that the Finance and Audit Committee (the "Committee") recommends approval by the Board of Trustees (the "Board") of an amendment to the

approved 2015 Operating Budget for incremental costs of \$5,823,746 for a Non-Storm Emergency (as defined in Section 5.2(B)(7) of the Amended and Restated Operations Services Agreement) related to the cost of repairing two incidents of transmission cable failure, the approval of Advanced Metering Infrastructure spending of \$3,939,000, and the transfer of \$52,074,000 out of the 2015 approved capital budget into the 2016 approved capital budget; and

BE IT FURTHER RESOLVED, that the Committee recommends approval by the Board to establish a regulatory asset for the reallocation of the recovery of fixed costs of purchased power within each calendar year; and

BE IT FURTHER RESOLVED, that the Committee recommends approval by the Board to authorize the reclassification of certain excess reserves be applied to the existing regulatory asset for “Operations Services Agreement – Transition Costs”, eliminating the need for any future amortization of those costs; and

BE IT FURTHER RESOLVED, that the Committee recommends approval by the Board to temporarily waive the cap on net metering of customer generation for certain renewable generation as described in the materials presented at the meeting.

Chair Cohen stated that the next item on the agenda is consideration of recommendation to Approve Implementation of the Department of Public Service Rate Recommendation and 2016 Operating and Capital Budgets as Required by the LIPA Reform Act which would be presented by Mr. Falcone. Mr. Falcone presented the following item:

Requested Action

The Trustees met on October 19, 2015 to consider the Rate Recommendation (the “Rate Recommendation”) regarding the Three Year Rate Proposal for the Long Island Power Authority and its Service Provider, PSEG Long Island LLC that was sent by Audrey Zibelman, Chief Executive Officer of the Department of Public Service (“DPS”) to Chairman Ralph Suozzi on September 28, 2015. The Board did not make a preliminary determination of inconsistency under the provisions of the LIPA Reform Act at the October 19, 2015 meeting⁵. Without such preliminary determination, the LIPA Reform Act requires that the Board implement the Three Year Rate Plan as set forth in the Rate Recommendation at this time.

Therefore, the Finance and Audit Committee (the “Committee”) of the Board of Trustees is being requested to approve a resolution recommending that the full Board adopt a resolution implementing the Rate Recommendation by (i) approving the proposed 2016 Operating and Capital Budgets (the “Budgets”) for the Long Island Power Authority and

⁵ A preliminary determination by the Board at the October 19, 2015 meeting would have required additional hearings by the Board on the subjects at issue in the preliminary determination within 30 days.

its subsidiary, the Long Island Lighting Company d/b/a LIPA (collectively the “Authority” or “LIPA”); (ii) approving the revisions to the Tariff for Electric Service that are designed to recover the level of revenue within the Budgets that is consistent with the Rate Recommendation; (iii) adopting the financial policy that was applied in the Three Year Rate Plan, as further described below; and (iv) approving a reduction in the regulatory asset referred to as the Acquisition Adjustment, as recommended by the DPS and further described below.

Background on 2016 Operating and Capital Budgets

The proposed Budgets set forth the revenue, grant, other income, and expenditure forecasts for the year ending December 31, 2016, including the Operating and Capital Budgets submitted by PSEG Long Island in accordance with the Amended and Restated Operations Services Agreement (“OSA”). The proposed Operating and Capital Budgets continue initiatives designed to improve service, enhance customer satisfaction, improve storm response, accommodate system needs, and promote energy efficiency.

The proposed Operating Budget totals \$3.37 billion, which is a decrease of \$231 million or 6.4% from the approved Operating Budget for 2015. This primarily reflects projected fuel and purchased power costs that are projected to be lower by \$269 million, a reduction in grant and other income of \$35 million, and higher operating expenses of \$108 million (including certain non-cash expenses). Delivery revenues are expected to increase by \$20 million from the 2015 level, consistent with the Rate Recommendation.

The proposed Operating Budget results in an increase to the Delivery Charge of approximately \$0.65 per month for the typical Residential Customer using 775 kWhs per month. The proposed Operating Budget also projects an offsetting decrease in the Power Supply Charge and other related charges of \$9.69 per month. The net result is a substantial reduction in customer bills of \$9.04 per month projected for 2016.

The proposed Capital Budget totals \$685 million, representing a record level of investment in electric system resiliency and reliability. \$186 million of the Capital Budget is related to the multi-year \$730 million storm hardening program in order to prepare the Long Island electric system to withstand severe weather. \$168 million (90%) of the 2016 storm hardening program will be paid for by a grant secured during 2014 from the Federal Emergency Management Agency (“FEMA”).

Some minor adjustments have been reflected in the proposed budget since the Board briefings were held on November 13, 2015. LIPA staff and PSEG Long Island met with the DPS subsequent to the Board’s budget workshop to review the proposed revenues and small calibration adjustments were made to the Revenue Tax PILOTs and state assessments which had no effect on revenues for Delivery Service or the Power Supply Charge, but reduced the total customer charges by \$0.8 million in 2016. Also, the details of the proposed spending within the capital budget have been updated to reflect a reallocation of projected expenditures among certain T&D projects, with no overall change in the proposed level of capital spending. Lastly, the UDSA budget has been updated to reflect the final rates published for 2016 and changed assumptions regarding certain amortizations, which do not affect LIPA’s revenue requirements.

Incorporation of the Three Year Rate Plan

The proposed Budgets reflect the Rate Recommendation from the DPS. That filing was examined by the DPS and subject to full evidentiary hearings in a process that spanned 8 ½ months from January 30, 2015 through October 19, 2015. In that evidentiary process, LIPA staff and PSEG Long Island responded to hundreds of written requests for data from fifteen parties, testified and were cross-examined by those parties under the aegis of two Administrative Law Judges, and publicly defended proposals for increasing the rates for Delivery Service by the lowest amount consistent with sound operating and financial practices, the provision of safe and reliable service, and existing contractual obligations. The DPS concluded that process by recommending the lowest possible rates consistent with those requirements, as required under the LIPA Reform Act.

Also consistent with the Rate Recommendation, LIPA staff has updated the Three Year Rate Plan for certain known and measurable costs related to debt service and T&D property tax PILOTs that have become known since the DPS provided its Recommendation, resulting in a further reduction in the requested increase by \$10.3 million in 2016. Total Delivery Service revenues are proposed to be \$1,895 million for 2016, and PSEG Long Island submitted its derivation of the revenues consistent with the Rate Recommendation and resulting rates for all rate classes to the DPS for its review on November 20, 2015. PSEG Long Island has also prepared an update to the Tariff for Electric Service to be consistent with both the updated revenue requirements and the changes in rate design that the DPS recommended. DPS has provided written concurrence that the revenue calculations and Tariff Leaves as proposed comply with their Rate Recommendation.

Public Comment on the 2016 Operating and Capital Budgets

In addition to the 8½ month process set forth in the LIPA Reform Act to examine the Three Year Rate Plan, which included four public statement hearings administered by the DPS and an electronic public messaging board that, combined, received approximately 2,000 public comments, the Authority conducted two additional public comment sessions on the 2016 Budgets, one each in Nassau and Suffolk Counties, on November 20, 2015. At the session in Nassau County, the Sierra Club expressed concerns that the Budgets and the New York State Energy Plan do not address the significant emissions from the power plants located outside of New York State that serve LIPA's customers. Authority staff notes that issues relating to energy efficiency and renewable energy goals are to be separately considered as part of the PSEG Long Island Integrated Resource Plan, which is to be completed during 2016, and PSEG Long Island's annual Utility 2.0 filings.

At the session in Suffolk, Suffolk County raised concerns about the expiring tax credits for new solar PV installations and sought information about whether LIPA's budget took this significant impact into consideration. Authority staff responded that the expiring tax credits have been renewed numerous times in the past and that, while difficult to predict at present, could be renewed again. In addition, there were many variables that affect the economics of the installation of solar generation, and that, all things considered, it was more likely than not that the future installed cost for solar generation will be lower than today despite the possible expiration of such tax credits.

One comment was also sent to the email address set up to receive public comments on LIPA's 2016 Budgets noting that LIPA's rates shouldn't go up because fuel prices were coming down. LIPA staff responded to this comment and noted that while Delivery Charges will go up as a result of these Budgets, the overall customer bill is expected to decline through lower fuel charges. LIPA charges its actual costs for fuel and purchased power to its customers, and the expected decline in fuel price will be passed through to customers dollar-for-dollar as they are realized.

Adoption of New Financial Policy to Reduce Debt and Long-Term Cost

The Authority's Board first adopted a fiscal practice in December 2005 in connection with the 2006 Operating Budget to budget revenues and expenses to achieve \$75 million of net income in each calendar year. In November 2014, Public Financial Management ("PFM"), LIPA's financial advisor, prepared and presented a report on LIPA's fiscal practices to the Finance & Audit Committee of the Board at the request of the Committee. That report examined the past fiscal practices of LIPA as compared to its peers in the public power sector, noted that LIPA had the lowest credit ratings and most leveraged balance sheet of any of its peer utilities by a significant degree, and recommended that LIPA adopt a financial policy that focused on the lowest electric rates consistent with sound financial operations. Accordingly, the policy recommended by PFM, which was further elaborated on in LIPA staff testimony filed in conjunction with the Three-Year Rate Plan, was to place the Authority on a gradual path to obtain single-A bond ratings within five years, which would place LIPA's credit ratings at the low end of the range of credit ratings of its peer utilities (as opposed to its present credit ratings which are well below those of its peer utilities).

To accomplish this objective, PFM recommended that LIPA, among other things, set rates using the Public Power Model, which is the budgeting and rate setting method used by other large public power utilities in the industry. LIPA would do so by budgeting to achieve cash flow in excess of all current operating costs and debt payments at a level of debt "coverage" sufficient to obtain single-A bond ratings. This would reduce the percentage of capital expenditures funded by debt, thereby reducing future debt and customer rates from those that would prevail under existing LIPA practices. This financial policy would be in lieu of the Authority's past fiscal practice, unique in the industry, of targeting a \$75 million net income goal. In the Three Year Rate Plan, LIPA proposed to adopt the Public Power Model and set fixed obligation coverage targets that increased from 1.20x coverage in 2016 to 1.45x coverage by 2019. The long-term coverage target of 1.45x of LIPA's fixed obligations (debt service plus amortization of capital leases) combined with certain cost recovery mechanisms, were deemed sufficient for LIPA to achieve a single-A rating on its debt and reduce the percentage of capital funded by debt to the low 60% range over time. The Rate Recommendation affirmed the use of the Public Power Model and the coverage targets and cost recovery mechanisms proposed by LIPA, and no other party in the case raised any concerns with this approach for LIPA to maintain sound fiscal operating practices.

LIPA staff proposes the Board formally adopt this financial policy as advised by the Authority's financial experts and recommended by the DPS in its Rate Recommendation to the Board. Adoption of this policy would put LIPA's financial planning on the same footing as the other public power authorities throughout the country and in the long run

serve to lower LIPA's cost of borrowing (interest rates) and percentage of capital borrowed (debt ratio), resulting in less debt and lower rates than would have been achieved under LIPA's current financial model.

The proposed financial policy, in lieu of the Board's current approach of budgeting to achieve \$75 million of net income in each year, states:

It is the policy of the Board of Trustees of the Long Island Power Authority to serve the long term interests of our Customers by adopting sound financial plans in each year. Sound financial plans ensure ready access to borrowing on reasonable terms, which is necessary for investments that maintain the reliability and resiliency of the Long Island electric system. Such plans contain prudent levels of borrowing and lower the long-term cost of providing electric service to our Customers. The Board will achieve these objectives by supporting bond ratings of at least A2/A from the several rating agencies within five years, achieving fixed obligation coverage ratios of no less than 1.45x on LIPA-issued debt and 1.25x on the combination of LIPA- and UDSA-issued debt, and generating sufficient cash flow from current revenues to maintain the issuance of new debt as a percentage of capital spending of 64% or lower. At all times, the Authority will maintain cash on hand and available credit of at least 120 days of operating expenses.

Proposed Reduction to Regulatory Asset Known As Acquisition Adjustment

As part of the Three-Year Rate Plan filing, LIPA staff proposed a reduction to the regulatory asset adopted by the Board at the time of the LILCO acquisition in 1998 and referred to as the Acquisition Adjustment, and to shorten its remaining life, using excess depreciation reserves⁶. This change does not impact Budgets, expenditures, or the level of Delivery Rates but does provide a more accurate view of the Authority's financial condition (specifically its debt relative to its utility plant) to stakeholders, rating agencies, and investors. This proposal was reviewed and endorsed by the DPS Staff in the Three-Year Rate Plan filing (see the testimony of the Staff Policy Overview and Revenue Requirements Panel at Tr. 545-547).

LIPA assessed the results of a Depreciation Study performed by Foster Associates, which was commissioned by National Grid under the terms of the former Management Services Agreement in 2013, and implemented the findings on a "remaining life" basis during 2014, as reported in the Authority's 2014 Audited Financial Statements. The Depreciation Study was also reviewed by DPS Staff prior to implementation in 2014. That Depreciation Study performed a detailed assessment of LIPA's property records to validate and document the estimated amount of depreciation that has been charged against LIPA's property, plant and equipment over past years and the estimated remaining useful life of such assets. The Depreciation Study resulted in extending the estimated useful lives of certain electric assets

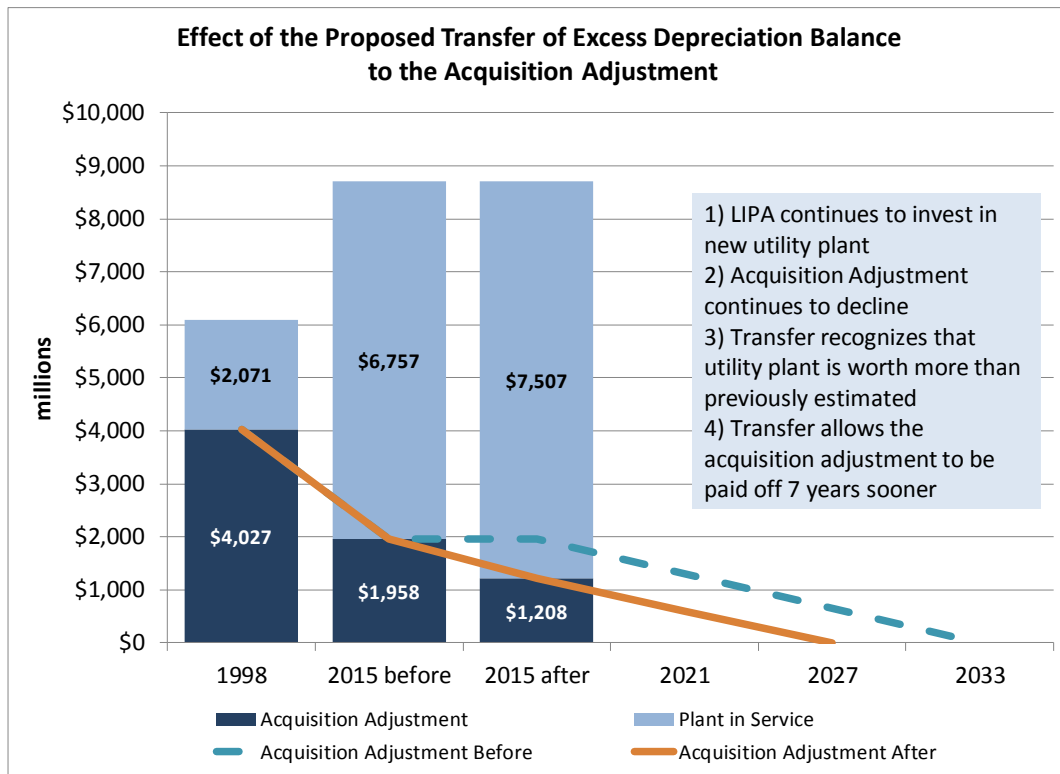
⁶ Depreciation reserves are the theoretical accumulated reduction in book value since purchase of investments in property, plant and equipment (utility plant), which is shown in the Authority's financial statements to reflect estimated age and wear of such investments; such reserves are a non-cash item and the recovery of depreciation is not a component of customer rates and charges under the Public Power Model, which instead recovers the principal and interest payments on bonds issued to fund such investments in utility plant. A reduction in depreciation reserves indicates that such utility plant has a longer useful life, and consequently a greater book value, than is currently estimated on the Authority's financial statements.

and thus reducing depreciation rates, including a finding that the aggregate (booked) depreciation reserve, as of December 31, 2014, with the new depreciation rates, had a surplus of approximately \$771 million on a plant investment base of \$6,056 million. LIPA staff expects the reserve imbalance as of December 31, 2015 to be within the range of \$730 million to \$750 million, and is awaiting Foster Associates' technical update as part of the 2015 year-end closing. LIPA staff proposes that the Board approve a reduction to the Acquisition Adjustment in the amount of the reserve imbalance as of December 31, 2015. Further information on the Authority's Utility, Plant and Equipment and the Depreciation Study can be found in Footnote 7 to the Authority's Audited 2014 Financial Statements.

In order to more accurately reflect the net book value of the Authority's depreciable utility asset base on its financial statements, LIPA staff proposed in the Three Year Rate Plan filing to: (1) adopt whole-life depreciation rates (in lieu of remaining life depreciation rates implemented in 2014) as determined by Foster Associates for 2015 and forward, and (2) transfer the surplus reserve to its long-term intangible asset, the Acquisition Adjustment (rather than amortize that surplus over the remaining life of the assets).

The net result of LIPA staff's proposal, as endorsed by DPS Staff, is shown below. As the chart indicates, when LIPA acquired the LILCO system in 1998, it purchased approximately \$2 billion in utility plant and \$4 billion in intangible assets (the difference between the purchase price and the net assets acquired from LILCO, which has been amortized to operating expense on a straight line basis over 35 years through 2033) referred to as the Acquisition Adjustment⁷. In the past 17 years, LIPA has invested heavily in utility plant to serve its customers while simultaneously amortizing the Acquisition Adjustment. Now that the Depreciation Study has determined that LIPA's plant assets have longer lives than previously estimated, and are consequently worth more, LIPA staff is recommending that the Acquisition Adjustment (which roughly reflected the difference between (i) the purchase price of LILCO and (ii) the gross utility plant less estimated depreciation in 1998) be reduced by a corresponding amount. There will be no change in the total value of LIPA's assets, but the Acquisition Adjustment will be extinguished sooner, based on its current rate of amortization. Currently the Acquisition Adjustment will be fully amortized by April 30, 2033; however, by transferring the reserve imbalance, this would accelerate the Acquisition Adjustment amortization period by approximately 6 years so that the Acquisition Adjustment would be substantially fully amortized by December 31, 2026.

⁷ The Acquisition Adjustment is sometimes colloquially referred to as the "Shoreham debt" although the amount of the Acquisition Adjustment is an accounting asset and not related to the Authority's outstanding debt.



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 presented at the meeting.

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

RECOMMENDATION OF APPROVAL OF THE 2016 OPERATING AND CAPITAL BUDGETS AND AMENDMENTS TO THE TARIFF FOR ELECTRIC SERVICE TO IMPLEMENT THE RATE RECOMMENDATION OF THE DEPARTMENT OF PUBLIC SERVICE

WHEREAS, the Long Island Power Authority (“Authority”), through its wholly owned subsidiary, LIPA, owns the electric transmission and distribution system (“T&D 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 operation and maintenance of the T&D System and for capital improvements; and

WHEREAS, the Board of Trustees received the Department 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 September 28, 2015; and

WHEREAS, on October 19, 2015, the Board of Trustees met to discuss the Department Rate Recommendation and made no finding of inconsistency; and

WHEREAS, the Three Year Rate Plan specified a financial policy to improve the Authority's bond ratings with the goal of lowering the future cost of debt to the Authority's customers which was accepted and adopted within the Rate Recommendation of the Department of Public Service dated September 28, 2015; and

WHEREAS, the Authority released its proposed 2016 Operating and Capital Budgets on November 13, 2015 and held two public comment sessions on November 20, 2015; and

WHEREAS, the latest proposed budget incorporates operating and capital budgets developed by PSEG Long Island for the operation and maintenance of the transmission and distribution system, customer services, business services, energy efficiency and renewable energy programs and power supply functions which are consistent with the Rate Recommendation of the Department of Public dated September 28, 2015; and

WHEREAS, the Rate Recommendation anticipated and authorized an update for certain known and measurable expenses to the Three Year Rate Plan (the "Update") and such Update was filed with the Department of Public Service on November 20, 2015, reducing the recommended increase by \$10.3 million in 2016, and the Department has accepted the Update as consistent with the Rate Recommendation dated September 28, 2015; and

WHEREAS, Authority staff has recommended changes to the Authority's accounting procedures with regard to the disposition of certain gains resulting from the Depreciation Study which is consistent with generally accepted accounting principles and the Rate Recommendation of the Department of Public Service dated September 28, 2015, and does not alter the annual revenues to be recovered from customers in 2016;

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the Finance and Audit Committee (the "Committee") of the Board of Trustees (the "Board") recommends that the Board approve the proposed 2016 Operating and Capital Budgets; and

BE IT FURTHER RESOLVED, that the Committee recommends that the Board adopt a resolution establishing that the authorized level of revenues for Delivery Service for purposes of calculating the Revenue Decoupling Mechanism are \$1,895,334,000 for the calendar year 2016; and

BE IT FURTHER RESOLVED, that the Committee recommends that the Board adopts the revisions to the Tariff for Electric Service that implement the Rate Recommendation of the Department of Public Service dated September 28, 2015; and

BE IT FURTHER RESOLVED, that Authority staff is authorized to take any and all actions deemed necessary to achieve the rate changes set forth herein and in the Rate Recommendation of the Department of Public Service dated September 28, 2015; and

BE IT FURTHER RESOLVED, that the Committee recommends that the Board adopts the financial policy consistent with the Rate Recommendation of the Department of Public

Service dated September 28, 2015; and.

BE IT FURTHER RESOLVED, that the Committee recommends that the Board authorizes the transfer of the surplus in the accumulated reserve for depreciation on Utility Assets to the accumulated reserve for the Acquisition Adjustment; and

BE IT FURTHER RESOLVED, that the Committee recommends that the Board adopts a resolution establishing that the Authority intends to finance the requirements of the 2016 and 2017 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.

Chair Cohen stated that the next item on the agenda is consideration of

Recommendation to Approve 2016 Financings which would be presented by Mr.

Falcone. Mr. Falcone presented the following item:

Requested Action

The Finance and Audit Committee (the “Committee”) of the Board of Trustees is being requested to approve a resolution recommending that the full Board authorize the issuance of up to \$530,000,000 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”), of which no more than \$350,000,000 in principal amount shall be such New Money Bonds, (ii) refunding outstanding variable rate bonds of the Authority (“Refunding Bonds”), including, without limitation, the Authority’s Series 2012C Bonds, as shall be determined by an authorized representative of the Authority, (iii) funding amounts due for the termination of Financial Contracts entered into in connection with any bonds or any Refunding Bonds, and (iv) 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 approve a resolution recommending that the full Board authorize the execution, delivery, reallocation, termination or amendment of one or more interest rate or basis swaps (“Financial Contracts”) relating to the Authorized Bonds or the Authority bonds authorized to be refunded as described below.

The Committee is further being requested to approve a resolution recommending that the full Board authorize the establishment of one or more lines of credit, revolving credit agreements or other credit facilities (each, a “Bank Facility”) and actions related to such financing as described below to replace an expiring Bank Facility in an amount not to exceed \$400,000,000 at any one time.

Plan of Finance

The Authority is considering issuing the Authorized Bonds for the purposes described above.

Certain of the bonds which may be refunded with the proceeds of the Authorized Bonds are secured by credit enhancements. We have concluded that it would be advantageous to obtain renewed authorization to refund a portion of the Authority's variable rate bonds with fixed or variable rate bonds backed either solely by the Authority's credit or secured by bank letters of credit or by insurance furnished by credit worthy insurers.

The Authority has determined that under current market conditions entering into one or more interest rate or basis swaps related to the refunding of certain 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 related to the Authorized Bonds with an aggregate notional amount of up to \$180,000,000. As an alternative to refunding certain bonds, the Authority could also elect to exercise its options to convert the interest rate mode applicable to such bonds to another interest rate mode and in connection with such conversion enter into a Financial Contract. 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, including without limitation, the basis swap entered into in connection with the Authority's Series 2015A Bonds, and may include interest rate risk, basis risk, settlement risk, termination risk, counterparty risk, and certain continuing covenants similar to those agreed to with the Authority's existing bank letters of credit.

The Authority has entered into interest rate or basis swaps relating to certain of the Bonds which may be refunded and we also wish to have authority to terminate, reallocate or amend such existing interest rate or basis swap agreements as described below.

The Authority is considering establishing one or more new Bank Facilities in order to fund operating and capital expenses, including refunding other Authority notes and variable rate obligations. Such Bank Facilities would replace an existing expiring Authority bank facility. The Bank Facilities would be established in a principal amount not to exceed \$400,000,000 at any one time. In the aggregate, the amount outstanding at any time under the Bank Facilities together with the Authority's commercial paper and general revenue note facilities will not exceed \$1,000,000,000. The initial term for making draws under any Bank Facility would not exceed 60 months. It is expected that the Authority will issue notes (the Notes") to evidence the obligation to repay amounts advanced to the Authority under the Bank Facilities which will be issued as senior lien obligations under the Authority's General Revenue Bond Resolution (the "General Resolution").

Authorized Bonds

The Authorized Bonds will be issued as either fixed rate or variable rate bonds or a combination thereof and sold on a negotiated basis either (i) to one or more

underwriters for resale to the public 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, remarketing agent or swap counterparty will be one of the firms approved pursuant to the Authority's most recent procurement for underwriting, investment banking and swap counterparty services, which firms include BofA Merrill Lynch, Barclays, Goldman, Sachs & Co., J.P. Morgan, Morgan Stanley, Wells Fargo Securities, BMO Capital Markets, Citigroup, Jefferies, RBC Capital Markets, Ramirez & Co. Inc., Siebert Brandford Shank & Co. LLC, and TD Securities, including affiliates of such firms. The Trustees are requested to permit the Chief Executive Officer, Chief Financial Officer or Managing Director of Finance of the Authority to designate, as necessary, the underwriters, dealers, remarketing agents, or swap counterparties, as applicable, assigned to each bond series from the above list of firms.

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 Managing Director of Finance of the Authority will be authorized to allocate such interest rate swap agreements to other Authority bonds or notes or to terminate, reallocate 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, reallocated or amended, some or all of the costs of such termination, reallocation or amendment may be funded with the proceeds of the Refunding Bonds.

Bank Facilities

The Authority's staff believes that, over time, establishment of one or more Bank Facilities to replace the existing expiring Bank Facility will help the Authority to maintain additional sources of liquidity to assist in the management of seasonal swings in cash flows. In addition, maintaining one or more Bank Facilities will continue to support the Authority's financial profile and improve the Authority's overall credit profile, which will help to maintain its credit ratings. The Authority's staff believes that maintenance of one or more Bank Facilities, together with the Authority's general revenue and subordinate lien note programs, is a cost effective way of maintaining liquidity.

The financial institutions who will participate in the Bank Facilities will be selected pursuant to a new procurement by the Authority. Any underwriter or dealer will

be one of the firms approved pursuant to the Authority's most recent procurement for underwriting, investment banking and swap counterparty services, as outlined above.

Recommendation

Based upon the foregoing, Mr. Falcone recommended approval of the above-requested action by adoption of the resolution in the form of the below resolution.

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

RECOMMENDATION TO AUTHORIZE THE ISSUANCE OF ELECTRIC SYSTEM GENERAL REVENUE BONDS, EXECUTION, REALLOCATION, TERMINATION OR AMENDMENT OF FINANCIAL CONTRACTS AND APPROVAL OF BANK FACILITIES

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"), as special obligations of the Authority in accordance with the terms thereof for, among other purposes, funding Costs of System Improvements (as defined in the General Resolution) and other lawful purposes of the Authority and refunding other Bonds 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 directly to one or more investors or financial 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 has various series of outstanding variable rate Bonds and Subordinated Bonds that may advantageously be refunded or which are subject to tender and may be required to be refunded; and

WHEREAS, the Authority wishes to authorize the issuance of Bonds for the purpose of funding Costs of System Improvements (as defined in the General Resolution) and for certain other purposes described in the hereinafter referred to Twenty-Fourth Supplemental Resolution (Bonds issued for such purpose referred to herein as the "New Money Bonds") and for the purpose of refunding all or a portion of certain outstanding variable rate Authority bonds (Bonds issued for such purpose referred to herein as the "Refunding Bonds" and collectively with the New Money Bonds, the "Authorized Bonds"), which Authorized Bonds shall be in an aggregate principal amount

not to exceed \$530,000,000, of which no more than \$350,000,000 in principal amount shall be New Money Bonds; 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-Fourth Supplemental Resolution (the "Twenty-Fourth 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 \$180,000,000 relating to all or a portion of the Authorized Bonds or, to the extent that the Authority determines to convert the interest rate mode applicable to the variable rate bonds authorized to be refunded instead of refunding the same, such bonds (hereinafter, the "Specified 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 Authority has entered into interest rate swap agreements relating to certain of the Authority's outstanding variable rate bonds (including the Specified Bonds) and, to the extent that such Specified Bonds are refunded or any other variable rate bonds are converted to a fixed interest rate, it is anticipated that such interest rate swap agreements will either be reallocated to other bonds of the Authority or terminated, as determined by the Chief Executive Officer or Chief Financial Officer; 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 by the Chief Executive Officer or Chief Financial Officer, 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 intends to solicit proposals from a number of different banks to enter into a line of credit, revolving credit agreement or other credit

facility (each, a “Bank Facility”) and, assuming acceptable proposals are received, will enter into one or more Bank Facilities with one or more financial institutions for the purpose of supporting the capital and operating needs of the Authority;

NOW, THEREFORE, BE IT RESOLVED THAT THE FINANCE AND AUDIT COMMITTEE OF THE BOARD OF TRUSTEES RECOMMENDS ADOPTION BY THE FULL BOARD OF A RESOLUTION SUBSTANTIALLY AS FOLLOWS:

The Twenty-Fourth 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, Managing Director of Finance and Budgeting, Controller and General Counsel and Secretary (the “Authorized Officers”) are each hereby authorized to deliver the Twenty-Fourth 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 the Authorized Officer, which amendments, supplements, insertions and omissions shall be deemed to be part of such resolution as approved and adopted hereby. Each Authorized Officer shall be considered an Authorized Representative (as defined in the General Resolution) with respect to the Bonds and documents related thereto, and with respect to the Bank Facilities and any documents related thereto or notes issued thereunder.

The Authorized Officers are each authorized to sell all Authorized Bonds issued on a negotiated basis either (i) to one or more underwriters for resale to the public 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 (each, a “Bond Purchase Agreement”) in substantially the forms of the bond purchase agreements executed by the Authority in connection with the issuance of the Authority’s Electric System General Revenue Bonds, Series 2015B and Series 2015C, with such modifications thereto as any Authorized Officer of the Authority, 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 Officer 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-Fourth Supplemental General Resolution and this resolution.

As and to the extent that Authorized Bonds are issued for the purpose of refunding Specified Bonds with respect to which there are existing interest rate swap agreements, the Authorized Officers are each authorized to reallocate such interest rate swap agreements to such other outstanding Authority bonds or notes, or to terminate such agreements, 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 reallocated or terminated, some or all of the costs of such reallocation or termination may be funded with the proceeds of the Refunding Bonds, as determined by such officer. Any such officer is also 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 2015A 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 are, and each of them hereby is, authorized to enter into interest rate swap agreements in an aggregate notional amount of up to \$180,000,000 relating to the Authorized Bonds or the Specified Bonds to the extent the interest rate mode applicable is converted to another authorized interest rate mode in lieu of being refunded with the Authorized Bonds, with such Qualified Counterparties (as defined in the General Resolution) as such officer may select in accordance with the Guidelines, which agreements shall (i) commence on such date or dates as an Authorized Officer specifies, (ii) have a term ending on or prior to the anticipated final maturity of the bonds to which they relate, as such Authorized Officer specifies, (iii) provide for payments to the Authority determined based upon such index, formula or method as may be approved by an 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 such financial institutions as may be selected pursuant to a procurement process to be conducted by the Authority and approved by the Trustees.

The establishment by the Authority of one or more Bank Facilities to fund capital and operating expenses of the Authority, in an aggregate principal amount not to exceed \$400,000,000 outstanding at any one time, with a group of financial institutions to be selected pursuant to a request for proposals be, and hereby is, approved.

The Bank Facilities and the notes issued thereunder may be established as and secured as senior lien Bonds or as Subordinated Indebtedness (each as defined in the General Resolution).

The Twenty-Fifth 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 Authorized Officers are each hereby authorized to deliver the Twenty-Fifth Supplemental General Resolution to The Bank of New York Mellon, as the Trustee for the bonds issued thereunder, with such amendments, supplements, changes, insertions and omissions thereto as may be approved by the 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 be, and each of them hereby is, authorized to approve, execute and deliver, under the seal of the Authority if required, such agreements, certificates and other instruments as may be determined necessary or desirable in connection with the Bank Facilities.

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 discussion of 2016 Strategic Planning Process which would be presented by Mr. Falcone and Mr. Little. Mr. Falcone and Mr. Little gave a presentation regarding 2016 Strategic Planning Process and then took questions from the Trustees.

Chair Cohen stated that the next item on the agenda is consideration of Recommendation to Approve Strategic Policies Related to (a) Debt and Access to the Credit Markets (b) Regionally Competitive Rates and Rate Design which would be presented by Mr. Falcone and Mr. Little. Mr. Falcone and Mr. Little presented the following item:

Requested Action

The Finance and Audit Committee of the Board of Trustees (the “F&A Committee”) is requested to approve a resolution recommending that the full Board adopt the proposed Statement of Policy Regarding Debt and Access to the Credit Markets (the “Debt and Credit Markets Policy”) for the Long Island Power Authority and its subsidiary, LIPA (collectively the “Authority”), which appears below.

Background on Strategic Planning Process

The F&A Committee recognizes the importance of strategic planning and, in its Charter, was delegated the responsibility of 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 approved by the Board. Such policy statements are also a key element of the Authority’s Enterprise Risk Management (“ERM”) program, which was adopted by the Board at its August 7, 2015 meeting. A proposed schedule for the development of policy statements during 2016 has been brought before the F&A Committee for its consideration. The Debt and Credit Markets Policy is one such strategic policy statement and is hereby presented for review and consideration by the F&A Committee.

History of Proposed Debt and Credit Markets Policy

Each of the major integrated public power utilities in the United States has financial targets for use in budgeting and rate setting and to provide a measure of financial results at the conclusion of each year. These financial targets are typically modeled after the rating criteria of the several rating agencies, and, as such, have many common features including

credit rating, debt/fixed obligation coverage, capitalization, and liquidity targets. A summary of the financial targets of ten of the largest integrated public power utilities in the United States was presented to the Trustees at the meeting.

The Authority's Board adopted a fiscal practice in December 2005 to budget revenues and expenses to achieve \$75 million of net income in each calendar year, starting with the 2006 Operating Budget. The Authority's historic fiscal practice – to target a level of net income – is unique among the major public power utilities. Furthermore, the Authority has the lowest credit ratings of any of the major integrated public power utilities by several credit rating notches. While the large integrated public power utilities typically have “double-A” category credit ratings, the Authority's credit ratings are “triple-B” or low “single-A,” depending on the rating agency.

On November 17, 2014, Public Financial Management (“PFM”), the Authority's financial advisor, presented a study of the Authority's financial policies to the F&A Committee, including a history of the Authority's policies, best practices in the public power industry, and the implications of the Authority's financial practices on the then upcoming rate case filing. That study noted that the Authority had the lowest credit ratings and most leveraged balance sheet of any of its peer utilities by a significant degree, and recommended that the Authority adopt financial targets that focused on the lowest electric rates consistent with sound long-term financial operations. Accordingly, the financial policies recommended by PFM, which were further elaborated on in Authority staff testimony filed in conjunction with the Three-Year Rate Plan⁸, were set to obtain mid single-A bond ratings within five years, which would place the Authority's credit ratings at the low end of the range of credit ratings of its peer utilities. To do so, PFM recommended that the Authority, among other things, set rates using the Public Power Model, which is the budgeting and rate setting method used by other large public power utilities in the industry. The Authority would budget to achieve cash flow in excess of all current operating costs and debt payments at a level of “coverage” sufficient to obtain single-A bond ratings and reduce the percentage of capital expenditures funded by debt, thereby reducing future debt and customer rates from those that would prevail under existing Authority practices. This financial policy would be in lieu of the Authority's past fiscal practice of targeting \$75 million net income.

In the Three-Year Rate Plan filing on January 30, 2015, the Authority proposed to adopt the Public Power Model and set fixed obligation coverage targets (debt service plus amortization of capital leases) that increased from 1.20x coverage in 2016 to 1.45x coverage by 2019. The long-term coverage target of 1.45x of the Authority's fixed obligations combined with certain cost recovery mechanisms was deemed sufficient for the Authority to achieve a mid single-A rating on its debt and reduce the percentage of capital investments funded by debt to 64% or less over time. In addition, the Authority would maintain a fixed obligation coverage ratio of at least 1.25x on all its sources of debt (including the Utility Debt Securitization Authority). The Rate Recommendation received on September 28, 2015 from the DPS affirmed the use of the Public Power Model and the coverage targets and cost recovery mechanisms proposed by the Authority, and no party in the case raised any concerns with the Authority's financial approach.

⁸ Further information related to the Three-Year Rate Plan filing can be found on the Department of Public Service (“DPS”) website (www.dps.ny.gov) under PSEG Long Island Electric Rate Case # [15-00262](#).

Authority staff proposes that the Board formally adopt this financial policy as advised by the Authority's financial experts and recommended by the DPS in its Rate Recommendation. Adoption of this policy would put the Authority's financial planning on the same footing as the other major public power authorities and in the long run serve to lower the Authority's cost of borrowing (interest rates) and percentage of capital borrowed (debt ratio), resulting in less debt and lower electric rates than would have been achieved under the Authority's current financial model.

Debt and Credit Markets Policy

The proposed financial policy states:

It is the policy of the Board of Trustees of the Long Island Power Authority to serve the long term interests of the Authority's customers by adopting sound financial plans in each year. Sound financial plans ensure ready access to borrowing on reasonable terms, which is necessary for the investments that maintain the reliability and resiliency of the Long Island electric system. Such plans contain prudent levels of borrowing and lower the long-term cost of providing electric service to our customers.

The Board will achieve these objectives by:

- supporting bond ratings of at least A2/A from the several rating agencies within five years;
- achieving fixed obligation coverage ratios of no less than 1.45x on Authority-issued debt and 1.25x on the combination of Authority- and UDSA-issued debt; and
- generating sufficient cash flow from current revenues to maintain the issuance of new debt as a percentage of capital spending of 64% or lower.

At all times, the Authority will maintain cash on hand and available credit of at least 120 days of operating expenses.

Metrics for Debt and Access to Credit Markets Policy

Annually, the Authority staff will present an evaluation of the Authority's Debt and Credit Markets Policy to the F&A Committee, which evaluation should demonstrate progress made during the preceding year using specific examples and, whenever possible, quantifiable measurements of that performance.

As set forth above, Authority staff proposes that the primary metrics for annual evaluation of the Debt and Credit Markets Policy should be the fixed obligation coverage ratios, percentage of capital spending funded by debt, and minimum days of operating expenses maintained as cash and available credit that are targeted in the policy. Viewed over several years, the Authority's credit ratings received from the three major credit rating agencies, Standard & Poor's, Moody's Investors Service, and Fitch Ratings, should also be reviewed for progress towards achieving the targeted bond ratings of no lower than A2/A from each agency.

As part of its review of any annual evaluation, the F&A Committee will consider, with the advice of Authority staff and the Authority's financial advisor, whether any updates or revisions should be made to the respective policy statement to better achieve the Authority's objectives.

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 presented at the meeting.

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

RECOMMENDATION OF APPROVAL OF STATEMENT OF POLICY REGARDING DEBT AND ACCESS TO CREDIT MARKETS

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

WHEREAS, the F&A Committee has considered the strategic planning process recommended by Authority staff; and

WHEREAS, the F&A Committee recognizes that adopting financial planning policies that ensure ready access to the financial markets and support the earning of a strong bond rating is in the long-term interest of its customers; and

WHEREAS, the F&A Committee has considered and is in agreement with the Policy Regarding Debt and Access to Credit Markets set forth in the accompanying memorandum:

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the proposed Policy Regarding Debt and Access to Credit Markets, in the form contained in the accompanying memorandum, is hereby recommended for approval by the full Board; and

BE IT FURTHER RESOLVED, that the F&A Committee recommends that the Policy Regarding Debt and Access to Credit Markets be subject to annual review and evaluation by the F&A Committee in accordance with the accompanying memorandum.

Mr. Falcone and Mr. Little presented the following item:

Requested Action

The Finance and Audit Committee of the Board of Trustees (the “F&A Committee”) is requested to approve a resolution recommending that the full Board adopt the proposed Statement of Policy Regarding Regionally Competitive Rates and Rate Design (the “Competitive Rates Policy”) for the Long Island Power Authority and its subsidiary, LIPA (collectively the “Authority”).

Background on Strategic Planning Process

The F&A Committee recognizes the importance of strategic planning and, in its Charter, was delegated the responsibility of 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 approved by the Board. Such policy statements are also a key element of the Authority’s Enterprise Risk Management (“ERM”) program, which was adopted by the Board at its August 7, 2015 meeting. A proposed schedule for the development of policy statements during 2016 has been brought before the F&A Committee for its consideration. The Competitive Rates Policy is one such policy statement and is hereby presented for review and consideration by the F&A Committee.

Background on the Competitive Rates Policy

The level of the Authority’s rates is a key concern of our customers and other stakeholders. Through the Competitive Rates Policy, the Authority seeks to set reasonable objectives for its electric rates and to evaluate its electric rates and their rate of change over time relative to other similar utilities. Such reasonable objectives would reflect factors that are within the control of the Authority and would compare the Authority’s rates with the performance of utilities that are facing similar external conditions and policy objectives regarding service quality, supply options and efficiency and renewable goals.

There are four regional utilities in the downstate New York and Connecticut region that surround the Authority’s service territory and most closely resemble the costs and power/gas supply options of the Authority: Consolidated Edison, Orange & Rockland, United Illuminating, and Connecticut Light and Power. These four regional utilities, like the Authority, rely chiefly on gas supply from the Transco Zone 6 (NY) and Iroquois Zone 2 pipelines. Since natural gas is the major fuel for generation serving the Authority, and since the prices for natural gas delivered into the New York and southern Connecticut

markets are notably higher than prices in New Jersey or other parts of the country, these four utilities share common features with Long Island that do not apply to utilities in New Jersey or upstate New York. In addition, these four utilities all serve urban/suburban service territories and face comparable property tax burdens on utility service. Therefore, these four utilities are considered to be similarly situated for purposes of this policy. By extension, the utilities serving New Jersey are not included in the peer group because they have access to significantly different natural gas supply, face significantly different policy goals regarding retail competition, energy efficiency and renewable resources, and do not experience property tax burdens in the same manner as New York and Connecticut utilities. It is also worth noting that less than 20% of Long Island's power supply comes from the PJM system in New Jersey through the Neptune Cable.

The proposed Competitive Rates Policy also includes rate design objectives as the design of rates can affect customer bills and energy decisions as much as the overall level of rates. The proposed rate design objectives are widely recognized as appropriate principles that promote the economic use of electricity and balance customer acceptance with the interests of all customer groups, and especially those customers that do not participate in, but often have to pay the costs of, various programs and rate incentives that are considered from time to time as part of policy discussions.

Competitive Rates Policy

Maintaining regionally competitive rates and an appropriate rate design is a core objective of the Authority. The Authority's electric rates should be set at the lowest level consistent with sound fiscal and operating practice, ensuring quality service efficiently rendered. As reasonable objectives:

- The Authority's electric rates should be competitive with the published rates on a system average basis of other regional utilities that surround the Authority's service territory and most closely resemble the costs and power/gas supply options of the Authority, in that they rely chiefly on gas supply from the Transco and Iroquois pipelines, including: Consolidated Edison, Orange & Rockland, United Illuminating, and Connecticut Light and Power.
- Changes in the Authority's rates and bills should be competitive with other local utilities on a system average basis over the long term. In any short term period, there may be variations due to the timing of fuel and purchased power costs, resource additions, changes to delivery rates, or other needs that cause fluctuations in the Authority's system average cost relative to other utilities.
- Rates should, consistent with prudent utility practice: be simple and easy to understand; equitably allocate costs across and within customer classes, taking into consideration the cost to provide service; and where possible, be consistent with statewide policies. In addition, in order to promote the goals of Reforming the Energy Vision⁹, rates should be designed to encourage the most efficient use of

⁹ Further information related to the Reforming the Energy Vision proceeding at the State Public Service Commission can be found on the Department of Public Service website (www.dps.ny.gov).

utility plant. This goal may be achieved by, among other things, reflecting the cost of energy at the time it is used, reducing on-peak use, and encouraging energy efficiency and conservation.

Metrics for Competitive Rates Policy

Annually, the Authority staff will present an evaluation of the Competitive Rates Policy to the F&A Committee which should demonstrate progress made during the preceding year using specific examples and, whenever possible, quantifiable measurements.

As set forth above, Authority staff proposes that the Competitive Rates Policy be evaluated against the four regional utilities that most closely resemble the costs, policy objectives, and power/gas supply options of the Authority: Consolidated Edison, Orange & Rockland, United Illuminating, and Connecticut Light and Power. For purposes of comparison, the relevant metrics on a system average basis as of August 2015 (the most recent data available from EIA) were as follows:

<u>Utility</u>	12 months ending August 2015		Rate of Change				
	Total Rate cents/kwh	Compared to LIPA	Last 12 Months	2011- 2014	2009- 2014	2004- 2014	1997- 2014
Consolidated Edison Co-NY Inc	24.11	33%	1%	10%	19%	48%	83%
United Illuminating Co	22.60	25%	17%	-4%	20%	72%	72%
Orange & Rockland Utils Inc	19.37	7%	12%	31%	41%	77%	110%
Connecticut Light & Power Co	19.30	7%	25%	4%	-10%	73%	67%
Long Island Power Authority	18.10	0%	-8%	2%	5%	32%	27%
Average (weighted by kWhs)	20.69	14%	9%	9%	15%	60%	72%

Source: EIA Form 826

As part of its review of any annual evaluation, the F&A Committee will consider, with the advice of Authority staff and the Service Provider where appropriate, whether any updates or revisions should be made to the respective policy statement.

Recommendation

Based upon the foregoing, Mr. Falcone and Mr. Little recommended approval of the above requested action by adoption of a resolution in the form of the draft resolution below.

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

RECOMMENDATION OF APPROVAL OF STATEMENT OF POLICY OF REGIONALLY COMPETITIVE RATES AND RATE DESIGN

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

WHEREAS, the F&A Committee has considered the strategic planning process recommended by Authority staff; and

WHEREAS, the F&A Committee recognizes that maintaining regionally competitive rates and rate design is a core objective of the Authority; and

WHEREAS, the F&A Committee has considered and is in agreement with the Competitive Rates Policy set forth in the accompanying memorandum:

NOW, THEREFORE, BE IT RESOLVED, that consistent with the accompanying memorandum, the proposed Competitive Rates Policy, in the form contained in the accompanying memorandum, is hereby recommended for approval by the full Board; and

BE IT FURTHER RESOLVED, that the F&A Committee recommends that the Competitive Rates Policy be subject to annual review and evaluation by the F&A Committee, including with respect to the metrics set forth in the accompanying memorandum.

Chair Cohen then entertained a motion to adjourn, which was duly made and seconded, after which the meeting concluded at approximately 9:04 a.m.