

ANNUAL CONTINUING DISCLOSURE REPORT

OF THE

LONG ISLAND POWER AUTHORITY

For 2016

As Required By Certain

Continuing Disclosure Certificates

Executed With Respect To The Following Bonds:

**Electric System General Revenue Bonds, Series 1998A
Electric System General Revenue Bonds, Series 2000A
Electric System General Revenue Bonds, Series 2003C
Electric System General Revenue Bonds, Series 2008B
Electric System General Revenue Bonds, Series 2009A
Electric System General Revenue Bonds, Series 2010B
Electric System General Revenue Bonds, Series 2011A
Electric System General Revenue Bonds, Series 2012A-B
Electric System General Revenue Bonds, Series 2014A-C
Electric System General Revenue Bonds, Series 2015B-C
Electric System General Revenue Bonds, Series 2016B**

(See Appendix A for a List of Applicable CUSIP* Numbers)

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CONTINUING DISCLOSURE ANNUAL REPORT

of the

LONG ISLAND POWER AUTHORITY

For 2016

As Required By Certain

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INTRODUCTION

This Annual Continuing Disclosure Report for the year ended December 31, 2016 (together with the Appendices attached hereto, the “Annual Report”) is furnished by the Long Island Power Authority, a corporate municipal instrumentality and political subdivision of the State of New York (the “Authority”) as required by the various Continuing Disclosure Certificates described below (the “Continuing Disclosure Certificates”). It provides information relating to the Authority and its wholly-owned subsidiary, the Long Island Lighting Company (“LILCO”) which does business on Long Island, New York (“Long Island”) under the names LIPA and Power Supply Long Island (“LIPA”). The Authority, acting through LIPA, provides electric service in its service area (the “Service Area”) which includes two counties on Long Island — Nassau County (“Nassau County”) and Suffolk County (“Suffolk County”) (except for the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport, each of which has its individually-owned municipal electric system) — and a portion of the Borough of Queens of The City of New York known as the Rockaways.

This Annual Report is being filed to satisfy the Authority’s undertakings under the Continuing Disclosure Certificates executed and delivered by the Authority relating to the bonds set forth on the cover hereof.

Attached to this Annual Report as Appendix A is a listing of the CUSIP* numbers of the bonds of the Authority listed above to which the Continuing Disclosure Certificates and this Annual Report relate.

Certain of the information contained in this Annual Report is in addition to that required by the Continuing Disclosure Certificates. Pursuant to the terms of the Continuing Disclosure Certificates, the Authority is under no obligation to update such additional information in the future or include it in any future annual report.

RECENT DEVELOPMENTS

Reforming the Energy Vision, the Clean Energy Standard and the Zero-Emissions Credit Requirement

The New York Public Service Commission (“PSC”) commenced its Reforming the Energy Vision (or “REV”) initiative to transform New York State’s energy industry and regulatory practices in April 2014. Reports as well as additional REV information are available on the Department of Public Service (“DPS”), which is the staff arm of PSC, website at <http://www.dps.ny.gov/>. Information on that website is not included herein.

In June 2015, the New York State Energy Planning Board released its 2015 State Energy Plan (the “SEP”). The SEP coordinates state agencies that touch energy policy to advance the REV strategy. The plan reflects the following goals for New York State to meet by 2030: a 40 percent reduction in greenhouse gas emissions from 1990 levels; 50 percent of electric generation from renewable energy sources; and a 23 percent decrease in energy consumption in buildings from 2012 levels. Also, New York State has announced goals to reduce greenhouse gas emissions 80 percent below 1990 levels by 2050. In January 2016, the PSC expanded the scope of its REV proceeding to include consideration of a clean energy standard (“CES”). In August 2016, the PSC issued an Order Adopting a Clean Energy Standard. Subsequent CES implementation orders from PSC are also expected. The CES is divided into a Renewable Energy Standard (“RES”) and a Zero-Emissions Credit (“ZEC”) requirement. In the CES Order, the PSC requires each New York load serving entity (“LSE”) to serve its retail customers (the Order assumes Authority customer participation) by procuring new renewable resources, evidenced by the procurement of qualifying RECs at incrementally larger percentages for the years 2017 through 2030, with sufficient lead time for the load serving entities to incorporate the changes into their planning processes. The load serving entities will be able to meet their obligations by purchasing RECs from NYSERDA, by purchasing qualified RECs from other sources, or by making alternative compliance payments to NYSERDA. Resources eligible to produce RECs will be resources that came into operation after January 1, 2015, and that meet the eligibility criteria set forth in the Order.

The PSC also proposes that each LSE, including the Authority, be required to encourage the preservation of the environmental values or attributes of qualified zero-emissions nuclear-powered electric generating facilities for the benefit of the electric system, its customers and the environment by purchasing an amount of ZECs per year of the total amount of ZECs purchased by NYSERDA in proportion to the electric energy load served by the applicable LSE in relation to the total electric energy load served by all LSEs in the applicable New York control area. At its September 21, 2016 meeting, the Authority Trustees authorized the necessary agreements with NYSERDA for the purchase of ZECs and to receive its appropriate share of such revenues for its ownership interest in NMP2. The Authority’s staff currently expects that the cost to the Authority for its purchase of ZECs will be approximately \$49 million in 2017 (nine months) and \$65 million for the full calendar year 2018. Thereafter, costs could increase with the projected social cost of carbon as determined by the federal government or decrease with forecasted wholesale market prices, as outlined in the Order. Staff expects that the Authority would receive annual revenue of approximately \$15 million (nine months) in 2017 and \$20 million for the full calendar year 2018 and each year thereafter until 2029 for its ownership interest in NMP2.

In January 2016, the PSC also established a benefit cost analysis framework that will apply to, among other things, utility proposals to make investments that could instead be met through Distributed Energy Resources (“DER”) alternatives that meet all applicable reliability and safety requirements. The PSC is conducting additional proceedings to consider certain REV-related matters, including proceedings on DER valuation and net energy metering.

While the Authority is not a regulated utility subject to the PSC’s jurisdiction, it has been and expects to continue to monitor the REV proceeding closely and review and evaluate orders put forth by the PSC and implemented by the investor-owned utilities to develop and recommend a plan of action by the Authority consistent with REV goals and objectives. The Authority is not able to predict the outcome of the REV proceeding or related proceedings or their impact on the business, operations or financial condition of the Authority.

Integrated Resource Plan and Repowering Studies

PSEG Long Island conducted an Integrated Resource Plan (“IRP”) that concluded in early 2017, which analyzed the generation and transmission investments LIPA may need to initiate over the next 20

years (2016-2035), which included a 10-year action period (2016-2025). Decisions on needs identified beyond the next several years will be deferred until after a future IRP study, as changing electric grid conditions could alter future investment.

The forecasted need for power plants in 2030 on Long Island has declined by 1,700 megawatts (24%) since 2013, the equivalent of 3-5 large baseload central station power plants. This reduction is primarily due to greater adoption of energy efficiency as well as rooftop solar, and is consistent with state and national trends. As described above, New York has adopted a 50 percent renewable by 2030 goal, which dictates that each electric utility supply an increasing share of its energy needs each year from renewable generation. For Long Island, this means adding approximately 800 megawatts of new renewable generation by 2030, enough to power approximately 350,000 homes. Additionally, based on the IRP, LIPA now expects energy efficiency programs and advancements to reduce the need for generation by 950 megawatts by 2030.

In addition to PSEG Long Island's IRP, LIPA reviewed the Caithness II proposal to build a new plant, as well as feasibility studies of the repowering proposals for both Port Jefferson and E.F. Barrett. As a result of LIPA's excess generation capacity reflected in the IRP, the conclusion is that LIPA has no need to build new baseload power plants or repower existing steam plants.

The Brattle Group provided an independent second opinion on PSEG Long Island's reliability planning criteria and analyses of proposals for certain combined cycle plants (Caithness II and the repowerings of the Barrett and Port Jefferson steam plants). DPS also participated in the Brattle Group review and provided a supportive recommendation to LIPA. Other Long Island constituents including certain business and environmental organizations have also been supportive.

As a result of the IRP, Repowering Studies and Brattle Group review, the Authority's staff made the following recommendations: monitor Long Island energy and peak demand growth each year and the operating performance and budgets of generation plants relative to expectations; evaluate opportunities for economies of scale in offshore wind by partnering with NYSERDA and other local utilities in procurement and interconnection to the electric grid; maintain energy efficiency programs to reduce load by 950 megawatts through 2030 and ongoing efforts for fair property tax reductions on existing plants that reflect their past and forecasted decline in use; study the peaking generation fleet and its ability to accommodate the flexible operating profile required by greater amounts of renewable generation and selected retirements and modernization of peaking units; cancel the 2010 Generation RFP with no award and any further study of the combined cycle repowering proposals for the Barrett and Port Jefferson plants; and conduct technology neutral competitive procurements (e.g. peaking plants, batteries, demand response, etc.) to meet future identified needs, including utilizing rights to the National Grid brownfield power plant sites to obtain bids by multiple developers and a repowering study of the Northport steam plant commencing October 2018, as required by law.

South Fork Wind

On June 25, 2015, PSEG Long Island issued the South Fork RFP to acquire sufficient local resources to meet expected peak load requirements. Consistent with the goals of the REV initiative, all technologies capable of meeting the desired objectives were invited to bid. In January 2017, the Authority Trustees approved the execution of a power purchase agreement with Deepwater Wind South Fork, LLC ("Deepwater"), a wholly owned subsidiary of proposer, Deepwater Wind, LLC, to purchase energy, installed capacity, renewable attributes and ancillary services from Deepwater's proposed South Fork Wind Farm. The South Fork Wind Farm will be among the first offshore wind farms constructed in the U.S. and the largest to date.

Authority Management

The Authority's Executive Management team includes the following: Chief Executive Officer (Thomas Falcone); Chief Financial Officer (Joseph A. Branca) General Counsel and Secretary (Jon R. Mostel); Vice President of Operations Oversight (Rick Shansky); Vice President of Financial Oversight (Kenneth Kane); Vice President of Policy and Strategy (Bobbi O'Connor); Chief Information Officer (Mark Berger); Controller (Donna Mongiardo); Director of Human Resources and Administration (Barbara Ann Dillon); Director of Audit (Kathleen Mitterway); Director of Customer Service Oversight and Stakeholder Relations (Michael Deering); Director of Rates and Regulation (Justin Bell); Special Counsel for Ethics, Risk and Compliance (James Miskiewicz); and Director of Public Information (Sidhartha Nathan).

Utility Debt Securitization Authority

The Utility Debt Securitization Authority ("UDSA") is a special purpose corporate municipal instrumentality, body corporate and politic, political subdivision and public benefit corporation of the State of New York, created by Part B of Chapter 173, Laws of New York, 2013 (the whole of Chapter 173, Laws of New York, 2013, as amended by Chapter 58 of the Laws of New York, 2015, the "LIPA Reform Act" and Part B thereof, the "Securitization Law"). Prior to being amended in 2015, the Securitization Law permitted only one issuance of restructuring bonds by UDSA, and that issuance took place in December 2013. The Securitization Law, as amended, permits the Authority's Board of Trustees to adopt additional financing orders to, among other things, authorize the creation of additional restructuring property and the issuance of additional restructuring bonds secured by such additional restructuring property in an aggregate amount not to exceed \$4.5 billion (inclusive of the \$2,022,324,000 previously-issued 2013 Restructuring Bonds (the "2013 Restructuring Bonds"), the \$1,002,115,000 previously-issued 2015 Restructuring Bonds (the "2015 Restructuring Bonds"), the \$636,770,000 previously-issued 2016A Restructuring Bonds (the "2016A Restructuring Bonds") and the \$469,320,000 previously-issued 2016B Restructuring Bonds (the "2016B Restructuring Bonds"). As of the date hereof, the aggregate principal amount of additional restructuring bonds that may be issued pursuant to the Securitization Law, as amended, is \$369,471,000.

OPERATING RESULTS

The operating results of the Authority and LIPA for the years ended December 31, 2016 and 2015 are contained in the audited basic financial statements included as Appendix B hereto.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2016

Management's Discussion of Financial Condition and Consolidated Results of Operations for the year ended December 31, 2016 is contained in Appendix B hereto and is incorporated by reference herein.

CAPITAL IMPROVEMENT PLAN

Capital expenditures for 2016 were approximately \$532 million of which \$330 million was spent on transmission and distribution projects including reliability enhancements, capability expansion, new customer connections, facility replacements and public works, \$34 million was spent on information technology projects, \$140 million was spent on FEMA-related storm hardening (described below) and \$28 million was spent on customer operations, other facilities, and other items. Capital expenditures for the 2017 approved budget are approximately \$683 million. The increase is primarily from an additional

\$69 million for transmission and distribution reliability projects and \$49 million to fund a portion of a \$730 million storm hardening program, 90% of which will be paid for by a grant secured during 2014 from Federal Emergency Management Agency (“FEMA”). The FEMA grant is expected to be sufficient to harden between 300 and 400 of the worst performing mainline circuits on the Authority’s electric grid over the next several years, increase distribution system automation, and elevate critical equipment in certain substations, among other improvements intended to improve reliability and performance in connection with major weather events.

LIPA’s 18 percent share of capital expenditures for NMP2 during the period 2012 through 2016 averaged approximately \$28 million annually for plant modifications, including the power uprate and nuclear fuel purchases, and were \$12 million for 2016. LIPA’s 18 percent share of capital expenditures for NMP2 are budgeted for \$22 million for 2017.

SYSTEM LOADS AND RESOURCES

Historical Power and Energy Requirements

Electricity usage patterns and seasonal weather conditions in LIPA’s service area result in maximum electrical demand during the summer season and relatively low load factors on an annual basis. The table below shows LIPA’s peak demand and weather-normalized peak load for the period 2012 through 2016.

<u>Year</u>	<u>Peak Demand (MW)</u>	<u>Weather Normalized (MW)</u>
2012	5,333	5,251
2013	5,602	5,334
2014	4,859	5,338
2015	5,049	5,285
2016	5,212	5,283

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The following table sets forth historical annual peak demands and energy requirements for the period 2012 through 2016.

Historical Loads and Resources					
	2012	2013	2014	2015	2016
Annual Peak Demand (Summer) (MW) ¹	5,333	5,602	4,859	5,049	5,212
Capacity (MW) ²					
Nuclear ³	224	224	224	224	224
Purchased Capacity:					
GENCO					
GENCO Steam.....	2,354	2,366	2,364	2,356	2,339
GENCO Other.....	1,313	1,313	1,315	1,330	1,349
Other LIPA Contracts					
Other Purchased Capacity ⁴	2,104	2,111	1,979	1,909	1,870
Total Purchased Capacity	5,771	5,790	5,658	5,595	5,558
Total Capacity.....	5,995	6,014	5,882	5,819	5,782
Annual Reserve Margin:					
MW ⁵	662	412	1,023	770	570
Percent	12.4%	7.4%	21.1%	15.3%	10.9%
Energy (MWh)					
Retail Requirements.....	21,312,015	21,345,713	20,785,497	21,060,517	20,963,562
Total Energy Requirements ⁶	21,312,015	21,345,713	20,785,497	21,060,517	20,963,562
Generating Resources:					
Nuclear ³	1,470,928	1,954,492	1,754,463	1,986,063	1,813,889
Purchased Energy:					
National Grid PSA					
Steam.....	5,002,617	4,564,959	4,386,671	4,880,721	4,331,645
Other	256,264	258,540	171,720	170,206	229,935
Other Purchased Energy	14,582,206	14,567,722	14,472,643	14,023,527	14,588,093
Total Purchased Energy	19,841,087	19,391,221	19,031,034	19,074,454	19,149,673
Total Energy	21,312,015	21,345,713	20,785,497	21,060,517	20,963,562

1 Includes LIPA retail sales and Long Island Choice. BNL Hydro excluded.

2 Summer Rating (“ICAP”).

3 The actual generation attributable to LIPA’s 18% ownership interest in NMP2.

4 Includes on- and off-Island resources under contract at time of peak. Including but not limited to the resources of the contract.

5 Equal to Capacity less Demand.

6 Amounts shown for 2012 through 2016 include sales for resale, Power for Jobs (program ended June 2012), Long Island Choice and Grumman Campus.

Existing Power Supply Resources

National Grid provides capacity and energy from its oil and gas fired generating plants located on Long Island (herein referred to as “GENCO”) pursuant to the Amended and Restated Power Supply Agreement (“A&R PSA”). The A&R PSA commenced May 28, 2013 and expires April 30, 2028. The table shown above sets forth the historical annual contribution of the GENCO facilities, the NMP2 facility (“Nuclear”), and Independent Power Producers on Long Island and elsewhere. Combined, these resources were able to provide the service area’s capacity and energy requirements during the 2012 through 2016 period. See above under “RECENT DEVELOPMENTS – *Integrated Resource Plan and Repowering Studies*” for a description of the Authority’s plan for meeting its future electric system needs.

The table below contains a summary of existing power supply agreements.

Summary of Power Supply Agreements⁽¹⁾

Unit Name	Summer Capacity (MW)	Contract Expiration	Unit Type⁽²⁾	Primary Fuel Type
GENCO				
Steam Turbine	2,347.9	2028	ST	Natural Gas ⁽³⁾
Internal Combustion/Simple Cycle	1,360.1	2028	IC/SC	Natural Gas/Oil
Huntington Resource Recovery ⁽⁹⁾	24.1	2022	ST	Refuse
Babylon Resource Recovery ⁽⁹⁾	14.5	2022	ST	Refuse
Hempstead Resource Recovery ⁽⁹⁾	73.9	2022	ST	Refuse
Islip Resource Recovery ⁽⁹⁾	8.8	2022	ST	Refuse
J-Power Shoreham	90	2017 ⁽¹¹⁾	SC	Oil ⁽⁴⁾
National Grid Glenwood Landing	79.9	2027	SC	Natural Gas ^(3,4)
National Grid Port Jefferson	79.9	2027	SC	Natural Gas ^(3,4)
NextEra Bayswater	53.9	2020	SC	Natural Gas ⁽⁴⁾
NextEra Jamaica Bay	54.1	2018	SC	Oil ⁽⁴⁾
J-Power Edgewood	90	2018	SC	Natural Gas ⁽⁴⁾
Bear Swamp ⁽¹⁰⁾	100.0 ^(1b, 5)	2021	PS/Hydro	Water
Marcus Hook ⁽¹⁰⁾	685.0 ^(1b, 6)	2030	CC	Natural Gas
Calpine Bethpage 3	77.8	2025	CC	Natural Gas ⁽⁴⁾
Hawkeye Greenport	52.8	2018	SC	Oil ⁽⁴⁾
J-Power Equus	47.5	2017	SC	Natural Gas ^(3,4)
J-Power Pinelawn	75.9	2025	CC	Natural Gas ^(3,4)
Caithness	276.3 ⁽⁷⁾	2029	CC	Natural Gas ^(3,4)
Village of Freeport	10.0 ^(1b)	2034	SC	Natural Gas
NYPA Hydro Sale for Resale (BNL)	15.0 ^(1b)	2020	HY	Water
Long Island Solar Farm (LISF)	31.5 ^(1a)	2031	SL	Solar
Eastern Long Island Solar Project (ELISP)	11.2 ^(1a)	2032	SL	Solar
Fitzpatrick	N/A ⁽⁸⁾	2017	ST	Nuclear
Brookfield	N/A ⁽⁸⁾	2019	HY	Water
PPL Energy Plus	N/A ⁽⁸⁾	2019	IC	Landfill/Methane

- (1) Summer capacity based upon summer 2016 Dependable Maximum Net Capacity (“DMNC”) test results
(a) LISF and ELISP are nominal capacity values.
(b) Contracted Capacity.
- (2) CC = Combined Cycle; ST = Steam; Cogen = Cogeneration; IC = Internal Combustion; SC = Simple Cycle; PS = Pumped Storage; HY = Hydro; SL = Solar.
- (3) Also capable of burning oil.
- (4) LIPA is responsible for fuel procurement.
- (5) Reflects Unforced capacity (“UCAP”) stated in contract beginning June 2010.
- (6) Capacity only contract. No energy purchase.
- (7) LIPA agreement to purchase 266.2 MW of the 309.0 MW total capacity.
- (8) Energy only contract.
- (9) SC11 Tariff for Qualifying Facilities pursuant to the federal Public Utilities Regulatory Policy Act.
- (10) LIPA has long term contracts with Cross Sound Cable Company (330 MW DC, expires 2032) and Neptune Regional Transmission System (660 MW DC, expires 2027) to deliver capacity associated with Bear Swamp and Marcus Hook facilities identified above, as well as deliver energy purchases from ISO-New England Inc. and PJM (a regional transmission organization operating a transmission grid running from Illinois to New Jersey and south to Virginia, respectively).
- (11) On May 24, 2017 the LIPA Board of Trustees approved a contract extension for the J-Power Shoreham facility until 2020. The contract amendment is under review by the New York State Attorney General and the Office of the New York State Comptroller.

RATES AND CHARGES

The statute which created the Authority requires that any bond resolution of the Authority contain a covenant that it will at all times maintain rates, fees or charges sufficient to pay the costs of operation and maintenance of facilities owned or operated by the Authority; payments in lieu of taxes; renewals, replacements and capital additions; the principal of and interest on any obligations issued pursuant to such resolution as the same become due and payable; and to establish or maintain any reserves or other funds or accounts required or established by or pursuant to the terms of such resolution.

Rate Tariffs and Adjustments

LIPA's base retail electric rates generally reflect traditional rate designs and include fixed customer charges for all customer classes, seasonal energy rates for all customer classes except street lighting, and seasonally differentiated demand charges for non-residential customer classes (greater than seven kW). Economic development and load retention incentives are provided to a small number of commercial customers. Miscellaneous service charges, pole attachment charges, and wireless rental rates are also assessed on a monthly basis. In addition to the base delivery service charges, the Authority's charges include a Power Supply Charge, a PILOT payments recovery rider (described below), a rider providing for the recovery of the Suffolk Property Tax Settlement, a DER Charge to recover the costs of LIPA's customer-side programs (formerly known as the Energy Efficiency and Renewable Resource Charge), a Revenue Decoupling Mechanism (described below), a Delivery Service Adjustment Charge (described below) and the New York State Assessment Charge to recover the cost of the Temporary State Energy and Utility Conservation Assessment and Department of Public Service Assessment (authorized by Public Service Law Section 18-a and the LIPA Reform Act).

Power Supply Charge

Over the past few years, LIPA has regularly modified the Power Supply Charge in response to changes in fuel and purchased power prices. Prior to 2011, those changes were limited to a few times per year. In 2011 and 2012, the need to change the Power Supply Charge was evaluated quarterly. In October 2012, the Power Supply Charge tariff was modified to allow for 100% recovery of LIPA's power supply costs and to transition from a quarterly update process to a monthly basis consistent with the other major New York state electric utilities. Effective January 2017, the Power Supply Charge was further modified to recover the costs the Power Supply Agreement (PSA), operating expenses associated with the Authority's ownership share of Unit 2 of the Nine Mile Point Nuclear Generating Station, and certain taxes on Long Island power plants under contract to LIPA. These costs were previously recovered through the Authority's base delivery charges. The January 2017 tariff revision also specifically authorized recovery of the costs associated with LIPA's compliance with the State's CES, RECs and ZECs.

PILOTs

The Act also requires the Authority to make payments in lieu of taxes, i.e., PILOTs, related to revenues and to property taxes. The Authority makes payments in lieu of taxes to municipalities and school districts on Authority owned property equal to the property taxes that would have been received by each such jurisdiction from LILCO if the acquisition by the Authority had not occurred. Such PILOTs are recovered in the Authority's base rates or through the Power Supply Charge for certain PILOTs related to power generation stations under power supply agreements. As described below, the Authority's base rates are adjusted annually through a Staged Update for the term of the three-year rate plan for the

actual amount of anticipated property tax PILOT payments on Authority owned property. Additionally, as described below, property tax expense that is reimbursed to National Grid related to the GENCO units are recovered in the actual amount paid pursuant to the Delivery Service Adjustment. Part A of the LIPA Reform Act limits the increase in PILOTs assessed by municipalities on Authority owned facilities to no more than 2% per year, beginning in 2015, which is significantly less than the recent rate of growth of property based PILOTs which has been approximately 6.6% over the 10 years prior to the LIPA Reform Act.

The Authority also makes PILOTs for certain State taxes (including gross receipts taxes) and local taxes (including transit station maintenance surcharges charged by the Metropolitan Transportation Authority of New York) which would otherwise have been imposed on LILCO. The PILOT payments recovery rider allows the Authority to recover PILOTs representing these gross receipts taxes and surcharges. Part A of the LIPA Reform Act eliminated the payments in lieu of the state franchise tax paid by LIPA annually in the amount of approximately \$26 million.

Restructuring Charges

The Authority's bills also recover the Restructuring Charges owed by the Authority's customers to UDSA. Restructuring Charges secure only the restructuring bonds and any adjustments thereto are not subject to the below-described DPS review. Restructuring Charges are not subject to the lien of the Resolution or Subordinated General Resolution. In addition, the UDSA restructuring bonds are not obligations of the Authority, LIPA, PSEG Long Island or any of their affiliates.

Authority to Set Electric Rates

The Authority is empowered under its enabling statute to set rates for electric service in the Service Area without obtaining the approval of the PSC, DPS or any other State regulatory body. Under the LIPA Reform Act, on or before February 1, 2015, the Authority and PSEG Long Island were required to submit to the DPS a three-year rate proposal for rates and charges to take effect on or after January 1, 2016. After the 2016-2018 period, the Authority and PSEG Long Island are required to submit a proposed rate increase for DPS review if it would increase the rates and charges by an amount that would increase the Authority's annual revenues by more than 2.5%. In addition, the Authority may place rates in effect on an interim basis, and such interim rates are subject to prospective adjustment only. The Authority retains final rate setting power.

On January 30, 2015, a three-year rate plan for the period 2016-2018 was submitted by PSEG Long Island and the Authority for review by DPS. On September 28, 2015, DPS submitted its rate recommendation to the Authority's Board (the "Recommendation"). Documents relating to the rate plan filing can be found at DPS's website (www.dps.ny.gov) under PSEG Long Island Electric Rate Case (Case # 15-00262) at: <http://documents.dps.ny.gov/public/MatterManagement/CaseMaster.aspx?MatterSeq=47329&MNO=15-00262>. In addition, certain information relating to the rate plan filing can be found on the Authority's website (www.lipower.org) at: <http://www.lipower.org/financials.html>. Information on those websites is not included herein.

Throughout the proceeding, PSEG Long Island, the Authority, the DPS staff and other parties proposed and updated revenue requirement positions. PSEG Long Island and the Authority's incremental rate request as of the time of the DPS Recommendation was \$58.2 million, \$72.2 million, and \$68.1 million for the years 2016, 2017 and 2018, respectively, for a cumulative increase of \$387.2 million or 5.4%. The Recommendation was for the Authority to set rates designed to increase revenues by \$30.4 million in 2016, \$77.6 million in 2017, and \$79.0 million in 2018, respectively, which rates represent a cumulative revenue requirement increase of \$325.4 million or 5.0%. At those proposed levels, the

Authority's overall electric revenues, including power supply costs, would have increased by approximately 0.8%, 2.1%, and 2.1%, respectively.

The three-year rate plan adopted the "Public Power Model" of rate-setting proposed by PSEG Long Island and the Authority, which makes use of the debt service coverage method in determining revenue requirements. For the Authority this entails transitioning from the historical use of a \$75 million net income target to fixed obligation coverage targets (including capitalized leases) on Authority issued debt of 1.20x, 1.30x, 1.40x in 2016, 2017, and 2018 (and 1.45x in 2019, after the three-year rate plan). The net income to fixed obligation coverage for 2016 was approximately 1.26x. When UDSA's restructuring bonds are included, those coverage ratio targets are a minimum of 1.15x, 1.20x, and 1.25x in 2016, 2017, and 2018, respectively. Depreciation expense, amortization of the acquisition adjustment and of other regulatory assets, as well as the difference between the accrual expense and actual required cash contributions to PSEG Long Island pensions and OPEBs, are non-cash expenses excluded from the Authority's methodology for calculating coverage calculation. The three-year rate plan also included as a credit rating target to raise the Authority's credit ratings to A2 by Moody's, A by S&P, and A by Fitch over five years. In August 2016, Moody's upgraded the Authority's credit rating from Baa1 to A3. Furthermore, the filing sought through increasing fixed obligation coverage targets to bring down the level of debt funding as a percentage of its annual capital program to 64% or less. Neither the Authority nor UDSA can predict whether any such targets will be realized.

The Recommendation also includes an annual update process to adjust delivery rates higher or lower to reflect measurable changes in certain specified projected costs ("Staged Updates") during the three years of the rate plan and a permanent cost reconciliation mechanism (the "Delivery Service Adjustment") to reconcile certain specified projected costs to actual costs in each year.

The Staged Updates provide for updating electric rates at the beginning of each year for items that are subject to variability due to external factors including, among others: debt service (also subject to the Delivery Service Adjustment); certain components of the costs of the Power Supply Agreement with National Grid (which, effective January 2017, are recovered through the Power Supply Charge and removed from the Staged Update and Delivery Service Adjustment); property-based PILOTs; and certain other legal or regulatory changes. Projections will be updated each autumn, subject to DPS review, and presented to the Board of Trustees as part of the annual budget process. The Authority's Staged Update for 2017 resulted in rates that raised the 2017 revenues net of fuel from the \$2,111,416,000 set forth in the Recommendation to \$2,112,167,000, an increase of \$751,000.

The Delivery Service Adjustment provides cost recovery for certain items that can vary significantly due to external factors, which items include, among others: debt service (variances in interest rates, capital expenditures and savings derived from UDSA's financings) and storm expenditures (variances from the approximately \$34 million per year budgeted for storm expenses in base rates). The Delivery Service Adjustment is expected to be calculated through the end of September each year, which allows for the bill impact to be known in advance of annual budget approval. Any adjustment would be reviewed by DPS for accuracy and implemented on the following January 1st.

In addition, the Recommendation affirmed the Authority's use of a "Revenue Decoupling Mechanism." The Authority's Board initially modified its tariff to establish a Revenue Decoupling Mechanism in March 2015 as an "Adjustment to Rates and Charges," which PSEG Long Island is authorized to calculate and update each year according to the pre-defined terms of the tariff. All six of the major New York state electric utilities have Revenue Decoupling Mechanisms within their tariffs for delivery service. Mechanically, Revenue Decoupling Mechanisms function by comparing actual revenues with authorized revenues and crediting (or collecting) any differences due to (or from) customers in a subsequent period; it is intended to cover all sources of variances in delivery service revenues including,

among other things, any net lost revenues attributable to the implementation of energy efficiency or net metering programs, any revenue variances (positive or negative) caused by weather patterns, and revenue variances (positive or negative) that result from changes in economic conditions.

BILLING AND COLLECTIONS

At December 31, 2016, the Authority served approximately 1.1 million customers in its service area. For the 12-month period December 31, 2016, the 12-month write-off rate for uncollectible accounts was 0.56%, which was comparable to the write-off rate average over the preceding five fiscal years.

LITIGATION

LIPA is involved in numerous actions arising from the ordinary conduct of its business both prior to and subsequent to the 1998 acquisition of LILCO that include claims related to: Superstorm Sandy, LIPA's challenge to current tax assessments and environmental claims brought by governments and individual plaintiffs that allege LIPA is responsible for all or a portion of the clean-up costs, personal injuries and/or damages resulting from its alleged use, release or deposit of hazardous substances including asbestos. While LIPA cannot presently predict the costs of such pending claims, or additional similar claims that may arise in the future, LIPA believes that such litigation, in the aggregate, will not have a material adverse impact on the business or the affairs of the Authority or LIPA. See "Legal Proceedings" in Note 15 to the Authority's Basic Financial Statements for the years ended December 31, 2016 and 2015.

OTHER

The Authority and LIPA's offices are located at 333 Earle Ovington Blvd., Uniondale, New York 11553, phone (516) 222-7700, facsimile: (516) 222-9137 Attn: Chief Financial Officer.

Neither the Authority nor LIPA has failed, in any material respect, to timely make any required filing under the Continuing Disclosure Certificates.

This Annual Report contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe," and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Authority's and LIPA's business and financial results could cause actual results to differ materially from those stated in the forward-looking statements.

Long Island Power Authority

By: /s/ Joseph A. Branca
Name: Joseph A. Branca
Title: Chief Financial Officer

DATE: June 28, 2017

APPENDIX A

List of CUSIP* Numbers

<u>Series</u>	<u>CUSIP</u>	<u>Maturity/ Mandatory Purchase</u>	<u>Coupon or Yield</u>	<u>Serial/Term</u>
Electric System General Revenue Bonds				
Capital Appreciation Bonds				
1998A	542690CB6	12/1/2017	5.280%	CABs
1998A	542690CC4	12/1/2018	5.280%	CABs
1998A	542690CD2	12/1/2019	5.280%	CABs
1998A	542690CE0	12/1/2020	5.300%	CABs
1998A	542690CF7	12/1/2021	5.300%	CABs
1998A	542690CG5	12/1/2022	5.300%	CABs
1998A	542690CH3	12/1/2023	5.300%	CABs
1998A	542690CJ9	12/1/2024	5.300%	CABs
1998A	542690CK6	12/1/2025	5.300%	CABs
1998A	542690CL4	12/1/2026	5.300%	CABs
1998A	542690CM2	12/1/2027	5.300%	CABs
1998A	542690CN0	12/1/2028	5.300%	CABs
Capital Appreciation Bonds				
2000A	542690NR9	6/1/2018	5.810%	CABs
2000A	542690NS7	6/1/2019	5.830%	CABs
2000A	542690NT5	6/1/2020	5.860%	CABs
2000A	542690NU2	6/1/2021	5.880%	CABs
2000A	542690NV0	6/1/2022	5.900%	CABs
2000A	542690NW8	6/1/2023	5.910%	CABs
2000A	542690NX6	6/1/2024	5.920%	CABs
2000A	542690NY4	6/1/2025	5.930%	CABs
2000A	542690NZ1	6/1/2026	5.940%	CABs
2000A	542690PA4	6/1/2027	5.950%	CABs
2000A	542690PB2	6/1/2028	5.950%	CABs
2000A	542690PC0	6/1/2029	5.950%	CABs
Current Interest Bonds				
2003C	542690UY6	9/1/2029	5.250%	Term
Current Interest Bonds				
2008B	5426907G1	4/1/2019	5.250%	Serial
Current Interest Bonds				
2009A	542690T36	4/1/2020	4.500%	Serial
2009A	5426905Q1	4/1/2020	5.250%	Serial
2009A	542690T51	4/1/2021	5.250%	Serial
2009A	542690T69	4/1/2022	5.500%	Serial
2009A	542690T77	4/1/2023	5.000%	Serial
2009A	542690U34	4/1/2039	5.750%	Serial

Series	CUSIP	Maturity/ Mandatory Purchase	Coupon or Yield	Serial/Term
(Federally Taxable - Issuer Subsidy - Build America Bonds) Current Interest Bonds				
2010B	542690W32	5/1/2020	4.850%	Serial
2010B	542690W40	5/1/2021	5.100%	Serial
2010B	542690W57	5/1/2022	5.250%	Serial
2010B	542690W65	5/1/2024	5.450%	Serial
2010B	542690W73	5/1/2025	5.600%	Serial
2010B	542690W81	5/1/2026	5.700%	Serial
2010B	542690W99	5/1/2041	5.850%	Serial
Current Interest Bonds				
2011A	542690X72	5/1/2020	5.000%	Serial
2011A	542690X80	5/1/2021	5.000%	Serial
2011A	542690Y30	5/1/2036	5.000%	Serial
2011A	542690Y48	5/1/2038	5.000%	Term
Current Interest Bonds				
2012A	542690Z70	9/1/2037	5.000%	Term
2012A	542690Z62	9/1/2042	5.000%	Term
Current Interest Bonds				
2012B	5426902C5	9/1/2021	5.000%	Serial
2012B	5426902D3	9/1/2022	5.000%	Serial
2012B	5426902E1	9/1/2023	5.000%	Serial
2012B	5426902F8	9/1/2024	5.000%	Serial
2012B	5426902G6	9/1/2025	5.000%	Serial
2012B	5426902H4	9/1/2026	5.000%	Serial
2012B	5426902J0	9/1/2027	5.000%	Serial
2012B	5426902K7	9/1/2029	5.000%	Serial
Current Interest Bonds				
2014A	5426903D2	9/1/2034	5.00%	Serial
2014A	5426903E0	9/1/2035	5.00%	Serial
2014A	5426903F7	9/1/2039	5.00%	Term
2014A	5426903B6	9/1/2039	4.00%	Term
2014A	5426903C4	9/1/2044	5.00%	Term
Current Interest Bonds				
2014B	5426903G5	9/1/2018	2.355%	Serial
2014B	5426903H3	9/1/2019	2.755%	Serial
2014B	5426903J9	9/1/2020	3.107%	Serial
2014B	5426903K6	9/1/2021	3.407%	Serial
2014B	5426903L4	9/1/2022	3.633%	Serial
2014B	5426903M2	9/1/2024	3.883%	Serial
2014B	5426903N0	9/1/2025	3.983%	Serial
2014B	5426903P5	9/1/2026	4.133%	Serial

Series	CUSIP	Maturity/ Mandatory Purchase	Coupon or Yield	Serial/Term
LIBOR Floating Rate Tender Notes				
2014C	5426903A8	5/1/2033	Variable	Term
Current Interest Bonds				
2015B	5426904L3	9/1/2019	4.00%	Serial
2015B	5426905B4	9/1/2019	5.00%	Serial
2015B	5426904M1	9/1/2020	4.00%	Serial
2015B	5426905C2	9/1/2020	5.00%	Serial
2015B	5426904N9	9/1/2021	4.00%	Serial
2015B	5426905D0	9/1/2021	5.00%	Serial
2015B	5426904P4	9/1/2022	3.00%	Serial
2015B	5426905E8	9/1/2022	5.00%	Serial
2015B	5426904Q2	9/1/2023	5.00%	Serial
2015B	5426904R0	9/1/2024	5.00%	Serial
2015B	5426904S8	9/1/2025	3.00%	Serial
2015B	5426905F5	9/1/2025	5.00%	Serial
2015B	5426904T6	9/1/2026	5.00%	Serial
2015B	5426904U3	9/1/2027	5.00%	Serial
2015B	5426904V1	9/1/2028	5.00%	Serial
2015B	5426904W9	9/1/2029	5.00%	Serial
2015B	5426904X7	9/1/2030	5.00%	Serial
2015B	5426904Y5	9/1/2031	5.00%	Serial
2015B	5426904Z2	9/1/2032	5.00%	Serial
2015B	5426905A6	9/1/2033	5.00%	Serial
2015B	5426904G4	9/1/2034	5.00%	Serial
2015B	5426904H2	9/1/2035	5.00%	Serial
2015B	5426905G3	9/1/2036	5.00%	Serial
2015B	5426905H1	9/1/2037	5.00%	Serial
2015B	5426905J7	9/1/2038	5.00%	Serial
2015B	5426904J8	9/1/2040	4.00%	Term
2015B	5426904K5	9/1/2045	5.00%	Term
LIBOR Floating Rate Tender Notes				
2015C	5426904F6	5/1/2033	Variable	Term
Current Interest Bonds				
2016B	5426907R7	9/1/2017	5.00%	Serial
2016B	5426907S5	9/1/2018	4.00%	Serial
2016B	5426907T3	9/1/2020	5.00%	Serial
2016B	5426907U0	9/1/2021	5.00%	Serial
2016B	5426907V8	9/1/2022	5.00%	Serial
2016B	5426907W6	9/1/2023	5.00%	Serial
2016B	5426907X4	9/1/2024	5.00%	Serial
2016B	5426907Y2	9/1/2025	5.00%	Serial
2016B	5426907Z9	9/1/2026	5.00%	Serial
2016B	5426908A3	9/1/2027	5.00%	Serial

Series	CUSIP	Maturity/ Mandatory Purchase	Coupon or Yield	Serial/Term
2016B	5426908B1	9/1/2028	5.00%	Serial
2016B	5426908C9	9/1/2029	5.00%	Serial
2016B	5426908D7	9/1/2030	5.00%	Serial
2016B	5426908E5	9/1/2031	5.00%	Serial
2016B	5426908F2	9/1/2032	5.00%	Serial
2016B	5426908G0	9/1/2033	5.00%	Serial
2016B	5426908H8	9/1/2034	5.00%	Serial
2016B	5426908J4	9/1/2035	5.00%	Serial
2016B	5426908K1	9/1/2036	5.00%	Serial
2016B	5426908L9	9/1/2041	5.00%	Term
2016B	5426908M7	9/1/2046	5.00%	Term

* CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the Authority's bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to the correctness of the CUSIP numbers as indicated in this Appendix A.

APPENDIX B

Audited Basic Financial Statements

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Consolidated Financial Statements
and Required Supplementary Information

December 31, 2016 and 2015

(With Independent Auditors' Report and
Report on Internal Control and Compliance Thereon)

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Consolidated Financial Statements

December 31, 2016 and 2015

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LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Management's Discussion and Analysis of
Financial Condition and Results of Operations (Unaudited)

December 31, 2016 and 2015

(Amounts in thousands, unless otherwise stated)

Introduction

The Long Island Power Authority (the Authority) is a component unit of New York State (State). The Authority became the retail supplier of electric service in the Counties of Nassau and Suffolk (with certain limited exceptions) and a portion of Queens County known as the Rockaways (Service Area), on May 28, 1998 by acquiring the transmission and distribution (T&D) system of the Long Island Lighting Company (LILCO) as a wholly owned subsidiary of the Authority. As part of the acquisition, the Authority also acquired an undivided 18% interest in the Nine Mile Point Unit 2 (NMP2) generating facility, located in upstate New York, which is operated and managed by Exelon Corporation.

Since the acquisition, the Authority has conducted business through its wholly owned subsidiary, LILCO, under the names LIPA and Power Supply Long Island, referred to collectively as the Authority. The Authority provides electric delivery service in the Service Area, which includes approximately 1.1 million customers. The population of the Service Area is approximately 2.9 million.

In order to assist the Authority in providing electric service to its customers, the Authority entered into operating agreements to provide the Authority with the operating personnel, and a significant portion of the power supply resources, necessary for the Authority to provide electric service in the Service Area. Prior to 2014, the service providers were generally National Grid plc, certain National Grid Subsidiaries and their predecessors (collectively, National Grid Subs), with some exceptions. A National Grid Sub was the T&D System manager pursuant to the expired Management Services Agreement (MSA). T&D System management services included, among other functions, the day-to-day operation and maintenance of the T&D System, customer service, billing and collection, meter reading and forecasting.

The Authority's role significantly changed as a result of the LIPA Reform Act (Reform Act) which was passed and codified as Chapter 173, Laws of New York on June 21, 2013 by the New York State Assembly and Senate. The Reform Act is divided into two parts, Part A and Part B. Part A addresses the reorganization of the Authority and substantially changed its operating responsibilities. Under the Authority's new business model, PSEG Long Island was selected as the Authority's service provider pursuant to the Amended and Restated Operations Services Agreement (A&R OSA). Under the A&R OSA, the PSEG Long Island management company is the contracting entity with the Authority. PSEG Long Island is a wholly owned subsidiary of Public Service Enterprise Group (PSEG). The A&R OSA provides for the operation, maintenance and related services for the T&D system. PSEG Long Island is paid a management fee and may earn incentives related to specified performance metrics. Essentially all costs of operating and maintaining the Authority's T&D system incurred by PSEG Long Island are passed through to and paid for by the Authority.

The Authority also has a contract with PSEG Energy Resources and Trade LLC (PSEG ER&T) to provide for services related to fuel and power supply management and certain commodity activities. Separately from its contract with PSEG ER&T, the Authority maintains power purchase agreements with third party power generators.

Part B of the Reform Act created the Securitization Law which established the Utility Debt Securitization Authority (UDSA). The Securitization Law's sole purpose was to provide a legislative foundation for the UDSA's issuance of restructuring bonds to allow the Authority to retire a portion of its outstanding indebtedness,

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providing savings to the Authority's customers on a net present value basis. The restructuring bonds are to be repaid by an irrevocable, nonbypassable restructuring charge on all the Authority's customers. The UDSA has a governing body separate from that of the Authority and has no commercial operations.

Overview of the Consolidated Financial Statements

The Authority is engaged in business type activities and follows financial reporting for enterprise funds. The Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The management's discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial information for the years ended December 31, 2016 and 2015. The discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the accompanying notes, which follow this section. The notes are an integral part of the Authority's Consolidated Financial Statements and provide additional information on certain components of these statements.

The Authority's Consolidated Statements of Net Position as of December 31, 2016, 2015 and 2014 are summarized below:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	(Amounts in thousands)		
Assets and deferred outflows of resources:			
Capital assets	\$ 7,768,551	7,548,163	6,727,057
Current assets	1,890,775	1,786,878	1,884,739
Regulatory assets	1,299,251	1,373,147	1,553,135
Other noncurrent assets	1,855,406	2,073,357	2,867,380
Deferred outflows of resources	<u>286,779</u>	<u>254,352</u>	<u>163,341</u>
Total assets and deferred outflows of resources	<u>13,100,762</u>	<u>13,035,897</u>	<u>13,195,652</u>
Liabilities and deferred inflows of resources:			
Long-term debt	7,756,751	7,432,468	7,551,891
Current liabilities	1,345,039	1,405,757	1,236,358
Regulatory liabilities	12,100	30,027	40,245
Other noncurrent liabilities	3,013,915	3,169,837	3,458,049
Deferred inflows of resources	<u>517,891</u>	<u>516,309</u>	<u>474,517</u>
Total liabilities and deferred inflows of resources	<u>12,645,696</u>	<u>12,554,398</u>	<u>12,761,060</u>
Total net position	<u>455,066</u>	<u>481,499</u>	<u>434,592</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 13,100,762</u>	<u>13,035,897</u>	<u>13,195,652</u>

LONG ISLAND POWER AUTHORITY
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Management's Discussion and Analysis of
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December 31, 2016 and 2015

(Amounts in thousands, unless otherwise stated)

2016 Compared to 2015

The primary change in the Authority's combined financial condition as of December 31, 2016 and 2015 were as follows:

Assets and Deferred Outflows of Resources

Assets and deferred outflows of resources increased \$65 million compared to 2015 due to increases of \$220 million in capital assets, \$104 million in current assets, and \$32 million in deferred outflows of resources, partially offset by a \$218 million decrease in noncurrent assets, and a \$74 million decrease in regulatory assets.

Capital assets increased by \$220 million compared to 2015 primarily due to higher investment in reliability capital projects as well as certain storm hardening projects, which are primarily funded by the Federal Emergency Management Agency (FEMA). These capital additions were partially offset by asset retirements and annual depreciation expense.

Current assets increased by \$104 million compared to 2015 primarily due to increased cash, cash equivalents and investment balances of \$205 million resulting from the issuance of the General Revenue Bonds, Series 2016B, in October 2016 to fund construction projects. This increase was partially offset by the change in the deferred mark-to-market valuation on certain of the Authority's commodity derivatives, which are included in unrealized charges.

Regulatory assets decreased by \$74 million primarily due to the offset of certain regulatory assets with the proceeds of an insurance settlement related to damage to the Authority's T&D system caused by Superstorm Sandy. The Authority's Board authorized the offsets of certain regulatory assets totaling \$73 million rather than recognize a one-time net book value gain. For a full discussion of the Authority's regulatory assets and liabilities, see note 5 to the Authority's Consolidated Financial Statements.

Noncurrent assets decreased by \$218 million primarily due to the \$111 million annual scheduled amortization of the Acquisition Adjustment, a \$23 million change in the deferred mark-to-market valuation on certain of the Authority's derivatives and a \$31 million decrease in restricted cash and cash equivalents due to expenditures made for eligible storm hardening capital projects with the funds from a FEMA grant.

Deferred outflow of resources increased by \$32 million primarily due to the deferral of defeasance costs associated with the refunding of a portion of the Authority's debt with the issuance of the UDSA Restructuring Bonds, Series 2016A and Series 2016B. The deferred defeasance costs represent the difference between the reacquisition price and the carrying amount of the refinanced debt. Although the refinancing recognized deferred costs on refunding as provided for under the accrual method of accounting, the refunding produces net present value savings of \$187 million over the life of the UDSA Restructuring Bonds, Series 2016A and Series 2016B, due to lower interest costs.

LONG ISLAND POWER AUTHORITY
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Management's Discussion and Analysis of
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December 31, 2016 and 2015

(Amounts in thousands, unless otherwise stated)

Liabilities and Deferred Inflows of Resources

Liabilities and deferred inflows of resources increased \$91 million due to an increase of \$324 million in long-term debt, partially offset by decreases of \$156 million in noncurrent liabilities, \$61 million in current liabilities and \$18 million in regulatory liabilities.

Long-term debt increased by \$324 million. This increase reflects \$1.11 billion of UDSA Restructuring Bonds, Series 2016A and Series 2016B, which together with \$232 million of premium received on the bonds, allowed the Authority to retire approximately \$1.266 billion of its existing debt and realize \$187 million of net present value savings. The Authority also issued \$175 million Electric System General Revenue Bonds Series 2016A to refinance outstanding variable rate demand bonds of the same amount and \$408 million Electric System General Revenue Bonds Series 2016B, which together with the \$70 million of premium received on the bonds, both funded capital projects and refinanced already outstanding debt. The refinanced bonds provided \$8 million in net present value savings. The remaining increase in long-term debt outstanding is due to the accretion of the existing Series 1998A and Series 2000A capital appreciation bonds.

Current liabilities decreased by \$61 million primarily due to the \$62 million change in the short-term portion of the Authority's commodity derivatives.

Regulatory liabilities decreased by \$18 million due to the return to customers of 2015 excess collection of power supply costs totaling \$30 million. In accordance with the Authority's tariff any over/under collection of power supply costs are returned/collected in the power supply charge in the subsequent month. This decrease was partially offset by the recognition of the 2016 delivery service adjustment totaling \$12 million which in accordance with the tariff, is included in rates over the twelve-month period beginning January 1, 2017. For a full discussion of the Authority's delivery service adjustment, see note 3 to the Authority's Consolidated Financial Statements.

Noncurrent liabilities decreased by \$156 million primarily due to the amortization of the Authority's capital lease obligations of approximately \$191 million and a \$23 million change in the deferred mark-to-market valuation on certain of the Authority's derivatives. This decrease was partially offset by an \$89 million increase in retirement benefit obligations related to the workforce of the Authority's service provider resulting from an updated actuarial valuation.

2015 Compared to 2014

The primary change in the Authority's combined financial condition as of December 31, 2015 and 2014 were as follows:

Assets and Deferred Outflows of Resources

Assets and deferred outflows of resources decreased \$160 million compared to 2014 due to decreases of \$794 million in noncurrent assets, \$180 million in regulatory assets, and \$98 million in current assets, partially offset by increases of \$821 million in capital assets and \$91 million in deferred outflow of resources.

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Capital assets increased by \$821 million compared to 2014 primarily due to the reclassification of the accumulated depreciation reserve imbalance as calculated by a new depreciation study totaling \$718 million. The Authority's Three Year Rate Plan for the period 2016-2018, as approved by the Authority's Board in December 2015, authorized reducing the unamortized balance of the Acquisition Adjustment by this same amount. The remaining increase was due to construction projects totaling \$386 million partially offset by asset retirements and annual depreciation expense.

Current assets decreased by \$98 million compared to 2014 primarily due to a lower receivable as the Authority received payment of \$80 million for a Community Development Block Grant. This was partially offset by increased commodity derivative collateral posted by the Authority as of December 31, 2015.

Regulatory assets decreased by \$180 million primarily due to a \$130 million decrease in retirement benefit obligations related to the workforce of the Authority's service provider, reflecting an updated actuarial valuation plus the annual amortization of prior service costs. Also contributing to the decrease was the elimination of deferred transition costs totaling \$46 million, as approved by the Authority's Board in December 2015, and the collection of the Shoreham property tax settlement receivables of \$12 million. The remaining decrease was due to the normal annual collection of certain long term regulatory assets. Partially offsetting these decreases was the recognition of a regulatory asset related to the revenue decoupling mechanism, totaling \$17 million. For a full discussion of the Authority's regulatory assets and liabilities, see notes 3 and 5 to the Authority's Consolidated Financial Statements.

Noncurrent assets decreased by \$794 million primarily due to the reclassification of the accumulated depreciation reserve imbalance from capital assets to an offset to the unamortized balance of the Acquisition Adjustment, as discussed above. The remaining decrease was due to the change in the deferred mark-to-market valuation on certain of the Authority's financial derivatives.

Deferred outflows of resources increased by \$91 million primarily due to the deferred defeasance costs incurred on the refunding of a portion of the Authority's debt with the issuance of the 2015 UDSA Restructuring Bonds. The deferred defeasance amounts represent the difference between the reacquisition price and the carrying amount of the refinanced debt. Although the refinancing recognized deferred costs as provided for under the accrual method of accounting, the refunding produces net present value savings of \$128 million over the life of the 2015 UDSA Restructuring Bonds due to lower interest costs.

Liabilities and Deferred Inflows of Resources

Liabilities and deferred inflows of resources decreased \$207 million due to decreases of \$119 million in long-term debt, \$10 million in regulatory liabilities, and \$288 million in noncurrent liabilities, partially offset by increases of \$169 million in current liabilities and \$42 million in deferred inflows of resources.

Long-term debt decreased \$119 million primarily due to scheduled maturities of \$180 million partially offset by the accretion of the capital appreciation bonds, amortization of bond discounts and premiums, and the issuance of long-term debt. The Authority issued \$200 million Electric System General Revenue Bonds Series 2015A to refinance outstanding variable rate demand bonds of the same amount. The Authority issued \$117 million Electric System General Revenue Bonds Series 2015B, which generated premiums of approximately

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\$13 million, to fund construction projects. The Authority issued \$149 million Electric System General Revenue Bonds Series 2015C to refinance outstanding variable rate bonds of the same amount.

In addition, the UDSA issued \$1.022 billion of Restructuring Bonds, Series 2015, which generated premiums of approximately \$177 million, and allowed the Authority to retire approximately \$1.045 billion of its existing debt with the proceeds from the UDSA transaction.

Noncurrent liabilities decreased \$288 million primarily due to the amortization of the Authority's capital lease obligations totaling approximately \$191 million and an \$87 million decrease in retirement benefit obligations related to the workforce of the Authority's service provider resulting from an updated actuarial valuation plus the cash funding of pension obligations made by the Authority in 2015.

Regulatory liabilities decreased \$10 million due to the return to customers of 2014 excess collection of power supply costs totaling \$40 million, partially offset by the recognition of 2015 excess collections of \$30 million. In accordance with the Authority's tariff, any over/under collection of power supply costs are returned/collected in the subsequent month.

Deferred inflows of resources increased \$42 million due to advance funds received from FEMA totaling \$61 million partially offset by the change in mark-to-market valuation of certain of the Authority's derivatives instruments.

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Results of Operations

The Authority's Consolidated Statements of Revenues, Expenses and Changes in Net position for the years ended December 31, 2016, 2015 and 2014 are summarized as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Electric revenue	\$ 3,399,101	3,505,209	3,613,982
Operating expenses	(3,163,353)	(3,187,383)	(3,351,379)
Interest expense	<u>(349,809)</u>	<u>(361,725)</u>	<u>(358,490)</u>
Total expenses	<u>(3,513,162)</u>	<u>(3,549,108)</u>	<u>(3,709,869)</u>
Revenue less operating and interest expenses	<u>(114,061)</u>	<u>(43,899)</u>	<u>(95,887)</u>
Grant income	43,929	54,329	114,521
Other income	<u>43,699</u>	<u>37,744</u>	<u>37,857</u>
Total other income	<u>87,628</u>	<u>92,073</u>	<u>152,378</u>
Change in net position	<u>(26,433)</u>	<u>48,174</u>	<u>56,491</u>
Beginning net position	481,499	434,592	378,101
Cumulative effect of change in accounting principle	<u>—</u>	<u>(1,267)</u>	<u>—</u>
Net position, beginning of year, as restated	<u>481,499</u>	<u>433,325</u>	<u>378,101</u>
Net position, end of year	<u>\$ 455,066</u>	<u>481,499</u>	<u>434,592</u>

2016 Compared to 2015

Operating Revenues

Electric revenue for 2016 totaled \$3.40 billion, a decrease of \$106 million compared to 2015 due to lower power supply costs, which were passed through to customers in lower electric rates, partially offset by the accrual of the 2016 delivery service adjustments totaling \$30 million.

During 2016, approximately 53% of the Authority's annual retail revenues were received from residential customers, 44% from commercial customers and 3% from street lighting, public authorities and certain others. The largest customer in the service area (the Long Island Rail Road) accounted for less than 2% of total sales

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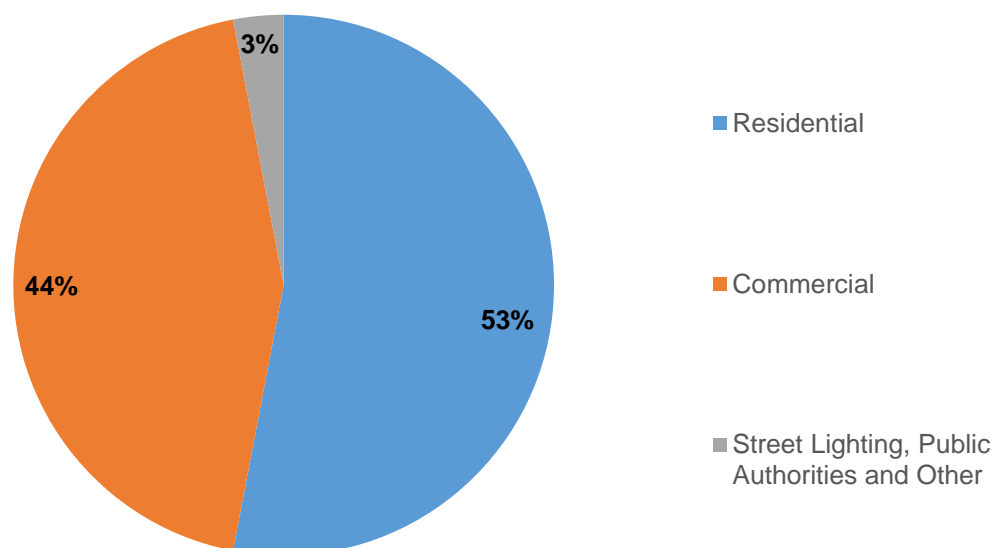
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and less than 2% of revenue. In addition, the ten largest customers in the service area accounted for approximately 7% of total sales and less than 7% of revenue.

Revenue from Sales of Electricity by Customer Class



<u>Revenues from sales of electricity</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Residential	\$ 1,815,921	1,860,865	1,883,319
Commercial	1,492,815	1,537,844	1,618,297
Street lighting, public authorities and other	90,365	106,500	112,366
Total	<u>\$ 3,399,101</u>	<u>3,505,209</u>	<u>3,613,982</u>

Operating and Interest Expenses

Operating expenses for 2016 totaled \$3.16 billion a decrease of \$24 million compared to 2015 primarily due to lower power supply costs of \$161 million, which was partially offset by higher storm restoration costs and higher PSEG Long Island operating costs.

The Authority's operating and interest expenses are comprised of costs associated with operating and maintaining the Authority's T&D system and financing the capital projects related to improving the reliability of

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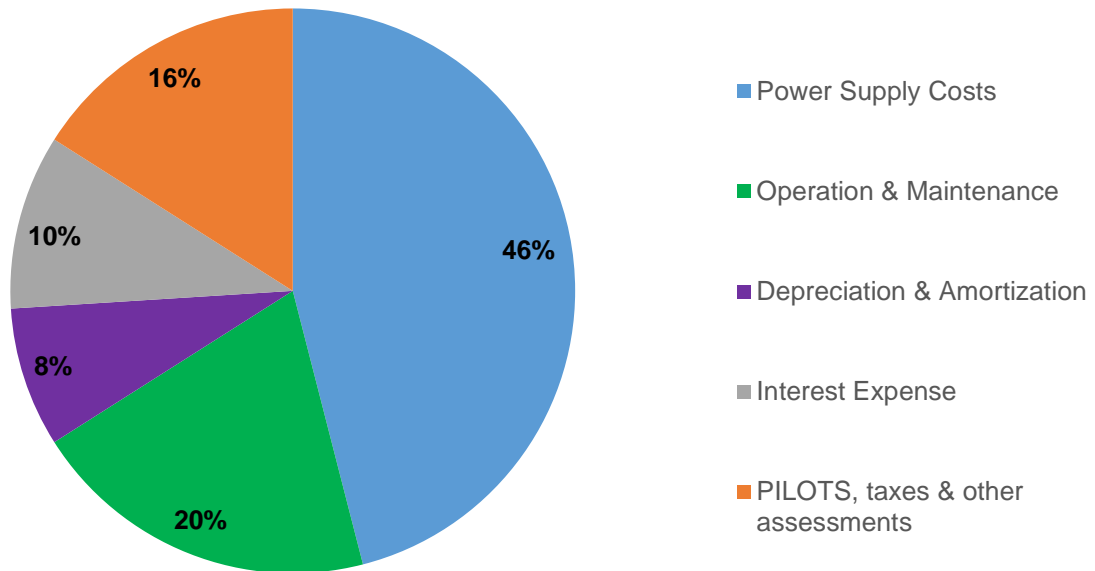
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electric service. For the year ended December 31, 2016, approximately 46% of the Authority's expenses were associated with the cost to provide power supply, including (i) commodity costs (ii) purchased power costs, including the Amended and Restated Power Supply Agreement (A&R PSA) costs, and (iii) the Authority's share of operating costs associated with the NMP2 nuclear generating station. Operations and maintenance expenses associated with the T&D system comprised 20% of the total expenses in 2016. Payments made in lieu of taxes (PILOTS), taxes paid pursuant to the contract on the A&R PSA generating units, and other taxes and assessments were 16% of expenses. Interest expenses were 10% of expenses while depreciation and amortization was 8%.

2016 Operating and Interest Expenses



Other Income

Grant income decreased \$10 million compared to 2015 primarily due to an \$10 million Community Development Block Grant (CDBG) recognized in 2015 to pay for the costs not reimbursed by FEMA related to Superstorm Sandy and other FEMA declared weather events.

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2015 Compared to 2014

Net Position, Cumulative Effect of Change in Accounting Principle

The Authority adopted GASB Statement No. 68, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 27*, which changed the Authority's reporting of its costs and obligations associated with its employee related pensions. This resulted in a reduction to the Authority's net position of \$1.3 million for the Authority's allocated share of the New York State Retirement System's net pension liability. For a full discussion of the Authority's net pension liability, see note 14 to the Consolidated Financial Statements.

Operating Revenues

Electric revenue for 2015 totaled \$3.50 billion, a decrease of \$109 million compared to 2014 due to lower power supply costs, which were passed through to customers in lower electric rates, partially offset by higher delivery revenues due to higher sales during the winter of 2015.

Operating and Interest Expenses

Operating expenses for 2015 totaled \$3.19 billion a decrease of \$164 million compared to 2014 primarily due to lower power supply costs of \$149 million. The remaining decrease was primarily due to lower costs incurred for finance and information technology expenses after the transition to the Authority's new service provider. Interest expenses for 2015 totaled \$362 million, an increase of \$3 million compared to 2014 primarily due to higher debt balances outstanding during 2015.

Other Income

Grant income decreased \$60 million compared to 2014 primarily due to an \$80 million CDBG recognized in 2014 to pay for the costs not reimbursed by FEMA related to Superstorm Sandy and other FEMA declared weather events.

Fixed Obligation Coverage Ratios

The Authority's fixed obligation coverage ratios for the years ended December 31, 2016, 2015 and 2014 were 1.26x, 1.19x and 1.21x, respectively. Inclusive of UDSA restructuring bonds, the fixed obligation coverage ratios were 1.19x, 1.17x and 1.16x.

In December 2015, the Authority's Board approved a Three Year Rate Plan, as recommended by the New York Department of Public Service. The Three Year Rate Plan incorporated a new Board-adopted financial policy that seeks to reduce the portion of the Authority's capital plan funded by debt to 64% or less and raise the Authority's credit ratings to A2 by Moody's Investors Service (Moody's), A by Standard and Poor's Global Ratings (S&P), and A by Fitch Ratings (Fitch) over five years. To achieve these goals, the Three Year Rate Plan adopted the "public power model" of budgeting and rate setting proposed by Authority staff, which makes use of the debt service coverage method of determining revenue requirements. For the Authority, this entailed transitioning from the historic use of a \$75 million budget for net income to budgeting to achieve fixed obligation coverage targets (including capitalized leases) on Authority issued debt of a minimum 1.20x, 1.30x, and 1.40x in 2016, 2017, and 2018 (and 1.45x in 2019 after the Three Year Rate Plan). When the UDSA restructuring bonds are included, these coverage ratio targets are a minimum of 1.15x, 1.20x, and 1.25x in 2016, 2017, and

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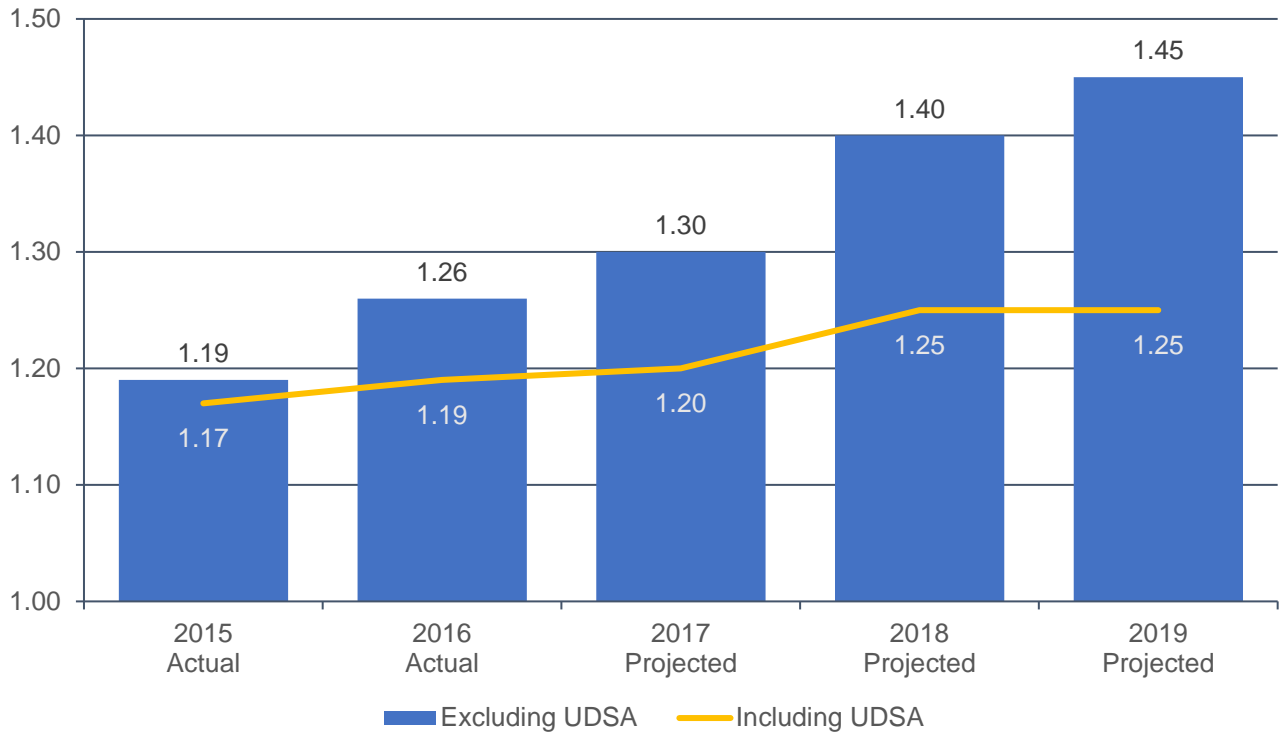
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2018 (and 1.25x in 2019). The Authority's methodology for calculating fixed obligation coverage ratios excludes certain specified noncash items from expenses. The Authority achieved its targeted coverage goal for 2016 and cannot predict whether any of the targets or goals of the entire Three Year Plan will be realized.

For a full discussion of the fixed obligation coverage ratio calculation, see notes 3 and 12 to the Consolidated Financial Statements. The Authority's historic and projected fixed obligation coverage ratios are shown below.



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Financing Activities

The Authority's consolidated debt at December 31, 2016, 2015 and 2014, including current maturities, is comprised of the following instruments:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Long-term debt:			
General Revenue Bonds	\$ 3,356,972	4,380,595	5,246,726
Subordinated Revenue Bonds	—	—	350,000
UDSA Restructuring Bonds	<u>3,965,529</u>	<u>2,919,439</u>	<u>1,932,324</u>
Total long-term debt	<u>7,322,501</u>	<u>7,300,034</u>	<u>7,529,050</u>
Short-term debt:			
General revenue notes	—	—	65,000
General revenue commercial paper notes	155,625	50,000	—
Subordinated commercial paper notes	<u>250,000</u>	<u>300,000</u>	<u>215,000</u>
Total short-term debt	<u>405,625</u>	<u>350,000</u>	<u>280,000</u>
Total debt	<u>\$ 7,728,126</u>	<u>7,650,034</u>	<u>7,809,050</u>

Financing Transactions for Years 2016 and 2015

The table below summarizes the financing activity for the Authority and the UDSA for the years ended December 31, 2016 and 2015:

	<u>Bonds to fund capital projects</u>	<u>Refinancing of fixed-rate bonds for savings</u>	<u>Refinancing of variable-rate bonds</u>
2016:			
General Revenue Bonds	\$ 350,000	57,675	175,000
UDSA General Revenue Bonds	—	1,106,090	—
2015:			
General Revenue Bonds	\$ 117,230	—	349,000
UDSA General Revenue Bonds	—	1,002,115	—

The Authority issued new long-term debt to fund capital improvements in 2016 and 2015. The Authority also refinanced certain long-term variable-rate bonds that had bank facilities subject to renewal in 2016 and 2015. Additionally, in 2016, the Authority issued \$57.7 million of bonds to refinance \$64.6 million of existing fixed-rate debt to achieve \$8 million in net present value interest savings.

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On March 30, 2015, the Securitization Law was amended to allow for a total issuance of up to \$4.5 billion of UDSA restructuring bonds, inclusive of the \$2.0 billion of restructuring bonds issued in December 2013 pursuant to Financing Order No. 1. On October 16, 2015, the UDSA, through Financing Order No. 2, issued \$1.0 billion Series 2015 Restructuring Bonds, generating \$128 million of net present value savings. During 2016, through Financing Order No. 3 and Financing Order No. 4, UDSA issued Series 2016A Restructuring Bonds totaling \$636.8 million and 2016B Restructuring Bonds totaling \$469.3 million, respectively, producing a combined \$186.8 million of net present value savings.

For a full discussion on the Authority's debt activities during 2016 and 2015, see note 12 to the Consolidated Financial Statements.

Liquidity and Capital Resources

The Authority's Board adopted a policy in December 2015 that the Authority should at all times maintain cash on hand and available credit equivalent to at least 120 days of operating expenses. As of December 31, 2016 and 2015, the Authority's available sources of liquidity for operating purposes and capital program funding, as displayed below, achieved the policy target.

	<u>2016</u>	<u>2015</u>
Operating liquidity:		
Unrestricted cash and cash equivalents	\$ 652,370	578,619
OPEB Account cash, cash equivalents and investments	128,998	51,579
Restricted cash – service provider working capital requirements	<u>207,045</u>	<u>208,099</u>
Total operating liquidity	<u>988,413</u>	<u>838,297</u>
Available credit:		
General revenue notes – revolving credit facility	337,500	337,500
General revenue commercial paper	169,375	275,000
Subordinated revenue commercial paper	<u>50,000</u>	<u>—</u>
Total available credit	<u>556,875</u>	<u>612,500</u>
Total cash, cash equivalents, investments and available credit	<u>\$ 1,545,288</u>	<u>1,450,797</u>
Restricted cash:		
FEMA – restricted	\$ 470,972	501,990
UDSA	<u>88,572</u>	<u>33,518</u>
Total restricted cash	<u>\$ 559,544</u>	<u>535,508</u>

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The Authority's unrestricted cash, cash equivalents and investments totaled \$781 million and \$630 million, inclusive of the Other Post-Employment Benefits (OPEB) Account balances, at December 31, 2016 and 2015, respectively.

The Authority also had approximately \$207 million and \$208 million at December 31, 2016 and 2015, respectively, of restricted cash and cash equivalents dedicated to prefunding PSEG Long Island's working capital needs. These accounts are owned by the Authority and are available solely for the Authority's costs. The funds are restricted due to the contractual obligation to pre-fund the accounts from which PSEG Long Island, acting as agent for the Authority, pays expenses related to operating the Authority's electric system. The Authority considers these funds to be part of its working capital to meet operating and capital expenditures.

In December 2014, the Authority established an OPEB Account to pre-fund certain future cash out-lays of post-employment health and life insurance obligations of both the Authority and PSEG Long Island employees. The Authority had on deposit in the OPEB Account \$129 million and \$52 million as of December 31, 2016 and 2015, respectively. The OPEB Account is primarily invested in the types of assets typically associated with these long-life liabilities; however, the funds are available in the event that revenues are insufficient to pay reasonable and necessary operating expenses or to make payments on bonds or parity obligations, and therefore are part of unrestricted cash and investments.

Included in restricted cash and cash equivalents as of December 31, 2016 and 2015 was \$471 million and \$502 million, respectively, of advance funding provided by FEMA for storm restoration and storm hardening capital projects. The storm hardening projects are intended to strengthen the Long Island electrical grid against the effects of severe weather. During 2016, the Authority used approximately \$31 million to fund these mitigation projects and expects to expend the balance on the program through 2019.

The Authority also had restricted cash and equivalents related to UDSA debt service payments and required debt service and operating reserves of \$89 million and \$34 million as of December 31, 2016 and 2015, respectively.

The Authority's Board authorized short-term borrowing programs of up to \$1 billion. These short-term borrowing programs provide the resources to meet interim working capital needs, fund the Authority's capital program between long-term debt offerings, and meet any cash flow requirements from severe weather events. Among other factors, the Authority's operating and capital needs vary during the year given the summer peaking seasonal nature of its sales.

In 2015, the Authority established a \$325 million Senior Lien Series 2015 General Revenue Notes program (GR Notes), of which \$156 million and \$50 million was outstanding at December 31, 2016 and 2015, respectively. The Authority also established a \$300 million Series 2014 Subordinate Revenue Commercial Paper Program (CP Program), of which \$250 million and \$300 million was outstanding at December 31, 2016 and 2015, respectively.

The Authority also established a \$337.5 million Revolving Credit Agreement (Revolver) with a syndicate of banks of which no amounts were outstanding as of December 31, 2016 and 2015.

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The short-term borrowing programs are supported by various bank agreements that expire during 2017 through 2021 and management expects to renew or replace the agreements as needed prior to their expiration. The Authority believes it will have sufficient liquidity throughout 2017 to meet its planned operating, maintenance and capital programs.

Risk Management

The Authority is exposed to commodity and interest rate risk during the conduct of its operations. The Authority has created an Enterprise Risk Management Committee (ERMC) to identify, manage and develop risk mitigation plans. As part of that program, the Authority established a power supply risk management program to mitigate a portion of the exposure to fluctuations in commodity prices on behalf of its customers. The Authority also hedges its interest rate exposure through certain interest rate derivatives that are approved by the ERMC based on established interest rate swap guidelines.

In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the Authority records its hedging and investment derivatives at fair value and records deferred inflows and outflows of resources for changes in fair values on hedging derivatives. The Authority defers, as unrealized gains and losses, changes in fair value for investing derivatives consistent with its rate-making practices.

For a further discussion on these matters, see note 8 to the Consolidated Financial Statements.

Bond Ratings

The Authority and UDSA bonds are rated by Moody's, S&P, and Fitch as shown below:

	Investment ratings		
	Moody's	S&P	Fitch
Senior Lien Bonds	A3	A-	A-
Subordinate Lien Bonds	Baa1	--	A-
UDSA Restructuring Bonds	Aaa (sf)	AAA (sf)	AAA (sf)

During 2016, Moody's upgraded the Authority's Senior Lien Revenue Bonds to A3 from Baa1 and the Subordinated Lien Revenue Bonds to Baa1 from Baa2.

Certain bonds and notes of the Authority are supported by either a bank letter of credit or are insured against default. Such debt carries the higher of the ratings of the credit support provider or that of the Authority.

Contacting the Long Island Power Authority

This financial report is designed to provide the Authority's bondholders, customers, and other interested parties with a general overview of the Authority's finances and to demonstrate its accountability for the funds it receives. If you have any questions about this report or need additional information, contact the Authority at 333 Earle Ovington Blvd., Suite 403, Uniondale, New York 11553, or visit the Authority's website at www.lipower.org.



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
Long Island Power Authority:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Long Island Power Authority (the Authority) and its blended component unit, a component unit of the State of New York, which comprise the consolidated statements of net position as of December 31, 2016 and 2015, and the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Long Island Power Authority and its blended component unit as of December 31, 2016 and 2015, and the changes in their net position, and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

New York, New York
March 29, 2017

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Consolidated Statements of Net Position

December 31, 2016 and 2015

(Amounts in thousands)

Assets and Deferred Outflows of Resources	2016	2015
Current assets:		
Cash and cash equivalents	\$ 562,156	600,698
Restricted cash - working capital requirements	207,045	208,099
Restricted cash	88,572	33,518
Investments	219,212	29,500
Counterparty collateral – posted by the Authority	8,365	48,357
Accounts receivable (less allowance for doubtful accounts of \$37,716 and \$38,036 at December 31, 2016 and 2015, respectively)	484,781	489,757
Other receivables	115,757	85,988
Fuel inventory	103,894	117,616
Material and supplies inventory	46,771	47,808
Unrealized charges	—	75,574
Regulatory assets to be recovered within one year	151,012	155,408
Prepayments and other current assets	54,222	49,963
	2,041,787	1,942,286
Noncurrent assets:		
Restricted cash and cash equivalents	76,733	501,990
Restricted investments	394,239	—
Utility plant and property and equipment, net	7,768,551	7,548,163
Nuclear decommissioning trust	115,800	110,436
Other long-term receivables	28,285	38,082
Unrealized charges	136,131	197,227
Financial derivatives	2,846	1,257
Prepayments	612	12,231
Regulatory assets for future recovery	1,148,239	1,217,739
Acquisition adjustment (net of accumulated amortization)	1,100,760	1,212,134
	10,772,196	10,839,259
Total noncurrent assets	10,772,196	10,839,259
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	273,558	254,157
Accumulated decrease in fair value of commodity derivatives	11,740	—
Pensions	1,481	195
	286,779	254,352
Total deferred outflows of resources	286,779	254,352
Total assets and deferred outflows of resources	\$ 13,100,762	13,035,897

See accompanying notes to basic financial statements.

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(A Component Unit of the State of New York)

Consolidated Statements of Net Position

December 31, 2016 and 2015

(Amounts in thousands)

Liabilities and Net Position	2016	2015
Current liabilities:		
Short-term debt	\$ 405,625	350,000
Current maturities of long-term debt	117,250	178,295
Current maturities of UDSA debt	72,598	60,000
Current portion of capital lease obligation	195,959	190,955
Accounts payable and accrued expenses	445,566	456,649
Regulatory liabilities payable in one year	12,100	30,027
Commodity derivative instruments	11,569	73,599
Accrued payments in lieu of taxes	10,729	10,008
Accrued interest	48,042	47,832
Customer deposits	37,701	38,419
Total current liabilities	1,357,139	1,435,784
Noncurrent liabilities:		
Long-term debt	3,396,020	4,305,146
Long-term UDSA debt	4,360,731	3,127,322
Capital lease obligations	2,021,284	2,188,295
Borrowings	82,241	87,064
A&R Operations Services Agreement-employee retirement benefit	580,720	491,678
Financial derivative instruments	149,496	174,456
Commodity derivative instruments	2,324	44,086
Asset retirement obligation	66,487	62,906
Long-term liabilities and unrealized credits	69,933	93,530
Claims and damages	41,430	27,822
Total noncurrent liabilities	10,770,666	10,602,305
Deferred inflows of resources:		
Regulatory credits - grants	502,213	502,213
Accumulated increase in fair value of financial derivatives	2,846	1,257
Accumulated increase in fair value of commodity derivatives	—	3,257
Pensions	1,499	417
Accumulated increase in fair value of Nine Mile Point 2 Trust	9,353	9,165
Accumulated increase in fair value of OPEB Account	1,980	—
Total deferred inflows of resources	517,891	516,309
Net position:		
Net investment in capital assets	(115,893)	(158,313)
Restricted	73,879	142,026
Unrestricted	497,080	497,786
Total net position	455,066	481,499
Total liabilities, deferred inflows of resources and net position	\$ 13,100,762	13,035,897

See accompanying notes to basic financial statements.

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Consolidated Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2016 and 2015

(Amounts in thousands)

	2016	2015
Operating revenues – electric sales	\$ 3,399,101	3,505,209
Operating expenses:		
Operations – power supply charge	1,349,951	1,510,725
Operations and maintenance	833,367	814,177
Operations and maintenance – amortizations	31,015	11,403
Storm restoration	112,337	63,210
General and administrative	27,581	22,092
Depreciation and amortization	263,037	223,607
Pass through taxes under certain long-term operating agreements	200,958	192,729
Payments in lieu of taxes and assessments	345,107	349,440
Total operating expenses	3,163,353	3,187,383
Operating income	235,748	317,826
Nonoperating revenues and expenses:		
Other income, net:		
Investment income	9,096	5,878
Grant income – FEMA	6,459	13,472
Grant income – other	37,470	40,857
Other	8,083	4,272
Total other income, net	61,108	64,479
Carrying charges on regulatory assets	26,520	27,594
Interest charges and (credits):		
Interest on long-term debt	331,354	331,757
Other interest	32,458	39,502
Other interest amortizations	(10,469)	(2,421)
Allowance for borrowed funds used during construction	(3,534)	(7,113)
Total interest charges and (credits)	349,809	361,725
Change in net position	(26,433)	48,174
Net position, beginning of year	481,499	434,592
Cumulative effect of change in accounting principle	—	(1,267)
Net position, beginning of year, as restated	481,499	433,325
Net position, end of year	\$ 455,066	481,499

See accompanying notes to basic financial statements.

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Consolidated Statements of Cash Flows
Years ended December 31, 2016 and 2015
(Amounts in thousands)

	2016	2015
Cash flows from operating activities:		
Operating revenues received	\$ 3,493,062	3,667,377
Paid to suppliers and employees:		
Operations and maintenance	(937,745)	(846,041)
Pass through taxes under certain long-term operating agreements	(200,938)	(192,729)
Power supply costs	(1,306,284)	(1,477,789)
Payments in lieu of taxes	(434,927)	(437,063)
Collateral on commodity derivative transactions, net	39,992	(45,007)
Pension funding	(28,100)	(30,000)
Net cash provided by operating activities	625,060	638,748
Cash flows from investing activities:		
Earnings received on investments	12,498	1,143
Restricted cash	371,257	(125,223)
Purchase of restricted investment securities	(394,239)	—
Purchase of investment securities	(189,712)	(29,500)
Other	3,207	2,426
Net cash used in investing activities	(196,989)	(151,154)
Cash flows from noncapital financing related activities:		
Grant proceeds	51,281	186,952
Proceeds from credit facility draws and commercial paper program	170,625	500,000
Redemption of credit facility draws and commercial paper program	(115,000)	(430,000)
Net cash provided by noncapital related activities	106,906	256,952
Cash flows from capital and related financing activities:		
Capital expenditures	(531,774)	(396,286)
Proceeds from insurance recoveries	49,580	—
Proceeds from the issuance of long-term debt	1,991,497	1,659,264
Advance refunding of long-term debt	(1,546,976)	(1,656,665)
Debt issuance costs	(10,153)	(8,658)
Other interest costs	(33,968)	(43,900)
Interest paid	(142,656)	(214,278)
Redemption of long-term debt	(126,930)	(164,505)
Interest paid - UDSA	(162,139)	(86,286)
Redemption of long-term debt - UDSA	(60,000)	(15,000)
Net cash used in capital and related financing activities	(573,519)	(926,314)
Net decrease in cash and cash equivalents	(38,542)	(181,768)
Cash and cash equivalents at beginning of year	600,698	782,466
Cash and cash equivalents at end of year	\$ 562,156	600,698
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 235,748	317,826
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	263,037	223,607
Operations and maintenance – amortizations	31,015	11,403
Other post-employment benefit non-cash expense	40,701	—
Nuclear fuel burned	10,946	14,119
Shoreham and VBA surcharges	49,976	39,995
Accretion of asset retirement obligation	3,581	3,802
Changes in operating assets and liabilities:		
Accounts receivable, net	(23,253)	3,011
Regulatory assets and liabilities	(26,096)	97,179
Fuel and material and supplies inventory	14,759	4,316
Accounts payable, accrued expenses and other	24,646	(76,510)
Net cash provided by operating activities	\$ 625,060	638,748

See accompanying notes to basic financial statements.

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(1) Nature of Operations

The Long Island Power Authority (the Authority) is the owner of the transmission and distribution (T&D) system located in the Counties of Nassau and Suffolk (with certain limited exceptions) and a portion of Queens County known as the Rockaways (Service Area), and is responsible for supplying electricity to customers within the Service Area. The Authority was established as a corporate municipal instrumentality of the State of New York (State), constituting a political subdivision of the State, created by Chapter 517 of the Laws of 1986 (the LIPA Act). As such, it is a component unit of the State and is included in the State's annual financial statements.

The Authority is subject to the LIPA Act and the LIPA Reform Act (Reform Act). Part A of the Reform Act addressed the reorganization of the Authority and changed its operating responsibilities, and Part B, referred to as the Securitization Law, created the Utility Debt Securitization Authority (UDSA). The Securitization Law provided a legislative foundation for the UDSA to issue restructuring bonds to allow the Authority to retire a portion of its outstanding indebtedness, providing savings to the Authority's customers on a net present value basis. The restructuring bonds are to be repaid by an irrevocable, nonbypassable restructuring charge on all the Authority's customers. The UDSA has a governing body separate from that of the Authority and has no commercial operations.

The Reform Act also made certain areas of the operations and rate setting of the Authority and PSEG Long Island subject to review and recommendations to the Authority's Board of Trustees by the New York Department of Public Service (DPS).

For a further discussion on the UDSA and the DPS, see note 4.

The Authority has operating agreements with service providers to provide the majority of services necessary to serve the Authority's customers. Below is a summary of the Authority's primary operating agreements:

Amended and Restated Operations Services Agreement : Effective January 1, 2014, PSEG Long Island, a wholly owned subsidiary of Public Service Enterprise Group (PSEG) fully dedicated to the Authority's Long Island operations, provides operations, maintenance and related services for the T&D system under the Amended and Restated Operations Services Agreement (A&R OSA). The A&R OSA expires December 31, 2025 and includes a provision that if PSEG Long Island achieves certain levels of performance based on criteria during the first 10 years, the parties will negotiate an eight-year extension on substantially similar terms and conditions. PSEG Long Island is paid a management fee and may earn incentives related to specified performance metrics. During the years ended December 31, 2016 and 2015, PSEG Long Island was paid a management fee totaling approximately \$62 million and \$39 million, respectively. For 2015, PSEG Long Island was paid an incentive fee totaling approximately \$5 million. For 2016, PSEG Long Island may earn an incentive fee up to approximately \$9 million.

In addition, essentially all costs of operating and maintaining the Authority's T&D system incurred by PSEG Long Island are passed through to and paid for by the Authority.

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Amended and Restated Power Supply Agreement (A&R PSA): National Grid (NGRID) provides capacity and energy from its oil and gas fired generating plants located on Long Island (herein referred to as GENCO) under the A&R PSA, which provides for the purchase of generation (including capacity and related energy) from these fossil fuel generating plants. The A&R PSA commenced May 28, 2013 and expires April 30, 2028. For a further discussion on the A&R PSA, see note 15.

Fuel Management Agreement (FMA) and Power Supply Management Agreement (PSM): PSEG Energy Resources and Trade LLC (PSEG ER&T) provides fuel management services for both the GENCO generating facilities and the non-GENCO units for which the Authority is responsible for providing fuel. Certain other services related to power supply management and commodity activities are also provided by PSEG ER&T. During the years ended December 31, 2016 and 2015, PSEG ER&T was paid a management fee totaling approximately \$17 million and \$16 million, respectively. The agreement with PSEG ER&T expire December 31, 2025 and are subject to extension.

(2) Summary of Significant Accounting Policies

(a) Reporting Entity

The Authority complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB Statement No. 62), the operations of the Authority are presented as an enterprise fund following the accrual basis of accounting in order to recognize the flow of economic resources.

The Authority's reporting entity is comprised of itself and (i) its operating subsidiary the Long Island Lighting Company (LILCO), a wholly owned subsidiary of the Authority doing business as "LIPA" and Power Supply Long Island, and (ii) the UDSA. All significant transactions between the Authority, LIPA and the UDSA have been eliminated. The Authority and its blended component units are referred to collectively as the "Authority" in the consolidated financial statements.

(b) Estimates

The accompanying financial statements were prepared in conformity with U.S. generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period as well as the reported amounts of assets and liabilities, including disclosure of contingent assets and liabilities, through the date of the financial statements. Actual results could differ from those estimates.

(c) Reclassifications

To achieve conformity and comparability, the Authority has reclassified certain amounts in prior year financial statements where applicable.

(d) Cash, Cash Equivalents and Investments (including Restricted)

Cash and cash equivalents and restricted cash and cash equivalents include all highly liquid financial instruments with a maturity of three months or less when purchased.

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Funds held by the Authority are administered in accordance with the Authority's investment guidelines pursuant to Section 2925 of the New York State Public Authorities Law. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities. Investments' carrying values are reported at fair market value.

Certain amounts have also been restricted for specific purposes. For a further discussion, see note 11.

(e) Counterparty Collateral

The Authority and its counterparties require collateral posting for mark-to-market valuations that exceed established credit limits. At December 31, 2016 and 2015, the Authority was required to post \$8.4 million and \$48.4 million, respectively, of collateral to various counterparties, which is recorded as a current asset.

(f) Fuel Inventory

The Authority owns the fuel oil used in the generation of electricity at the facilities under contract to it. Fuel inventory represents the value of low sulfur and other liquid fuels that the Authority had on hand at each year-end in order to meet the demand requirements of these generating stations. Fuel inventory is valued using the weighted average cost method. At the time of consumption, an expense is recorded at the weighted average cost.

(g) Material and Supplies Inventory

The materials and supplies inventory supports the operations and maintenance of the T&D system. The inventory is accounted for on a first in first out (FIFO) basis of accounting. During the year there were no significant write-downs for obsolescence.

The Authority owns 18% of the material and supplies inventory needed to support the operation of the Nine Mile Point Unit 2 (NMP2) nuclear power station. As of December 31, 2016 and 2015, the value of the NMP2 inventory totaled approximately \$10 million and \$12 million, respectively.

(h) Other Receivables and Long-Term Receivables

The current portion of other receivables is comprised primarily of nonelectric billings such as insurance damage claims. Also included as of December 31, 2016, is a \$22.5 million receivable for reimbursements related to the A&R PSA, for which the Authority received payment in January 2017.

The long-term portion of other receivables represents the net present value related to the reimbursable costs to construct the interconnection facilities related to the Neptune cable, which is to be paid to the Authority over a 20-year period that commenced in 2013.

(i) Unrealized Charges

Unrealized charges consist primarily of the ineffective balance of interest rate and commodity derivative instruments.

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(j) Acquisition Adjustment

The Acquisition Adjustment, an intangible asset, represents the difference between the purchase price paid and the net assets acquired from LILCO. The Acquisition Adjustment is amortized on a straight-line basis through 2026 which totals approximately \$111 million annually.

(k) Capitalized Lease Obligations

Capitalized lease obligations represent the net present value of various contracts including capacity and/or energy of certain generation and transmission facilities and certain fleet vehicle leases. Upon satisfying the capitalization criteria, the net present value of the contract payments is included in both Utility Plant and Capital Lease Obligations.

The capacity and energy contracts are recognized in power supply expense in an amount equal to the contract payment of the capitalized leases, as allowed through the ratemaking process. The value of the asset and the obligation is reduced each month to properly reflect the remaining net present value of the asset and obligation.

For a further discussion on the capitalization of capacity and/or energy contracts, see note 15.

(l) Borrowings

Borrowings represent the unamortized balance of cash premiums received at the time of entering into certain financial derivative instruments. The Authority is amortizing such premiums over the life of the instrument in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB Statement No. 53).

(m) Commodity and Financial Derivative Instruments

Represents the amount that the Authority believes it would be required to pay in order to terminate its commodity and financial derivative instruments as of December 31, 2016 and 2015, which approximates fair value.

(n) Long-Term Liabilities and Unrealized Credits

Long-term liabilities and unrealized credits consists primarily of the Authority's other post-employment retiree benefit obligation for Authority employees and impacts of any changes resulting from updated asset retirement studies.

(o) Claims and Damages

Losses arising from claims including workers' compensation claims, property damage, and general liability claims are partially self-insured. Reserves for these claims and damages are based on, among other things, experience and expected loss.

(p) Revenues

Operating revenues are comprised of cycle billings for electric service rendered to customers based on meter reads and the accrual of revenues for electric service rendered to customers not billed at

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month-end. The Authority accrues unbilled revenues by estimating unbilled consumption at the customer meter. Unbilled revenues totaled \$180 million and \$196 million as of December 31, 2016 and 2015, respectively.

(g) Depreciation and Amortization

The provisions for depreciation for utility plant result from the application of straight-line rates determined by age life studies of assets in service. The rates are applied to groups of depreciable properties. The Authority completed a depreciation study that identified an excess accumulated reserve imbalance and, as such, implemented depreciation rates amortizing that imbalance over the remaining life of the assets. However, in accordance with the Three Year Rate Plan adopted by the Authority's Board in December 2015 (as discussed in note 3), the unamortized excess reserve balance was reclassified from accumulated depreciation reserves and recorded as a regulatory liability. This regulatory liability was subsequently netted against the Acquisition Adjustment Asset to reduce the remaining unamortized balance of the Acquisition Adjustment by \$718 million. Therefore, effective January 1, 2016, the Authority adopted revised depreciation rates reflecting the adjusted remaining net book value and useful lives of the plant assets resulting in an average composite depreciation rate of 2.17% for 2016 compared with 1.63% for 2015.

Separately, capital lease assets and leasehold improvements are being amortized over the lesser of the life of the assets or the term of the lease, using the straight-line method. Property and equipment is being depreciated over its estimated useful life using the straight-line method.

The following estimated useful lives as determined by the updated depreciation study are used for utility property:

<u>Category</u>	<u>Useful life</u>
Generation – nuclear	46–54 years
Transmission and distribution	40–75 years
Common	5–55 years
Nuclear fuel in process and in reactor	6 years
Generation assets under capital lease	10–25 years

(r) Asset Retirement Obligation

The Authority, as an 18% owner of NMP2, has a legal obligation to fund its share of the decommissioning costs of the nuclear power plant. The legal obligation associated with the retirement of a tangible, long lived asset resulting from the acquisition, construction, development and/or normal operation of the asset is referred to as an Asset Retirement Obligation (ARO). The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and method of settlement. The ARO for NMP2 is continually reviewed for adequacy and was updated in 2015 based on a third party engineering study performed in 2014.

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The Authority also has an ARO related to certain of its T&D utility assets. Although no legal requirement exists to remove such assets from service, a “conditional” obligation is present based on the premise that eventually these assets will be removed from service as a result of deterioration. Accordingly, the Authority established a liability for the portion of the costs attributable to the “conditional” obligation. This ARO is also continually reviewed for adequacy and was updated during 2015.

A summary of the ARO activity of the Authority for the years ended December 31, 2016 and 2015 is included below:

	2016	2015
Asset retirement obligation:		
Beginning balance	\$ 62,906	66,414
Change due to updates	—	(7,310)
Accretion expense	3,581	3,802
Balance at December 31	\$ 66,487	62,906

(s) Long-Lived Assets

Long-lived assets and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that there is a significant unexpected decline in the service utility of a capital asset. Impairment, if any, would be measured using one of three approaches that best reflect the decline in service utility.

(t) Payments-in-Lieu-of-Taxes

The Authority makes payments-in-lieu-of-taxes (PILOTS) for certain taxes previously paid by LILCO, including gross income, property, Metropolitan Transportation Authority, and certain taxes related to fuels used in utility operations. In addition, the Authority has entered into various PILOT arrangements for property it owns, upon which merchant generation and transmission has been built.

(u) Allowance for Borrowed Funds Used During Construction

The allowance for borrowed funds used during construction (AFUDC) is the net cost of borrowed funds used for construction purposes. AFUDC is computed monthly on a portion of construction work in progress, and is shown as a net reduction in interest expense. The AFUDC rates were 4.17% and 4.84% for the years ended December 31, 2016 and 2015, respectively.

(v) Income Taxes

The Authority is a political subdivision of the State and, therefore, is exempt from Federal, state, and local income taxes, with the exception of federal taxes due for a portion of NMP2 decommissioning trust fund income.

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(w) Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as described below:

Level 1 – measurements that use quoted prices (unadjusted) for identical assets or liabilities in active markets that the Authority has the ability to access at the measurement date.

Level 2 – measurements other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – measurements that use unobservable inputs for an asset or liability. In some valuations, the inputs used may fall into different levels of hierarchy. In these cases, the financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For a further discussion on the fair value hierarchy levels of the Authority's derivatives and investments, see notes 8 and 11.

(x) Recent Accounting Pronouncements

GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB No. 68*, and Amendments to Certain Provisions of GASB Statements No. 67 and 68. GASB Statement No. 73 (the Pension Statements) generally aligns the reporting requirements for pensions and pension plans not covered in GASB Statement No. 67 and 68 with the reporting requirements in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB Statement No. 68). This Statement took effect fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB No. 68, which are effective for fiscal years beginning after June 15, 2016.

GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEBs)*. This Statement took effect periods beginning after June 15, 2016. GASB also issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement will take effect for period beginning after June 15, 2017. GASB Statements No. 74 and No. 75 (the OPEB Statements) address (1) financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria and (2) reporting

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by governments that provide OPEBs to their employees and for governments that finance OPEBs for employees of other governments.

GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* addressing certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

GASB issued Statement No. 83, *Certain Asset Retirement Obligations* addressing accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

The Authority is currently evaluating the impact of these statements on the accompanying consolidated financial statements, and does not expect a material impact upon adoption.

(3) Rate Matters

The LIPA Act requires that any bond resolution of the Authority contain a covenant that it will at all times maintain rates, fees, or charges sufficient to pay the costs of: operation and maintenance of facilities owned or operated by the Authority; PILOTS; renewals, replacements, and capital additions; and the principal of, and interest on, any obligations issued pursuant to such resolution as the same become due and payable. In addition, the Authority must establish or maintain reserves or other funds or accounts required or established by or pursuant to the terms of such resolution.

The Authority's Board is empowered under its enabling statute to set rates for electric service in the Service Area without obtaining the approval of the Public Service Commission (PSC) or its staff arm, the DPS, or any other State regulatory body.

In accordance with the Reform Act, on January 30, 2015, the Authority and PSEG Long Island submitted to the DPS a Three Year Rate Plan for rates and charges to take effect on or after January 1, 2016. Evidentiary hearings were held and other parties had the opportunity to present evidence and cross-examine the Authority, PSEG Long Island, and DPS witnesses. All of this information was available to the DPS for their review. Following the review of the Three Year Rate Plan by DPS, on September 28, 2015, DPS submitted its rate recommendation to the Authority's Board (the DPS Recommendation). The Authority's Board met on October 19, 2015 to consider the DPS Recommendation and did not make a

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preliminary determination of inconsistency; therefore, pursuant to the Reform Act, on December 16, 2015, the Authority's Board implemented the Three Year Rate Plan set forth in the DPS Recommendation.

PSEG Long Island and the Authority's original submission proposed rate increases of \$72.7 million, \$74.3 million, and \$74.3 million for the years 2016, 2017 and 2018, respectively. The cumulative revenue requirement increase of \$441.0 million over the three-year period would have resulted in an increase of approximately 2.0% each year or a cumulative 6.0% over the three-year period to the Authority's overall electric revenues, including power supply costs. Subsequently, throughout the proceeding, as PSEG Long Island, the Authority, the DPS staff, and other parties updated revenue requirement positions, the incremental rate request was decreased in September 2015 to \$58.2 million, \$72.2 million, and \$68.1 million for the years 2016, 2017 and 2018, respectively, for a cumulative increase of \$387.2 million or 5.4%. The final DPS Recommendation, approved by the Authority's Board, was for the Authority to set rates designed to adjust revenue requirements by \$30.4 million, \$77.6 million, and \$79.0 million for the years 2016, 2017 and 2018, respectively, for a cumulative increase of \$325.4 million or 5.0%. At those proposed levels, the Authority's overall electric revenues, including power supply costs, would increase by approximately 0.8%, 2.1%, and 2.1%, respectively.

The Three Year Rate Plan also incorporated a new Board-adopted financial policy seeking to reduce the portion of the Authority's capital plan funded by debt to 64% or less and to raise the Authority's credit ratings to A2 by Moody's Investors Service (Moody's), A by Standard and Poor's Global Ratings (S&P), and A by Fitch Ratings (Fitch) over five years. To achieve these goals, the Three Year Rate Plan adopted the "public power model" of rate-setting as proposed by Authority staff, and recommended by the DPS, which makes use of the debt service coverage method of determining revenue requirements. For the Authority, this entails a budgeting mechanism that seeks to achieve fixed obligation coverage targets (including capitalized leases) on Authority issued debt of 1.20x, 1.30x, 1.40x in 2016, 2017, and 2018, respectively (and 1.45x in 2019 after the Three Year Rate Plan). When the UDSA restructuring bonds are included, these coverage ratio targets are a minimum of 1.15x, 1.20x and 1.25x in 2016, 2017, and 2018, respectively (and 1.25x in 2019). The Authority's methodology for calculating the fixed obligation coverage ratio excludes certain specified noncash items from expenses including depreciation expense, the Acquisition Adjustment and other regulatory asset amortizations, as well as the accrual expense related to the Authority and PSEG Long Island employee OPEBs. In 2016, the Authority achieved a fixed obligation coverage ratio of 1.26x on Authority issued debt and 1.19x when the UDSA restructuring bonds are included, meeting its 2016 targets. The Authority cannot predict whether such targets will be realized in 2017 and beyond.

The DPS Recommendation also includes an update process, referred to as Staged Updates, which took place in December 2015 and December 2016 to adjust delivery rates higher or lower to reflect measurable changes in certain specified projected costs, and a cost reconciliation mechanism, referred to as the Delivery Service Adjustment (DSA), to reconcile certain specified projected costs to actual costs in each year. A Staged Update will also be completed in December 2017.

The Staged Updates provide for updating electric rates at the beginning of each year for items subject to variability due to external factors including, among others: debt service (variances in interest rates, capital expenditures and savings derived from the UDSA financings) (also subject to the Delivery Service

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Adjustment); certain components of the costs of the A&R PSA with NGRID (variances in property taxes and pensions and benefits settlements (also subject to the Delivery Service Adjustment)); property-based PILOTS; and certain other legal or regulatory changes. Projections will be updated each autumn, subject to DPS review, and presented to the Authority's Board as part of the annual budget process. The initial Staged Update in 2015 resulted in updates that lowered the Authority's 2016 revenue requirements from what was set forth in the DPS Recommendation by \$10.3 million. The subsequent Staged Update in 2016 resulted in a minimal adjustment of approximately \$751,000 to the Authority's 2017 revenue requirements from what was originally set forth in the DPS Recommendation.

The DSA provides cost recovery or refunding for certain items that vary due to external factors, which items include, among others: debt service (variances in interest rates, capital expenditures and savings derived from the UDSA financings); all components of the Authority's A&R PSA with NGRID and operating costs related to the Authority's ownership of NMP2; and storm restoration expenditures (variances from the approximately \$50 million per year budgeted for storm restoration expenses in base rates). The DSA is calculated through the end of September each year, which allows for the bill impact to be known in advance of the annual budget approval. Any adjustments are reviewed by DPS and implemented on the following January 1st.

The DPS Recommendation also affirmed the Authority's use of a Revenue Decoupling Mechanism (RDM) which was originally approved by the Authority's Board in March 2015. All six of the major New York State electric utilities have RDMs within their tariffs for delivery service. Mechanically, RDMs function by comparing actual revenues with authorized revenues and crediting (or collecting) any differences to (or from) customers; it is intended to cover all sources of variances in delivery service revenues including, among other things, any net lost revenues attributable to the implementation of energy efficiency or net metering programs, any revenue variances caused by warmer or cooler than normal weather, and revenue variations that result from changes in economic conditions.

On December 16, 2015, the Authority's Board adopted a resolution implementing the DPS Recommendation by, among other things, approving the proposed 2016 Operating and Capital Budgets, approving revisions to the base rates for delivery service within the tariff designed to recover the level of revenue with the budgets consistent with the DPS Recommendation, establishing the DSA within the tariff, and adopting the financial policy that was applied in the Three Year Rate Plan described above. On December 20, 2016, the Authority's Board adopted the resolution approving the proposed 2017 Operating and Capital Budgets.

After the 2016-2018 period, the Authority and PSEG Long Island are only required to submit a proposed rate increase for DPS review if it would increase the rates and charges by an amount that would increase the Authority's total annual revenues by more than 2.5%. In addition, the Authority may place rates in effect on an interim basis, and such interim rates are subject to prospective adjustment only. The Authority's Board retains final rate setting power.

In addition to the items discussed above, the Authority's tariff also includes: (i) a Power Supply Charge to allow for adjustments to customers' bills to reflect changes in the cost of fuel, purchased power and related costs; (ii) a PILOTS recovery rider to allow rate adjustments to accommodate changes in revenue-based

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PILOTS; (iii) a rider providing for the recovery of costs associated with the Shoreham Property Tax Settlement; (iv) a rider for the Authority's distributed energy resources program; (v) a rider providing for the collection of the Temporary State Assessment and New York State assessment imposed by the New York State Legislature; and (vi) a visual benefit assessment for certain customers in the Town of Southampton.

(4) Component Unit – Utility Debt Securitization Authority

Part B of the Reform Act created the Securitization Law, which established the UDSA to permit the issuance of restructuring bonds to allow the Authority to retire a portion of its outstanding indebtedness in order to provide savings to the Authority's customers as measured on a net present value basis. The Securitization Law, as amended, allows for a total issuance of up to \$4.5 billion of UDSA restructuring bonds.

Each issuance of restructuring bonds is separately secured by distinct collateral pursuant to a new financing order. Each such financing order authorizes restructuring bonds to be repaid pursuant to that financing order by an irrevocable contract right to impose, bill, and collect a nonbypassable consumption based Restructuring Charge from all existing and future retail electric customers taking electric transmission or distribution service within the Service Area from the Authority or any of its successors or assignees.

On December 18, 2013, pursuant to Financing Order No. 1 adopted on October 3, 2013, the UDSA issued approximately \$2.02 billion of restructuring bonds. On June 26, 2015, the Authority's Board adopted Financing Orders No. 2, No. 3 and No. 4, which allowed the UDSA to issue additional restructuring bonds during 2015 and 2016. All such financing orders are substantively the same, and each financing order permits the UDSA to issue additional restructuring bonds in an aggregate amount not to exceed the amount authorized by the Securitization Law.

In 2015, pursuant to Financing Order No. 2, the UDSA issued approximately \$1.002 billion of 2015 Restructuring Bonds and in 2016, pursuant to Financing Orders No. 3 and No. 4, the UDSA issued approximately \$637 million of 2016A Restructuring Bonds and \$469 million of 2016B Restructuring Bonds, respectively. The issuance of the 2015 and the 2016 Restructuring Bonds reduced the available amount of restructuring bonds permitted to be issued by the Securitization Law to approximately \$370 million.

To pass through the benefits of securitization to customers, the Authority has modified its rate structure to create a restructuring offset charge, which is an amount equal to and opposite the Restructuring Charge, so the customer bill is less than it would have been absent the sale of restructuring bonds. The restructuring offset charge will be adjusted coincident with changes to the Restructuring Charge to maintain that equality.

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As discussed in note 2, UDSA is a component unit of the Authority and all of the activities and balances of the UDSA are blended into and reported as part of the Authority as follows:

Consolidating Condensed Statements of Net Position
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	<u>Authority</u>	<u>UDSA</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets and deferred outflows of resources:				
Current assets	\$ 1,915,623	128,267	(2,103)	2,041,787
Utility plant and property and equipment, net	7,768,551	—	—	7,768,551
Noncurrent assets	2,979,326	4,383,747	(4,359,428)	3,003,645
Deferred outflows of resources	286,779	—	—	286,779
Total assets and deferred outflows of resources	<u>\$ 12,950,279</u>	<u>4,512,014</u>	<u>(4,361,531)</u>	<u>13,100,762</u>
Liabilities and net position:				
Current liabilities	\$ 1,269,134	90,108	(2,103)	1,357,139
Long-term debt	3,396,020	4,360,731	—	7,756,751
Noncurrent liabilities	7,373,343	—	(4,359,428)	3,013,915
Deferred inflows of resources	517,891	—	—	517,891
Net position	393,891	61,175	—	455,066
Total liabilities, deferred inflows of resources and net position	<u>\$ 12,950,279</u>	<u>4,512,014</u>	<u>(4,361,531)</u>	<u>13,100,762</u>

Consolidating Condensed Statements of Revenues, Expenses, and Change in Net Position
December 31, 2016

	<u>Authority</u>	<u>UDSA</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenues	\$ 3,122,229	278,975	(2,103)	3,399,101
Operating expenses	3,056,507	108,949	(2,103)	3,163,353
Operating income	65,722	170,026	—	235,748
Nonoperating revenue and expenses	87,403	225	—	87,628
Interest charges and (credits):				
Interest on long-term debt	166,780	164,574	—	331,354
Other interest and amortizations	48,351	(29,896)	—	18,455
Total interest charges and (credits)	215,131	134,678	—	349,809
Change in net position	(62,006)	35,573	—	(26,433)
Beginning net position	455,897	25,602	—	481,499
Ending net position	<u>\$ 393,891</u>	<u>61,175</u>	<u>—</u>	<u>455,066</u>

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(5) Regulatory Accounting

The Authority's Board has taken various regulatory actions that result in differences between the recognition of revenues and expenses for rate-making purposes and their treatment under generally accepted accounting principles for nonregulated entities. These actions result in regulatory assets and liabilities, which are summarized in the table below:

	2016	2015
Regulatory assets to be recovered within one year		
Operations services agreement – employee retirement benefits	\$ 54,199	54,199
Shoreham property tax settlement	43,498	43,498
Power supply charge	9,400	4,800
Employee benefit plan settlement	21,634	21,634
Revenue decoupling mechanism	15,024	17,297
New York State assessment	1,330	1,708
Debt issuance costs	3,209	4,100
Enterprise resource planning system	—	4,860
Outage management system	—	2,424
Southampton visual benefit assessment	948	888
Distributed energy resources	1,770	—
Balance at December 31,	\$ 151,012	155,408
Regulatory assets for future recovery		
Operations services agreement – employee retirement benefits	423,050	413,978
Shoreham property tax settlement	424,396	447,414
Employee benefit plan settlement	173,070	194,705
Power supply charge	44,649	49,310
Delivery service adjustment	41,841	—
Debt issuance costs	33,004	38,498
Enterprise resource planning system	—	43,670
Outage management system	—	21,757
Southampton visual benefit assessment	8,229	8,407
Balance at December 31,	\$ 1,148,239	1,217,739
Regulatory liabilities payable within one year		
Delivery service adjustment	\$ 12,100	—
Power supply charge	—	30,027
Balance at December 31,	\$ 12,100	30,027

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(a) A&R OSA – Employee Retirement Benefits

The Authority is responsible for reimbursing PSEG Long Island for retirement benefit costs associated with the PSEG Long Island workforce. The retirement benefit plans are owned, sponsored, and the legal obligation of PSEG Long Island. However, in most cases, PSEG Long Island employee compensation costs are a contractual cost of the Authority under the A&R OSA, including the cost for these retirement benefits (and any required pre-funding of such benefits).

The PSEG Long Island workforce includes both former NGRID electric-servicing employees under the expired Management Services Agreement (MSA) (referred to as transitioned employees) and newly hired employees. PSEG Long Island recognizes the assets and liabilities associated with the retirement benefit plans; however, they also recognize a receivable from the Authority for the unfunded portion of any liabilities resulting from the Authority's contractual obligation to fund these employee costs.

The balance of the A&R OSA – Employee Retirement Benefits regulatory asset as of December 31, 2016 and 2015, represents costs and liabilities which have been incurred but not yet collected in electric rates. This amount will be different from the Authority's liability to PSEG Long Island due to differences between funding and recovery levels.

A significant portion of this contractual liability resulted from the transitioned employees being protected against benefit losses from the Authority's change in service providers. The PSEG Long Island retirement plans ensure that transitioned employees earn a retirement benefit that, when combined with their accrued NGRID benefits, will be equal to the benefit they would have received had the transitioned employees remained with NGRID. This provision created a prior service cost liability totaling \$442 million at the beginning of the A&R OSA on January 1, 2014.

Retirement benefit obligations are for future cash outlays that will be incurred as the PSEG Long Island employees receive retirement benefits and are therefore estimates of such costs. Differences between the amounts collected from customers and the amounts owed to PSEG Long Island for these benefits may also arise from changes in asset values, plan amendments, interest rates, and actuarial assumptions, among other factors, which will be reflected in the balance of the regulatory asset.

The Authority contributes to a PSEG Long Island sponsored pension trust on an ongoing basis to pre-fund these obligations. Additionally, the Authority sets aside funds in an OPEB Account to meet these future retirement benefit cost obligations.

(b) Shoreham Property Tax Settlement (Settlement)

In January 2000, the Authority reached an agreement with Suffolk County, the Town of Brookhaven, the Shoreham-Wading River Central School District, the Wading River Fire District and the Shoreham-Wading River Library District (which was succeeded by the North Shore Library District) (collectively, the Suffolk Taxing Jurisdictions) and Nassau County regarding the over assessment of the Shoreham Nuclear Power Station. Under the terms of the agreement, the Authority issued \$457.5 million of rebates and credits to customers over a five-year period. In order to fund such rebates and credits, the Authority used proceeds from its Capital Appreciation Bonds, Series 1998A Electric

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System General Revenue Bonds totaling \$146 million and Series 2000A Electric System General Revenue Bonds totaling \$325 million.

As provided under the Settlement, beginning in June 2003, Suffolk County customers' bills include a surcharge (the Suffolk Surcharge) to be collected over the succeeding approximate 25-year period to repay the debt service and issuance costs on the bonds issued by the Authority to fund the Settlement as well as the cost of pre-funding certain rebates and credits.

As rates are established at a level sufficient to recover all such costs identified above, the Authority recorded a regulatory asset. The balance remaining represents rebates and credits issued to customers, costs of administering the program, plus annual debt service costs on the bonds identified above, less surcharges collected since 2003.

(c) Employee Benefit Plan Settlement

The MSA between the Authority and NGRID provided, among other things, that upon termination of the MSA, when a third party succeeded NGRID as the service provider, the successor would assume the rights and obligations of NGRID regarding certain employee benefit plan liabilities. The A&R OSA with PSEG Long Island, however, did not require PSEG Long Island to assume the employee benefit plan assets and liabilities related to the MSA, which were co-mingled with those of other NGRID employees.

On December 31, 2013, the Authority signed an Employee Benefit Plan Settlement with NGRID and its affiliates. The settlement resolved the parties' respective employee benefit plan funding obligations for NGRID's electric-serving employees. The balance totaled \$216 million and the Authority's Board approved deferred recovery of such costs from customers over a 10-year period, the remaining term of the A&R OSA, as virtually all former employees of NGRID covered by these plans have been transitioned to PSEG Long Island and continue to serve electric customers. Amortization of this settlement began on January 1, 2016.

(d) Delivery Service Adjustment (DSA)

The DSA provides cost recovery or refunding for certain items that vary due to external factors, including: debt service (variances in interest rates, capital expenditures and savings derived from the UDSA financings); all components of the Authority's A&R PSA with NGRID and operating costs related to the Authority's ownership of NMP2; and storm restoration expenditures (variances from the approximately \$50 million per year budgeted for storm restoration expenses in base rates). The DSA is calculated through the end of September each year, and as of September 30, 2016, the first reporting period of the DSA, the balance totaled a \$12 million liability to the customer, and was incorporated into the 2017 budget and rates.

The remaining DSA recoverable balance is a result of the storm recovery rider component of the DSA. The recovery or refund of any storm restoration costs above or below the annual budgeted amount is amortized over a three-year period. The balance carried forward for recovery in future years totaled approximately \$42 million.

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(e) Revenue Decoupling Mechanism

The RDM, which was implemented on April 1, 2015, ensures that only approved revenues for delivery service are collected from customers. The RDM compares actual revenues with authorized revenues and credits (or collects) any differences to (or from) customers. It is intended to cover all sources of variances in delivery service revenues including, among other things, any net lost revenues attributable to the implementation of energy efficiency or net metering programs, any revenue variances caused by warmer or cooler than normal weather, and revenue variations that result from changes in economic conditions.

The RDM is applied to delivery rates on a percentage basis and is reset at the beginning of each year to include the prior year surplus or shortfall between actual and authorized revenues for delivery service. The RDM also utilizes such realized prior year surplus or shortfall to update delivery rates for the current year so as to minimize future variances between actual and authorized revenues. In no event, may the Authority recover an amount that exceeds authorized delivery revenues. The cumulative balance as of December 31, 2016 was approximately \$15 million due from customers and is set to be collected in 2017.

As of December 31, 2015, the RDM was approximately \$17 million due from customers which was collected from customers during the period from March through September 2016.

(f) New York State Temporary Energy and Utility Conservation Assessment

As a result of an amendment to the Public Service Law effective April 1, 2009, the Authority was required to collect from all customers a special assessment to be paid directly to the State for a five-year period that began in 2009. Subsequent legislation extended the assessment at its full rate through March 2015 and at declining percentages each subsequent year such that it phases out by the end of calendar year 2017.

(g) Debt Issuance Costs

The Authority established a regulatory asset for debt issuance costs. The regulatory asset will be amortized as a component of the Authority's revenue requirement on a systematic basis over the life of the debt to which they relate.

(h) Enterprise Resource Planning (ERP system) Costs and Outage Management System (OMS)

PSEG Long Island implemented a long term ERP solution to allow the PSEG Long Island T&D business to separate from the NGRID ERP system and financial functions. PSEG Long Island also transitioned to the PSEG OMS system to track and manage repair of electric system outages. As these assets are not owned by the Authority, but such costs were incurred solely for the benefit of the Authority, the costs of these projects were initially recognized as regulatory assets.

However, in March 2016, the Authority's Board authorized eliminating the ERP and the OMS regulatory assets with the proceeds of an insurance settlement for losses related to the Authority's T&D system damages caused by Superstorm Sandy. Rather than recognize a one-time net book value gain of that

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insurance settlement, the Board authorized the Authority to net the proceeds against the deferred costs related to the ERP system and OMS system totaling \$73 million.

(i) Recoverable Power Supply Costs

The Authority's tariff includes a Power Supply Charge that provides for the recovery of power supply costs on a monthly basis. The tariff provides for a reconciliation such that in no event may the Authority recover an amount that exceeds power supply costs incurred. For the year ended December 31, 2016 actual power supply costs were above amounts recovered in the Power Supply Charge, and as a result, a regulatory asset totaling \$5 million was recorded. For the year ended December 31, 2015, actual power supply costs were below amounts recovered and a regulatory liability of \$30 million was recorded and such amounts were returned to customers during 2016, as prescribed by the monthly collection method.

Also recoverable through the power supply charge are transition costs related to the power supply management contract with PSEG ER&T. The Authority's Board approved deferral of the transition costs associated with transitioning to the power supply management contract with PSEG ER&T. Collection of these costs totaling \$19 million are being recovered over an eleven-year period, that commenced January 1, 2015, coincident with the contract beginning January 1, 2015 and expiring December 31, 2025. As of December 31, 2016 and 2015, the remaining balance of such costs totaled \$15 million and \$17 million, respectively.

Also recorded as recoverable power supply costs are amounts incurred related to various energy projects, the amortization of which is charged to power supply costs over the period of benefit (the life of the power purchase agreement). As of December 31, 2016 and 2015, the balance was \$34 million and \$37 million, respectively.

(j) Southampton Visual Benefit Assessment

The Authority has recorded the incremental costs incurred to bury a portion of a transmission cable routed through the Town of Southampton (Town), which are being recovered from certain customers of the Town over a period of 20 years that began in 2009.

(k) Regulatory Credits – Grants

The Authority has received grants for storm restoration and storm hardening. In 2014, the Authority's Board authorized the deferral of grant income recognition as a regulatory credit for grants related to capital expenditures for storm hardening. Thus, this regulatory credit will be deferred to match the depreciable lives of the related capital assets so that the grant income is recognized over the same time period as the depreciation expense on these capital assets. Therefore, as no such assets have been placed into service, no depreciation expense has been recorded as of December 31, 2016; and the regulatory credit balance remains the same as of December 31, 2016 at \$502 million.

(l) Distributed Energy Resources

The Distributed Energy Resources (DER) charge recovers costs of the Authority's energy efficiency and renewable resources programs. The Authority funds a significant amount of energy efficiency

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programs as the most cost effective resource available to achieve its goal of reducing demand. The costs of such programs are authorized by the Authority's Board annually in its approved budget and billed to customers through the DER charge based on energy usage.

(6) Deferred Outflows and Deferred Inflows of Resources

Certain assets and liabilities are reported as deferred outflows of resources (expenses or expenditures) and deferred inflows of resources (revenues) as follows:

(a) *Deferred Defeasance Costs on Debt Refunding*

Deferred defeasance costs on refunding debt represent the difference between the reacquisition price and the carrying amount of the refunded debt. These deferred costs are amortized as a component of interest expense over the shorter of the life of the old or new debt.

(b) *Changes in Fair Value of Derivative Instruments*

The accumulated changes in the fair value of hedging derivative instruments that are deemed effective are reported as deferred outflows or deferred inflows of resources. Under hedge accounting, the changes in the mark-to-market valuation of a hedging derivative instrument, in asset or liability positions, are reported as a deferred inflow of resources or deferred outflow of resources, respectively, on the Statements of Net Position.

As the Authority follows GASB Statement No. 62, any changes in ineffective investment derivative instruments are reported as unrealized charges. The change in fair value of investment derivative instruments are reported as unamortized charges, as the Authority's Board has authorized the deferral of these unrealized gains or losses until realized, which corresponds to the period when they are recovered in rates.

(c) *Changes in Fair Market Value of NMP2 Decommissioning Trust and OPEB Account*

The Authority maintains a Trust for the decommissioning of NMP2. Separately, the Authority maintains an OPEB Account to set aside funds to meet future retirement benefit costs. These funds are reported at their fair market value and any unrealized gains or losses are recognized as a component of deferred inflows or deferred outflows of resources in accordance with the Authority's ratemaking process and have no impact to the Authority's net position. For a further discussion on the Authority's NMP2 decommissioning obligations and Trust, see notes 10 and 11. For a further discussion on the Authority's OPEB Account, see note 11.

(d) *Pension*

In accordance with GASB Statement No. 68, the Authority reports the difference between expected and actual experience, the net difference between projected and actual investment earnings on pension plan investments, differences between employer contributions and proportionate share of contributions, changes in the Authority's contributions to the pension system subsequent to the measurement date as deferred inflows or outflows of resources.

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(7) Federal Emergency Management Agency (FEMA) Grants

In 2012, Superstorm Sandy caused significant damage to the Authority's Service Area resulting in the declaration of a federal major disaster area and making the Authority eligible for FEMA grants. The Authority and FEMA signed a Letter of Undertaking (LOU) that provides for a Public Assistance (PA) grant authorized under Section 428 of the Stafford Act (428 Grant Agreement) for a total eligible reimbursement of \$1.29 billion (90% of \$1.43 billion contained in the LOU). The Authority also signed a Community Development Block Grant (CDBG) to compensate for the nonfederal match of certain declared weather events including Superstorm Sandy, Hurricane Irene, and Snowstorm Nemo.

As of December 31, 2016, the Authority received funding resulting from Superstorm Sandy costs totaling approximately \$1.11 billion under the FEMA 428 Grant Agreement, and \$90 million under CDBG. The Authority has reimbursed its unrestricted funds for amounts expended totaling \$688 million, with the balance of approximately \$471 million remaining in a segregated account to be used to pay any remaining unpaid storm restoration costs and fund future storm hardening and mitigation efforts.

(8) Derivative Instruments

Derivative instruments are used by the Authority in its normal course of business to attempt to manage the impact to its customers of interest rate changes and market price fluctuations for the purchase of fuel oil, natural gas and electricity. The Authority does not use derivative instruments for trading or speculative purposes. These contracts are evaluated pursuant to GASB Statement No. 53 to determine whether they meet the definition of derivative instruments, and whether they effectively hedge the expected cash flows associated with interest rate and commodity price risk exposures. The fair values of the Authority's derivatives are reported on the Statements of Net Position as either Commodity Derivative Instruments or Financial Derivative Instruments.

The Authority applies hedge accounting for derivative instruments that are deemed effective under GASB Statement No. 53. Under hedge accounting, changes in the fair value of such hedging derivative instrument is a component of deferred inflows or deferred outflows on the Statements of Net Position until the contract is settled or hedge accounting is terminated. Derivative instruments that do not meet the definition of a hedging derivative instrument are economic hedges, intended to mitigate exposure to fluctuations in interest rates or commodity prices and are referred to as investment derivative instruments. Changes in the fair value of investment derivative instruments are deferred until settled or terminated in accordance with the Authority's ratemaking process.

All settlement payments or receipts for hedging and investment derivative instruments are recorded as either power supply expense for commodity derivatives or interest expense for interest rate derivatives on the Statements of Revenues, Expenses and Changes in Net Position in the period settled.

The Authority's interest rate derivative contracts are valued in accordance with GASB Statement No. 72. The interest rate derivative contracts are based on the present value of cash flows using the income approach. The interest rate derivatives contracts are classified in Level 2 (as previously defined in note 2) as their valuation relies primarily on observable inputs.

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The Authority's commodity derivative contracts are transacted both over-the-counter and through clearing exchanges and the valuations are based upon price quotes from exchanges and third party brokers. The impacts of credit and nonperformance risk by either the Authority or its counterparty were not material to the financial statements as all the Authority's counterparties are highly rated as noted in the credit risk discussion below.

The Authority's derivative instruments are as follows:

Derivative instrument description	Fair value December 31, 2016	Net change in fair value	Fair value December 31, 2015	Type of hedge	Financial statement classification for changes in fair value
Hedging derivative instruments:					
Financial derivatives:					
Total return sw ap	\$ 1,866	609	1,257	Cash flow	Deferred inflow s
Total return sw ap	980	980	—	Cash flow	Deferred inflow s
Total	<u>\$ 2,846</u>	<u>1,589</u>	<u>1,257</u>		
Commodity derivatives:					
Purchased power sw aps	\$ (9,065)	(14,932)	5,867	Cash flow	Deferred inflow s/(outflow s)
Natural gas basis sw aps	(2,675)	(65)	(2,610)	Cash flow	Deferred inflow s/(outflow s)
Total	<u>\$ (11,740)</u>	<u>(14,997)</u>	<u>3,257</u>		
Investment derivative instruments:					
Financial derivatives:					
Synthetic Fixed-A	\$ (206,016)	39,302	(245,318)	N/A	Unrealized charges
Basis Sw ap-A	(12,861)	(5,388)	(7,473)	N/A	Unrealized charges
Basis Sw ap-B	(6,430)	(2,694)	(3,736)	N/A	Unrealized charges
Basis Sw ap-C	(6,430)	(2,694)	(3,736)	N/A	Unrealized charges
Total	<u>\$ (231,737)</u>	<u>28,526</u>	<u>(260,263)</u>		
Commodity derivatives:					
Power options	\$ —	64	(64)	N/A	Unrealized charges
Power – financial basis	(594)	3,369	(3,963)	N/A	Unrealized charges
Purchased power sw aps	(16,503)	(15,354)	(1,149)	N/A	Unrealized charges
Natural gas options	(2,652)	(36,778)	34,126	N/A	Unrealized charges
Natural gas sw aps	17,596	167,488	(149,892)	N/A	Unrealized charges
Total	<u>\$ (2,153)</u>	<u>118,789</u>	<u>(120,942)</u>		

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GASB Statement No. 72, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: Level 1, Level 2 and Level 3 (as previously discussed in note 2). In accordance with GASB Statement No. 72, the Authority determines the level in fair value hierarchy within which each fair value measurement in its entirety falls, based on the lowest level input that is significant to the fair value measurement in its entirety. The following table presents the Authority's derivative instruments measured and recorded at fair value on the Statements of Net Position on a recurring basis and their level within the fair value hierarchy:

	2016			2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative assets:						
Financial derivatives	\$ —	2,846	—	—	1,257	—
Commodity derivatives	17,596	—	—	5,867	34,126	—
Derivative liabilities:						
Financial derivatives	—	(231,737)	—	—	(260,263)	—
Commodity derivatives	(2,675)	(28,814)	—	(153,651)	(4,027)	—
	<u>\$ 14,921</u>	<u>(257,705)</u>	<u>—</u>	<u>(147,784)</u>	<u>(228,907)</u>	<u>—</u>

The terms of the Authority's commodity derivative instruments that were outstanding at December 31, 2016 and 2015 are summarized in the tables below:

	Notional amount	Units	Beginning date	Ending date	Authority pays per unit (in dollars)	Authority receives
2016:						
Natural Gas Swaps	\$ 87,278	Dthms	1/1/2017	12/1/2019	\$ 2.530 to \$ 4.630	Natural Gas at Henry Hub
Natural Gas Basis Swaps	49,090	Dthms	1/1/2017	3/1/2019	\$ 2.510 to \$ 10.220	Gas Basis between Henry Hub & Transco Z6, NY
Natural Gas Options	20,200	Dthms	1/1/2017	12/1/2018	\$ 3.500 to \$ 5.550	Natural Gas at Henry Hub
Purchased Power Swaps ⁽¹⁾	4,739	Mwhs	1/1/2017	12/1/2019	\$ 22.750 to \$ 75.790	Power at PJM West or JCPL
Purchased Power Basis	3,078	Mwhs	1/1/2017	12/1/2019	\$ (6.000) to \$ 1.600	Power Basis between PJM West to JCPL
2015:						
Natural Gas Swaps	\$ 107,930	Dthms	1/1/2016	12/1/2018	\$ 2.495 to \$ 4.725	Natural Gas at Henry Hub
Natural Gas Basis Swaps	45,548	Dthms	1/1/2016	3/1/2018	\$ (1.200) to \$ 3.850	Gas Basis between Henry Hub & Transco Z6, NY
Natural Gas Options	43,315	Dthms	1/1/2016	12/1/2018	\$ 3.000 to \$ 5.550	Natural Gas at Henry Hub
Purchased Power Swaps ⁽¹⁾	5,814	Mwhs	1/1/2016	12/1/2018	\$ 29.250 to \$ 56.310	Power at PJM West or JCPL
Purchased Power Basis	1,010	Mwhs	7/1/2016	12/1/2018	\$ (2.100) to \$ (1.550)	Power Basis between PJM West to JCPL
Purchased Power Options ⁽²⁾	168	Mwhs	10/1/2016	11/1/2016	\$ 34.000 to \$ 34.000	Power at PJM West

⁽¹⁾ Purchased Power Swaps are executed as either a swap or synthetically, as a combination of a Power Heat Rate swap and a Natural Gas Swap

⁽²⁾ Purchased Power Options are executed synthetically, as a combination of a Power Heat Rate swap and a Natural Gas Swap

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The terms of the Authority's interest rate derivative instruments that were outstanding at December 31, 2016 are summarized in the tables below:

<u>Financial derivative</u>	<u>Effective date</u>	<u>Termination date</u>	<u>Authority pays</u>	<u>Authority receives</u>	<u>Original notional</u>	<u>Upfront cash payment</u>
Synthetic Fixed-A	6/1/2003	12/1/2029	5.120 %	69.47% of 1-month LIBOR \$	587,225	106,400
Basis Swap-A	7/1/2004	8/15/2033	SIFMA	70.50% of 1-month LIBOR	502,090	17,500
Basis Swap-B	7/1/2004	8/15/2033	SIFMA	70.50% of 1-month LIBOR	251,045	8,750
Basis Swap-C	7/1/2004	8/15/2033	SIFMA	70.50% of 1-month LIBOR	251,045	8,750
Total Return Swap	6/29/2015	6/29/2020	69.4% 1-month LIBOR+.40%	MMD +1.10% ^a	200,000	—
Total Return Swap	9/15/2016	9/1/2021	69.4% 1-month LIBOR+.30%	MMD +1.05% ^a	175,000	—

^a Based on lowest long-term rating of the Authority.

During 2015, the Authority completed a direct placement of \$200 million Electric System General Revenue Bonds, Series 2015A Municipal Market Data (MMD) Floating Rate Notes (FRN). During 2016, the Authority completed another direct placement of \$175 million Electric System General Revenue Bonds, Series 2016A MMD FRNs.

Immediately following each direct placement, the Authority entered into a five-year basis agreement whereby the counterparty agreed to pay the Authority an amount equal to the floating MMD FRN coupon, and the Authority agreed to pay the counterparty 69.4% of one month London Interbank Offered Rate (LIBOR) plus basis points as specified in the table above. As the coupon payment made by the Authority on the MMD FRNs and its receipts under the basis agreements offset, the Authority's net cost of funds during the term of these basis agreements is 69.4% of one month LIBOR plus the basis points. At the five-year expiration or the early termination of the agreements, the counterparty pays the Authority 90% of any increase in the market value of the MMD FRN and the Authority pays the counterparty 100% of any decrease in the market value of the MMD FRN, provided however, that if the Authority exercises its right to call or remarket the MMD FRN, the value of either agreement will be zero and neither party will have a payment obligation.

The Authority is exposed to the following risks related to derivative instruments as defined by GASB Statement No. 53:

(a) Termination Risk

Termination risk is the risk that a derivative could be terminated by a counterparty prior to its scheduled maturity due to a contractual event with the Authority owing a termination payment. As long as the Authority fulfills its obligations under the contracts, the counterparties do not have the right to terminate these agreements. The Authority believes that termination risk is low because the counterparties may terminate the agreements only upon the occurrence of specific events such as payment defaults, other defaults which remain uncured for 30 days after notice, bankruptcy or insolvency of the Authority (or similar events), or a downgrade of the Authority's and its insurers', if any, credit rating below investment

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grade. If, at the time of termination, the mark-to-market valuation of the derivative was a liability of the Authority, the Authority could be required to pay that amount to the counterparty. Termination risk associated with all of the Authority's derivatives is limited to the fair market value.

(b) Basis Risk

The Authority is exposed to basis risk on certain of its interest rate swaps because the variable-rate payments received by the Authority, and those paid either pursuant to the terms of the swap or on the associated variable rate debt, may differ. The terms of the interest rate swap transactions are summarized in the charts above.

The Authority is exposed to other basis risk on a portion of its commodity swaps when the commodity swap payment received is based upon a reference price in a market (e.g., natural gas priced at Henry Hub) that differs from the market in which the hedged item is expected to be bought (natural gas priced at New York City gate). If the correlation between these market prices should change substantially, the Authority may incur costs as a result of the hedging derivative instrument's inability to offset the price of the related commodity.

(c) Collateral Posting

Under certain conditions, the Authority may be required to post collateral related to its interest rate derivative instruments. Under the terms of its interest rate derivative agreements, collateral may be required if the Authority's credit ratings, and in the case of insured swaps, the credit ratings of any related interest rate swap insurer, fall below minimum levels as provided in each swap agreement, and the Authority fails to provide alternative credit enhancements. Collateral for its financial derivatives, if required, would approximate fair value. The Authority has never been required to post collateral under its interest rate derivative instruments.

The Authority has collateral requirements with commodity derivative counterparty in the Credit Support Annexes (CSA) of the International Swap Deal Agreements (ISDA). Collateral is required to be posted with the counterparty when the negative fair value of the commodity derivative instrument exceeds the unsecured line of credit established with each counterparty as listed in the counterparty table below. In the event of collateral being posted, the value will equal the difference between the fair value and the amount of the unsecured line of credit. For exchange broker cleared derivative transactions, there is an initial margin requirement on day one of a trade that is calibrated to cover the expected cost of closing out the position in the event of a default. Collateral postings between the exchange clearing broker and the Authority each day thereafter are based on the fair value of the derivative instrument.

(d) Credit Risk

The risk that the counterparty (or its guarantor) will default on its obligations under the agreement. Currently, counterparty risk for the Authority is limited as the termination values of the transactions are generally negative. Additionally, the Authority has sought to limit counterparty risk by contracting only with highly rated counterparties or requiring guarantees of the counterparty's obligations. The Authority has also made use of exchange cleared transactions for a portion of its commodity derivatives. The exchange uses a central clearing counterparty structure along with risk based margin requirements that

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limits credit risk exposure. Below is a table with the credit-ratings of the Authority's counterparties as of December 31, 2016 (amounts in millions):

<u>Counterparty</u>	<u>Moody's</u>	<u>S&P</u>	<u>Counterparty's unsecured line of credit (\$M)</u>
Interest Rate Derivative Instruments:			
Bear Stearns Capital Markets, Inc. ¹	A3	A-	\$ —
Citibank, N.A. New York	A1	A+	—
Merrill Lynch Capital Services, Inc. ²	Baa1	BBB+	—
UBS AG, Stamford Branch	A1	A+	—
Wells Fargo Bank, N.A.	Aa2	AA-	—
Commodity Derivative Instruments:			
Barclays Bank PLC	A1	A-	25
BP Energy Company	A3	A-	10
Cargill, Incorporated	A2	A-	15
Citigroup Energy, Inc.	Baa1	BBB-	10
J. Aron & Company	A3	BBB+	40
JPMorgan Chase Bank, N.A.	Aa3	A+	35
Macquarie Energy LLC	A2	A	10
Merrill Lynch Commodities, Inc.	Baa1	BBB+	10
Morgan Stanley Capital Group Inc.	A3	BBB+	40
Next Era Power Marketing	Baa1	A-	2
Societe Generale	A2	A	25
Bank of Nova Scotia	Aa3	A+	25

¹ Ratings reflect the rating of its parent company, JP Morgan Chase & Co.

² Ratings reflect the rating of Bank of America Corp.

(9) Utility Plant and Property and Equipment

Additions to and replacements of utility plant are capitalized at original cost, which includes material, labor, indirect costs associated with an addition or replacement, plus an allowance for borrowed funds used during construction. The cost of renewals and betterments relating to units of property is added to utility plant. The cost of property replaced, retired, or otherwise disposed of is deducted from utility plant and, generally, together with dismantling costs less any salvage, is charged to accumulated depreciation. The cost of repairs and minor renewals is charged to maintenance expense. Mass properties (such as poles, meters, and wire) are accounted for on an average unit cost basis by year of installation.

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The following schedule summarizes the utility plant and property and equipment of the Authority as of December 31, 2016:

	<u>Beginning balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>
Utility plant	\$ 6,791,115	486,858	(81,105)	7,196,868
Utility plant assets under capital lease	—	32,209	(65)	32,144
Office equipment, furniture, and leasehold improvements	17,680	122	(10)	17,792
Long lived assets – asset retirement cost	15,542	—	—	15,542
Accumulated depreciation	<u>(1,951,050)</u>	<u>(166,701)</u>	<u>78,204</u>	<u>(2,039,547)</u>
Total utility plant – net	<u>4,873,287</u>	<u>352,488</u>	<u>(2,976)</u>	<u>5,222,799</u>
Generation and transmission assets under capital lease	3,751,349	—	—	3,751,349
Accumulated depreciation	<u>(1,372,100)</u>	<u>(190,955)</u>	<u>—</u>	<u>(1,563,055)</u>
Total generation and transmission assets under capital lease – net	<u>2,379,249</u>	<u>(190,955)</u>	<u>—</u>	<u>2,188,294</u>
Construction work in progress	285,617	506,617	(439,272)	352,962
Retirement work in progress	<u>10,010</u>	<u>38,256</u>	<u>(43,770)</u>	<u>4,496</u>
	<u>295,627</u>	<u>544,873</u>	<u>(483,042)</u>	<u>357,458</u>
Totals	<u>\$ 7,548,163</u>	<u>706,406</u>	<u>(486,018)</u>	<u>7,768,551</u>

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The following schedule summarizes the utility plant and property and equipment of the Authority as of December 31, 2015:

	<u>Beginning balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>
Utility plant	\$ 6,342,423	456,942	(8,250)	6,791,115
Office equipment, furniture, and leasehold improvements	18,409	—	(729)	17,680
Long lived assets – asset retirement cost	15,542	—	—	15,542
Accumulated depreciation	<u>(2,588,307)</u>	<u>(129,086)</u>	<u>766,343</u>	<u>(1,951,050)</u>
Total utility plant – net	<u>3,788,067</u>	<u>327,856</u>	<u>757,364</u>	<u>4,873,287</u>
Generation and transmission assets under capital lease	3,751,349	—	—	3,751,349
Accumulated depreciation	<u>(1,193,103)</u>	<u>(178,997)</u>	<u>—</u>	<u>(1,372,100)</u>
Total generation and transmission assets under capital lease – net	<u>2,558,246</u>	<u>(178,997)</u>	<u>—</u>	<u>2,379,249</u>
Construction work in progress	359,381	358,221	(431,985)	285,617
Retirement work in progress	<u>21,363</u>	<u>27,417</u>	<u>(38,770)</u>	<u>10,010</u>
	<u>380,744</u>	<u>385,638</u>	<u>(470,755)</u>	<u>295,627</u>
Totals	<u>\$ 6,727,057</u>	<u>534,497</u>	<u>286,609</u>	<u>7,548,163</u>

(10) Nine Mile Point Nuclear Power Station, Unit 2

The Authority owns an 18% undivided interest in Nine Mile Point Unit 2 (NMP2) in Oswego County, New York. The other 82% is owned by Constellation Energy Nuclear Group, LLC (CENG), a joint venture of Exelon Corporation and EDF, a large electric-power company headquartered in France. The unit is operated by Exelon.

NMP2 has a rated net capacity of 1,293 MW. Based on this capacity, it operated at a capacity factor of 89% in 2016, due to the 2016 scheduled 25-day refueling outage. The Authority is entitled to 18% of the unit's capacity and energy and is obligated to pay 18% of its operating and maintenance costs, nuclear-fuel costs, and costs of capital additions. The Authority's net capital investment in NMP2, excluding nuclear fuel, was \$558 million and \$563 million as of December 31, 2016 and 2015, respectively, which includes updated allocated depreciation reserves resulting from a depreciation study.

Nuclear Plant Decommissioning

The operating license for NMP2 expires on October 31, 2046.

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As of December 31, 2016 and 2015, the Authority's share of the estimated costs for decommissioning of the unit and restoration of the site is \$60 million and \$57 million, respectively, and is included in the Statements of Net Position as a component of the ARO. The Authority maintains a nuclear-decommissioning trust fund (NDT) for its share of the decommissioning costs. As of December 31, 2016 and 2015, the NDT had an approximate value of \$116 million and \$110 million, respectively. The Authority believes that deposits to the fund, which are based on actuarial estimates and the assumed investment returns of these funds during the term of the operation license, will be sufficient to meet its obligations.

Liability for Nuclear Accidents

The Federal Price-Anderson Act limits the total liability for damage claims from members of the public for personal injury and property damage arising from a nuclear accident at a commercial nuclear power plant. Exelon maintains this coverage for the Nine Mile Point Nuclear Site. In the event that offsite damages exceed the amount of private-insurance coverage, each reactor licensee is retroactively liable for a prorated share of the excess, with the retroactive liability payable at no more than \$19 million per reactor per incident per year. The Authority's maximum liability is therefore \$3.4 million per incident per year.

Other

On March 12, 2012, the Nuclear Regulatory Commission issued three safety-enhancement orders to NMP2 as a result of lessons learned from the 2011 disaster at the Fukushima Daiichi facility in Japan. NMP2 is in compliance with all of the orders.

(11) Cash, Cash Equivalents and Investments

The majority of the Authority's cash equivalents and investments are managed by an external investment manager. The Authority's investment of funds is administered in accordance with the applicable provisions of the Bond Resolution, certain banking agreements and the Authority's investment guidelines.

(a) Unrestricted cash, cash equivalents and investments

As of December 31, 2016 and 2015, the Authority had unrestricted cash, cash equivalents and investments totaling approximately \$781 million and \$630 million. The unrestricted funds primarily consist of: the Operating Fund, the Construction Fund, the Rate Stabilization Fund, and the OPEB Account.

Deposits made to the Authority's OPEB Account are to meet the Authority's obligations to its employees and the employees of PSEG Long Island for certain post-employment health and life insurance benefits. The Authority has invested such funds, as permitted by the Authority's investment guidelines, in investments which are similar to investments commonly made in accounts dedicated to prefunding OPEB obligations. The Authority's policy is to periodically conduct an actuarial study to determine the appropriate level of funding to ensure the OPEB Account will be sufficient to meet these obligations. As of December 31, 2016 and 2015, approximately \$123.8 and \$48.4 million, respectively, is related to the PSEG Long Island OPEB obligation and \$5.2 and \$3.3 million, respectively, is related to the Authority OPEB obligation.

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In the event that the Authority determines there are insufficient revenues to pay reasonable and necessary operating expenses or to make payments on bonds or parity obligations, certain senior management are authorized, after notifying the Finance and Audit Committee of the Authority's Board, to release funds from the OPEB Account for such purposes. As such, the OPEB Account is unrestricted.

OPEB Account funds are held in a money-market fund prior to investment, and are invested in common and international stock mutual funds (39%), as well as inflation protected and bond market institutional mutual funds (20%).

The following tables summarize the Authority's unrestricted cash, cash equivalents and investments as of December 31, 2016 and 2015. The credit ratings listed are from Moody's, S&P and Fitch and the rating shown is the lowest rated obligation within each investment type.

<u>Deposit/investment type</u>	<u>Credit rating (if applicable)</u>	<u>2016 Fair value</u>	<u>Percent of portfolio</u>	<u>Cash and cash equivalents</u>	<u>Investments</u>
Cash and collateralized deposits		\$ 12,860	2 %	\$ 12,860	—
Discount notes:					
Certificates of deposit		12,344	2	—	12,344
Commercial paper	P-1/A-1/F1	39,561	6	18,000	21,560
Corporate	A3/A-/A-	57,785	9	—	57,785
Federal agencies	Aaa/AA+/AAA	12,713	2	—	12,713
Treasury bills		38,819	6	—	38,820
Money-market mutual funds		478,289	73	478,289	—
Subtotal		<u>652,371</u>	<u>100 %</u>	<u>509,149</u>	<u>143,222</u>
OPEB Account investment type:					
Mutual fund – equities		50,264	39 %	—	50,264
Mutual fund – fixed income		25,726	20	—	25,726
Money-market funds		53,007	41	53,007	—
Subtotal		<u>128,997</u>	<u>100 %</u>	<u>53,007</u>	<u>75,990</u>
Total		<u>\$ 781,368</u>		<u>\$ 562,156</u>	<u>219,212</u>

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<u>Deposit/investment type</u>	<u>Credit rating (if applicable)</u>	<u>2015 Fair value</u>	<u>Percent of portfolio</u>	<u>Cash and cash equivalents</u>	<u>Investments</u>
Cash and collateralized deposits		\$ 10,475	2 %	\$ 10,475	—
Discount notes:					
Commercial paper	P-1/A-1	157,211	27	157,211	—
Federal agencies	Aaa/AA+/AAA	29,551	5	29,551	—
Money-market mutual funds		<u>381,383</u>	<u>66</u>	<u>381,383</u>	<u>—</u>
Subtotal		<u>578,620</u>	<u>100 %</u>	<u>578,620</u>	<u>—</u>
OPEB Account investment type:					
Mutual fund – equities		19,105	37 %	—	19,105
Mutual fund – fixed income		10,395	20	—	10,395
Money-market funds		<u>22,078</u>	<u>43</u>	<u>22,078</u>	<u>—</u>
Subtotal		<u>51,578</u>	<u>100 %</u>	<u>22,078</u>	<u>29,500</u>
Total		<u>\$ 630,198</u>		<u>\$ 600,698</u>	<u>29,500</u>

(b) Restricted cash, cash equivalents and investments

The Authority's restricted cash, cash equivalents and investments primarily consist of: the Working Capital Requirements Funding Account, the Grant Proceeds Fund, and the UDSA Collection Account.

Restricted Cash for Working Capital Requirements

In accordance with the A&R OSA, the Authority is required to advance fund an operating account available to PSEG Long Island to pay for operating and capital expenditures that PSEG Long Island incurs as the Authority's agent in the management of the Authority's T&D system. The Authority is required to maintain in this account three months of anticipated T&D operating and capital costs plus separate storm, tax and power supply funding accounts. These accounts totaled \$207 million and \$208 million, as of December 31, 2016 and 2015, respectively, and were held in a collateralized deposit account. These funds are determined to be restricted due to the contractual obligation of the Authority to pre-fund the accounts but are considered by the Authority to be part of its working capital.

FEMA Grant Proceeds

The Authority received from FEMA approximately \$502 million for storm hardening work, as well as initial repair costs, for certain Authority assets. As of December 31, 2016, approximately \$471 million remains as a long-term restricted fund. The Authority funds are expended by PSEG Long Island for approved projects, and the Authority reimburses itself for approved projects as completed. The Authority has segregated FEMA funds for future use as required by the FEMA grant agreement.

UDSA

Restructuring charges are held by the bond Trustee in the Collection Account to satisfy debt service on the Restructuring Bonds. The Collection Account for the bonds consists of four subaccounts: General

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Subaccount, Excess Funds Subaccount, Reserve Subaccount, and Upfront Financing Costs Subaccount. The Collection Account (other than the Upfront Financing Costs Subaccount) secures the Restructuring Bonds. For administrative purposes, the subaccounts may be established by the Trustee as separate accounts which will be recognized individually as subaccounts and collectively as the Collection Account.

Restricted cash held by the Trustee, as of December 31, 2016 includes \$35.8 million in the General Subaccounts and \$53 million in the Reserve Subaccounts. Restricted cash, as of December 31, 2015, includes \$3 million in the General Subaccounts, and \$30 million in the Reserve Subaccounts and Upfront Financing Costs Subaccounts.

The UDSA has a separate set of investment guidelines that are specifically designed to address its legal and contractual requirements. These guidelines mandate that such investments be matched to meet the obligations of the bond and interest payments.

The following tables summarize the Authority's restricted cash, cash equivalents and investments as of December 31, 2016 and 2015. The credit ratings listed are from Moody's, S&P and Fitch and the rating shown is the lowest rated obligation within each investment type.

<u>Deposit/investment type</u>	<u>Credit rating (if applicable)</u>	<u>2016 Fair value</u>	<u>Percent of portfolio</u>	<u>Cash and cash equivalents</u>	<u>Investments</u>
Cash and collateralized deposits		\$ 216,594	28 %	216,594	—
Discount notes:					
Certificates of deposit		25,841	4	—	25,841
Commercial paper	P-1/A-1/F1	52,801	7	—	52,801
Corporate	A3/A-/A-	177,412	23	—	177,412
Federal agencies	Aaa/A-1+/F1+	32,193	4	—	32,193
Treasury bills		105,992	14	—	105,992
Money-market mutual funds		155,755	20	155,755	—
Total		<u>\$ 766,588</u>	<u>100 %</u>	<u>372,349</u>	<u>394,239</u>

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<u>Deposit/investment type</u>	<u>Credit rating (if applicable)</u>	<u>2015 Fair value</u>	<u>Percent of portfolio</u>	<u>Cash and cash equivalents</u>	<u>Investments</u>
Cash and collateralized deposits		\$ 208,148	28 %	208,148	—
Uncollateralized deposits		20,087	3	20,087	
Discount notes:					
Commercial paper	P-1/A-1/A-1	127,118	17	127,118	—
Federal agencies	P-1/A-1+/F1+	33,536	4	33,536	—
Money-market mutual funds		354,718	48	354,718	—
Total		<u>\$ 743,607</u>	<u>100 %</u>	<u>743,607</u>	<u>—</u>

(c) Risks

The Authority's investment policy places a limit on investments by issuer and by security type and addresses various risks described below. The Authority's Board may also specifically authorize, as it deems appropriate, other investments that are consistent with the Authority's investment objective. The Authority regularly reviews its investment policy to ensure continued effectiveness. The risk for the Operating Fund, Rate Stabilization Fund, Grant Proceeds Fund, and Construction Fund include:

Credit Risk: The Authority's permissible investments and related minimum credit ratings include U.S. Treasury and Federal Agency obligations (AA- or Aa3), repurchase agreements (A-1 or P-1), commercial paper (A-1 or P-1), corporate notes and master notes (A- or A3), asset backed securities (AAA), certificates of deposit (A- or A3), money-market mutual funds (AAAm), investment contracts (AA- or Aa3), municipal obligations (A- or A3), and floating rate notes (provided certain criteria are met). The Authority's investment policy prohibits investments involving complex derivatives, reverse repurchase agreements, auction rate securities, home equity asset backed securities, short selling and arbitrage related investment activity.

Concentration of Credit Risk: The Authority's investment policies have established limits such that no more than 5% of the investment portfolio may be invested in the securities of any one issuer with the exception of the following: (i) U.S. Treasury Obligations up to 100%; (ii) each Federal agency up to 20%; and (iii) repurchase agreements up to 10% or \$50 million.

Custodial Credit Risk: Custodial credit risk for cash deposits (including demand deposits, time deposits and certificates of deposit issued by a commercial bank) is the risk that in the event of a bank failure, the Authority's deposits may not be returned, either in part or in whole.

The Authority believes that custodial credit risk related to its investments is minimal, as it is the Authority's policy and practice, as stipulated in its investment policy, that investments be held by a third-party custodian who may not otherwise be a counter-party to the transactions, that all securities are free and clear of any lien, and are held in a separate account in the name of the Authority.

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The Authority's policy requires that all demand deposits, time deposits and certificates of deposits issued by a commercial bank not having a long-term credit rating of A3 or higher by Moody's, or A- or higher by S&P Global Ratings, be fully collateralized above the Federal Deposit Insurance Corporation coverage. Commercial banks with long-term credit ratings at or above A3/A- do not require collateralization unless otherwise required by the Authority's Chief Financial Officer.

As of December 31, 2016 and 2015, the Authority had deposits of \$229 million and \$239 million, respectively, which are included in both restricted and unrestricted cash.

Interest Rate Risk: The Authority's investment portfolio is structured to ensure that sufficient cash is available to meet the anticipated liquidity needs of the Authority. Investment maturities may not exceed three years from their purchase settlement date with the exception of U.S. government obligations and investment contracts. Additionally, maturities for repurchase agreements may not exceed 60 days, commercial paper may not exceed 397 days and asset backed securities shall not exceed two years with a one year weighted average maturity. The total weighted average maturity of the Authority's investment portfolio shall not exceed one year. As of December 31, 2016 and 2015, 92% and 100%, respectively, of the Authority's portfolio had maturities of less than 12 months.

The risks for the OPEB Account include:

Credit Risk: The Authority's permissible OPEB Account investments and related minimum credit ratings include (i) U.S. government obligations (BBB- or Baa3), (ii) mortgage pass-through obligations, collateralized mortgage obligations, and corporate mortgage obligations (AA or Aa), (iii) commercial paper (A-1 and P-1), (iv) domestic and Yankee certificates of deposits and bankers acceptances of domestic banks (A- or A3) and minimum short-term ratings of (A-1 or P-1), (v) short-term money market mutual funds, investment accounts, or "sweep accounts" that conform to the permissible investments or funds of securities designed to replicate the composition of benchmark market indices.

Concentration of Credit Risk: The Authority's OPEB Account investment policies have established limits such that no more than 5% of the portfolio may be invested in the securities of any one issuer with the exception of U.S. government/agency securities, no more than 25% of the portfolio may be invested in securities of issuers in the same industry with the exception of U.S. government/agency securities, no more than 20% of the portfolio may be invested in municipal securities, no more than 15% of the portfolio may be invested in notes and bonds rated BBB category and no more than 30% of the portfolio may be invested in notes or bonds rated in the BBB and A rating categories. The overall rating of the fixed income assets shall be at least in the A category.

In order to meet the OPEB Accounts' objective of funding future benefit liabilities while balancing long-term risk and return and providing reasonable diversification, the OPEB Account allocates its assets as follows: (i) domestic equities or mutual funds at 45%, (ii) international equities or mutual funds at 20%, (iii) fixed income investments at 20%, and (iv) fixed income investments – inflation protected securities at 15%. Funds are also held in cash and cash equivalents while awaiting investment.

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(d) Nuclear Decommissioning Trusts (NDT)

The Authority maintains a separate investment policy applicable to the long term investments in the NDT which is held to meet the Authority's obligation with respect to the eventual decommissioning of the Authority's 18% interest in the NMP2 nuclear facility. The NDT guidelines detail permissible investments and portfolio restrictions. The Authority's policy is to periodically conduct an actuarial study to determine the appropriate level of funding for the trust and an appropriate investment policy so that the value in the trusts in 2046 (the year in which decommissioning activities are scheduled to begin), will be sufficient to meet decommissioning obligations.

Credit Risk: The guidelines attempt to minimize risk by limiting permissible investments to include: obligations of the U.S. government and its agencies; corporate or other obligations with a BBB-/Baa3 or better rating; mortgage obligations rated AA/Aa or higher; commercial paper with a rating of A-1 or P-1; certificates of deposit; Yankee certificates of deposit and bankers acceptances of domestic banks with A-/A3 rating or better, short term money market investment accounts that conform to the aforementioned permissible investments; and with respect to the long term NDT investment portfolio only, equity investments limited to portfolio funds of securities designed to replicate the composition of benchmark market indices such as the S&P 500 Index. Equity investments in an S&P 500 index mutual fund is limited to a target exposure of 35% with a quarterly rebalancing within plus or minus 5%. The fixed income portion of the NDT investment portfolio must maintain an average credit rating of A or better with no more than 15% of the portfolio invested in notes and bonds with a BBB rating, 30% invested in notes and bonds rated in the BBB and A categories and no more than 20% of the portfolio invested in municipal securities. The NDT portfolio has an average credit rating of Aa2 by Moody's, AA- by S&P and AA by Fitch.

Concentration of Credit Risk: The investment policies have established limits such that no more than 5% of the portfolio may be invested in the securities of any one issuer and no more than 25% of the portfolio may be invested in securities of issuers in the same industry, with the exception of the U.S. government and its agencies securities.

Custodial Credit Risk: The NDT does not have a policy relative to custodial credit risk of its deposits, however, as a practical matter, it defers to the policies of the Authority.

Interest Rate Risk: Due to the long term nature of the NDT asset, the fixed income portion of the portfolio is managed to track the Barclays Capital U.S. Float Adjusted Aggregate Bond Market Index. The portfolio's duration is required to fall within a range of 20% below the duration of the index and 10% above the duration of the index.

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The NDT had the following investments as of December 31:

NDT:

<u>Investment type</u>	<u>2016 Fair value</u>	<u>Percent of portfolio</u>
Discount notes:		
Corporate	\$ 17,047	15 %
Federal agencies	15,991	14
Treasury bills	37,260	32
Mutual funds – domestic equities	<u>45,502</u>	<u>39</u>
Total	<u>\$ 115,800</u>	<u>100 %</u>

<u>Investment type</u>	<u>2015 Fair value</u>	<u>Percent of portfolio</u>
Discount notes:		
Corporate	\$ 19,953	18 %
Federal agencies	14,004	13
Treasury bills	35,614	32
Mutual funds – domestic equities	<u>40,865</u>	<u>37</u>
Total	<u>\$ 110,436</u>	<u>100 %</u>

The overall duration of the three individual accounts averaged 5.8 years and 5.7 years at December 31, 2016 and 2015, respectively.

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(e) Fair Value of Investments

The following table presents the Authority's unrestricted, restricted investments and NDT measured and recorded at fair value on the Statements of Net Position and their level within the fair value hierarchy (as previously defined in note 2):

<u>Investment type</u>	<u>2016 Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Unrestricted and restricted investments				
Discount notes:				
Certificates of deposit	\$ 38,185	38,185	—	—
Commercial paper	74,361	—	74,361	—
Corporate	235,197	—	235,197	—
Federal agencies	44,907	—	44,907	—
Treasury bills	144,811	—	144,811	—
Money-market mutual funds	75,990	75,990	—	—
Total	<u>\$ 613,451</u>	<u>114,175</u>	<u>499,276</u>	<u>—</u>
NDT:				
Discount notes:				
Corporate	\$ 17,047	—	17,047	—
Federal agencies	15,991	—	15,991	—
Treasury bills	37,260	37,260	—	—
Mutual funds - domestic equities	45,502	45,502	—	—
Total	<u>\$ 115,800</u>	<u>82,762</u>	<u>33,038</u>	<u>—</u>

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<u>Investment type</u>	<u>2015 Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Unrestricted and restricted investments				
Money-market mutual funds	29,500	29,500	—	—
Total	\$ 29,500	29,500	—	—
NDT:				
Discount notes:				
Corporate	\$ 19,953	—	19,953	—
Federal agencies	14,004	—	14,004	—
Treasury bills	35,614	35,614	—	—
Mutual funds - domestic equities	40,865	40,865	—	—
Total	\$ 110,436	76,479	33,957	—

(12) Long-Term and Short-Term Debt

(a) Electric System General Revenue Bonds and Subordinated Revenue Bonds

The Authority financed the cost of acquiring the T&D system from LILCO with Electric System General Revenue Bonds and Electric System Subordinated Revenue Bonds (collectively, the Bonds). Ongoing capital improvements are funded through the issuance of debt, except where grants or excess cash flow provide the ability to cash fund such expenditures. LIPA and the Authority entered into a Financing Agreement, whereby LIPA transferred to the Authority all of its right, title and interest in and to the revenues generated from the operation of the T&D system, including the right to collect and receive the same.

All of the Authority's bonds are secured by a Trust Estate as pledged under the Authority's Bond Resolution (the Resolution). The Trust Estate consists principally of the revenues generated by the operation of the T&D system and has been pledged to the Authority.

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Below is a summary of the bond transactions completed during the years ended December 31:

2016			
Revenue Obligations:	2016A General Revenue Bonds	Par Amount:	\$ 175,000
Purpose:	To current refund 2012C variable rate bonds	Date Closed:	September 1, 2016
Comments:	Direct Placement Floating Rate Notes		
Revenue Obligations:	2016B General Revenue Bonds	Par Amount:	\$ 407,675
Purpose:	Refinance Series 2006A,D,E and fund system improvements and pay issuance costs	Date Closed:	October 26, 2016
Comments:	New money and refunding Fixed Rate Issue	NPV savings:	\$ 8
		Deferred Defeasance:	151
2015			
Revenue Obligations:	2015A-1, A-2 General Revenue Bonds	Par Amount:	\$ 200,000
Purpose:	Refinance Series 2012D variable-rate bonds plus a portion of Series 2001-1A & Series 2001-2B due to expiring bank facilities	Date Closed:	June 16, 2015
Comments:	Direct Placement Floating Rate Notes	Deferred Defeasance:	\$ 151
Revenue Obligations:	2015B General Revenue Bonds	Par Amount:	\$ 117,230
Purpose:	Fund system improvements and pay issuance costs	Date Closed:	December 1, 2015
Comments:	New money Fixed Rate Issue		
Revenue Obligations:	2015C General Revenue Bonds	Par Amount:	\$ 149,000
Purpose:	To current refund the remaining balance of the Series 2001-1A and 2B variable-rate bonds due to expiring bank facilities	Date Closed:	December 1, 2015
Comments:	LIBOR Floating Rate Notes		
Revenue Obligations:	2015 General Revenue Notes (GR1, GR2 and GR3)	Par Amount:	\$ 325,000
Purpose:	Supplement liquidity after downsizing revolver	Date Closed:	March 30, 2015
Comments:	\$50 million outstanding as of December 31, 2015		

(b) Component Unit Bonds – UDSA

The Authority's Board adopted the Financing Orders authorizing the issuance of Restructuring Bonds by the UDSA to allow the Authority to retire a portion of its outstanding indebtedness and provide savings to the Authority's customers as measured on a net present value basis. The Restructuring Bonds are not obligations of the Authority, PSEG Long Island or any of their affiliates; however, the UDSA is a component unit of the Authority and consolidated into these financial statements.

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Below is a summary of the UDSA bond transactions completed during the years ended December 31:

2016				
Revenue Obligations:	2016A Restructuring Bonds	Par Amount:	\$	636,770
Purpose:	Retire certain higher cost Authority bonds and pay issuance costs	Date Closed:		April 7, 2016
		NPV Savings:		115,238
Comments:	Issued by UDSA	Deferred Defeasance:		48,794
Revenue Obligations:	2016B Restructuring Bonds	Par Amount:	\$	469,320
Purpose:	Retire certain higher cost Authority bonds and pay issuance costs	Date Closed:		September 8, 2016
		NPV Savings:	\$	71,647
Comments:	Issued by UDSA	Deferred Defeasance:		4,731
2015				
Revenue Obligations:	2015 Restructuring Bonds	Par Amount:	\$	1,002,115
Purpose:	Retire certain higher cost Authority bonds	Date Closed:		October 16, 2015
		NPV Savings:	\$	127,978
Comments:	Issued by UDSA	Deferred Defeasance:		116,516

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The Authority's short-term and long-term debt at December 31, 2016 consisted of the following:

	<u>Beginning balance</u>	<u>Accretion/ additions</u>	<u>Maturities</u>	<u>Repaid/ Refundings</u>	<u>Ending balance</u>	<u>Years of Maturity</u>	<u>Interest Rate (%)</u>	
General revenue bonds/notes:								
Series 1998A	\$ 119,711	6,359	12,970	—	113,100	2017-2028	5.25-5.30	(a)
Series 2000A	348,279	19,613	33,525	—	334,367	2017-2029	5.77-5.95	(a)
Series 2003C	36,645	—	—	—	36,645	2029	5.25	(b)
Series 2006A	499,200	—	40,625	458,575	—	—	—	
Series 2006D	55,360	—	—	55,360	—	—	—	
Series 2006E	310,240	—	—	310,240	—	—	—	
Series 2006F	239,050	—	27,360	183,155	28,535	2017	5.00	(b)
Series 2008A	246,310	—	—	246,310	—	—	—	
Series 2008B	51,000	—	—	35,940	15,060	2019	5.25	
Series 2009A	222,610	—	2,770	28,170	191,670	2017-2033	4.50-5.75	
Series 2010B	210,000	—	—	—	210,000	2020-2041	4.85-5.85	(c)
Series 2011A	234,225	—	—	12,590	221,635	2017-2038	4.00-5.00	(b)
Series 2012A	250,000	—	—	—	250,000	2037-2042	5.00	(b)
Series 2012B	188,715	—	9,680	—	179,035	2017-2029	5.00	
Series 2012C	175,000	—	—	175,000	—	—	—	
Series 2014A	413,070	—	—	—	413,070	2034-2044	4.00-5.00	
Series 2014B	164,950	—	—	—	164,950	2018-2026	2.36-4.13	
Series 2014C FRN	150,000	—	—	—	150,000	2033	1.19	(b)(d)
Series 2015A1	51,000	—	—	—	51,000	2033	3.81	(b)(d)
Series 2015A2	149,000	—	—	—	149,000	2029	3.57	(b)(d)
Series 2015B	117,230	—	—	—	117,230	2019-2045	3.00-5.00	
Series 2015C	149,000	—	—	—	149,000	2033	1.42	(b)(d)
Series 2016A	—	175,000	—	—	175,000	2023-2033	3.80	(b)(d)
Series 2016B	—	407,675	—	—	407,675	2017-2036	4.00-5.00	
* Series 2015GR1-3CP	50,000	170,625	—	65,000	155,625	2018&2021	0.75-0.97	(d)
Subtotal	<u>4,430,595</u>	<u>779,272</u>	<u>126,930</u>	<u>1,570,340</u>	<u>3,512,597</u>			
Subordinate revenue bonds/notes:								
* Series 2014 CP 1AB	200,000	—	—	50,000	150,000	2017	0.62-0.72	(d)
* Series 2014 CP 2AB	100,000	—	—	—	100,000	2017	0.63-0.72	(d)
Subtotal	<u>300,000</u>	<u>—</u>	<u>—</u>	<u>50,000</u>	<u>250,000</u>			
UDSA restructuring bonds:								
Series 2013T	482,934	—	—	—	482,934	2017-2023	2.04-3.44	
Series 2013TE	1,434,390	—	60,000	—	1,374,390	2017-2039	5.00	
Series 2015TE	1,002,115	—	—	—	1,002,115	2021-2035	3.00-5.00	
Series 2016A	—	636,770	—	—	636,770	2023-2033	5.00	
Series 2016B	—	469,320	—	—	469,320	2017-2033	4.00-5.00	
Subtotal	<u>2,919,439</u>	<u>1,106,090</u>	<u>60,000</u>	<u>—</u>	<u>3,965,529</u>			
	<u>7,650,034</u>	<u>1,885,362</u>	<u>186,930</u>	<u>1,620,340</u>	<u>7,728,126</u>			
Plus: Net premium	370,729	302,732	49,363	—	624,098			
* Less: Short term debt	(350,000)	—	—	—	(405,625)			
Less: Current maturities	(238,295)	—	—	—	(189,848)			
Total long term debt	<u>\$ 7,432,468</u>				<u>7,756,751</u>			

a Capital Appreciation Bonds

b Certain bonds of this series are subject to interest rate exchange agreements

c Taxable Build America Bonds subject to federal subsidy, rate shown is pre-subsidy level

d Variable rate (rate presented as of December 31, 2016)

* Short term debt

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The Authority's short-term and long-term debt at December 31, 2015 consisted of the following:

	<u>Beginning balance</u>	<u>Accretion/ additions</u>	<u>Maturities</u>	<u>Refundings</u>	<u>Ending balance</u>	<u>Years of Maturity</u>	<u>Interest Rate(%)</u>	
General revenue bonds/notes:								
Series 1998A	\$ 113,622	6,089	—	—	119,711	2016-2028	5.25-5.30	(a)
Series 2000A	361,014	20,330	33,065	—	348,279	2016-2029	5.72-5.95	(a)
Series 2003C	36,645	—	—	—	36,645	2029	5.25	(b)
Series 2006A	564,125	—	—	64,925	499,200	2016-2026	4.00-5.25	(b)
Series 2006B	95,655	—	—	95,655	—	—	—	
Series 2006C	194,105	—	—	194,105	—	—	—	
Series 2006D	195,870	—	110,715	29,795	55,360	2016-2025	4.11-5.00	(b)
Series 2006E	391,085	—	—	80,845	310,240	2017-2022	4.00-5.00	(b)
Series 2006F	271,005	—	20,115	11,840	239,050	2016-2033	4.00-5.00	(b)
Series 2008A	598,720	—	—	352,410	246,310	2030-2033	5.50-6.00	
Series 2008B	146,725	—	—	95,725	51,000	2019-2033	5.25-5.75	
Series 2009A	331,220	—	—	108,610	222,610	2016-2033	3.50-6.25	
Series 2010B	210,000	—	—	—	210,000	2020-2041	4.85-5.85	(c)
Series 2011A	245,590	—	—	11,365	234,225	2016-2038	4.00-5.00	(b)
Series 2012A	250,000	—	—	—	250,000	2037-2042	5.00	(b)
Series 2012B	189,325	—	610	—	188,715	2016-2029	3.00-5.00	
Series 2012C	175,000	—	—	—	175,000	2033	0.01	(b)(d)
Series 2012D	149,000	—	—	149,000	—	—	—	
* Series 2013A	65,000	—	—	65,000	—	—	—	
Series 2014A	413,070	—	—	—	413,070	2034-2044	4.00-5.00	
Series 2014B	164,950	—	—	—	164,950	2018-2026	2.36-4.13	
Series 2014C FRN	150,000	—	—	—	150,000	2033	0.82	(b)(d)
Series 2015A1	—	51,000	—	—	51,000	2033	3.80-4.09	(b)(d)
Series 2015A2	—	149,000	—	—	149,000	2029	3.49-3.86	(b)(d)
Series 2015B	—	117,230	—	—	117,230	2019-2045	3.00-5.00	
Series 2015C	—	149,000	—	—	149,000	2033	1.051	(b)(d)
* Series 2015GR1-3CP	—	50,000	—	—	50,000	2016	0.20-0.33	(d)
Subtotal	<u>5,311,726</u>	<u>542,649</u>	<u>164,505</u>	<u>1,259,275</u>	<u>4,430,595</u>			
Subordinate revenue bonds/notes:								
Series 1-3	\$ 350,000	—	—	350,000	—	—	—	
* Series 2000 CP 1-3	215,000	—	—	215,000	—	—	—	
* Series 2014 CP 1AB	—	200,000	—	—	200,000	2017	0.15-0.30	(d)
* Series 2014 CP 2AB	—	100,000	—	—	100,000	2017	0.21-0.44	(d)
Subtotal	<u>565,000</u>	<u>300,000</u>	<u>—</u>	<u>565,000</u>	<u>300,000</u>			
UDSA restructuring bonds:								
Series 2013T	482,934	—	—	—	482,934	2017-2023	2.04-3.44	
Series 2013TE	1,449,390	—	15,000	—	1,434,390	2016-2039	5.00	
Series 2015TE	—	1,002,115	—	—	1,002,115	2021-2035	3.00-5.00	
Subtotal	<u>1,932,324</u>	<u>1,002,115</u>	<u>15,000</u>	<u>—</u>	<u>2,919,439</u>			
	<u>7,809,050</u>	<u>1,844,764</u>	<u>179,505</u>	<u>1,824,275</u>	<u>7,650,034</u>			
Plus: Net premium	202,346	190,919	22,536	—	370,729			
* Less: Short term debt	(280,000)	—	—	—	(350,000)			
Less: Current maturities	(179,505)	—	—	—	(238,295)			
Total long term debt	<u>\$ 7,551,891</u>				<u>7,432,468</u>			

a Capital Appreciation Bonds

b Certain bonds of this series are subject to interest rate exchange agreements

c Taxable Build America Bonds subject to federal subsidy, rate shown is pre-subsidy level

d Variable rate (rate presented as of December 31, 2015)

* Short term debt

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The debt service requirements for the Authority's consolidated bonds outstanding (excluding short-term debt such as general revenue notes, commercial paper notes, and revolving credit facility but including the UDSA Restructuring Bonds) as of December 31, 2016 are as follows:

<u>Due</u>	<u>Principal*</u>	<u>Interest</u>	<u>Net swap payments (receipts)</u>	<u>Total</u>
2017	\$ 189,848	316,345	16,387	522,580
2018	194,003	307,115	16,385	517,503
2019	214,856	301,758	16,385	532,999
2020	238,272	296,386	16,393	551,051
2021	284,249	288,612	16,387	589,248
2022–2026	1,592,546	1,269,610	81,935	2,944,091
2027–2031	1,904,475	921,511	14,613	2,840,599
2032–2036	1,513,870	523,974	(6,058)	2,031,786
2037–2041	1,097,925	209,168	—	1,307,093
2042–2046	280,590	29,747	—	310,337
Total	<u>\$ 7,510,634</u>	<u>4,464,226</u>	<u>172,427</u>	<u>12,147,287</u>

* Future interest on capital appreciation bonds are included in principal maturities.

Future debt service on the variable rate bonds and floating rate portion of any floating-to-fixed rate swaps are calculated using the relevant indices, including applicable spreads, as of December 31, 2016. Such rates, as shown in the long-term debt summary table, are assumed constant through maturity. For bonds subject to floating-to-fixed rate swap agreements, the "net swap payments" represent the fixed swap rate payment net of the assumed future variable rate swap receipts for each agreement.

(c) Interest Rate Swap Agreements

The Authority has entered into several interest rate swap agreements with various counterparties to modify the interest rate on outstanding debt. For a further discussion, see note 8.

(d) Short-Term Debt

General Revenue Notes – Revolving Credit Agreement

The Authority has a senior lien revolving credit agreement, Series 2013A, that permits borrowing of up to \$337.5 million and expires in March 2018. As of December 31, 2016 and 2015, the revolving credit agreement had no amounts outstanding. In March 2017, the Authority increased the revolver to \$350 million and extended the expiration to March 2019.

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General Revenue Notes – Commercial Paper

In 2015, the Authority issued Electric System General Revenue Notes, Series GR-1, GR-2 and GR-3, each in two sub series: A Taxable; and B Tax-Exempt. The GR-1 Notes shall not exceed \$200 million outstanding at any time. The GR-2 Notes shall not exceed \$75 million outstanding at any time. The GR-3 Notes shall not exceed \$50 million outstanding at any time. The Letter of Credit supporting the GR-1 Notes expires in June 2021 while the Letters of Credit supporting the GR-2 and GR-3 Notes expire in March 2018. In March 2017, the Authority increased the Letter of Credit on the GR-3 Notes to \$100 million and extended the expiration to March 2020.

Subordinated Revenue Notes – Commercial Paper

The Authority established the Series 2014 Commercial Paper (CP) Notes, CP-1 and CP-2, in two subseries, A taxable and B tax-exempt. Series 2014 CP-1 Notes shall not exceed \$200 million outstanding at any time. Series 2014 CP-2 Notes shall not exceed \$100 million outstanding at any time.

In connection with the issuance of the Series 2014 CP Notes, the Authority entered into Letter of Credit agreements. The Letters of Credit supporting the Series 2014 CP-1 and CP-2 Notes expire in December 2017.

(e) Fixed Obligation Coverage Ratio

Effective January 1, 2016, the Authority adopted the “public power model” of rate-setting which makes use of the debt service coverage method in determining revenue requirements. The Authority’s methodology for calculating the fixed obligation coverage ratio excludes certain specified noncash items from expenses. Depreciation expense, amortization of the Acquisition Adjustment and other regulatory assets, as well as the PSEG Long Island and the Authority employees’ accrual expense for future OPEB benefit cost obligations, are excluded from the coverage calculation. Also, included in the revenue section of this calculation are revenues received from certain customers used to satisfy regulatory assets that were established when the Authority issued debt to fund these projects. For calculating the coverage ratios, such cash receipts are available to meet the Authority’s fixed obligation requirements as they are a component of cash flow, but are excluded from revenues for accrual accounting purposes.

Certain interest related costs such as interest rate derivative costs, letters of credit and remarketing fees, bond administration costs, and interest related to customer deposits are treated as ordinary operating expenses without coverage. Included for coverage are the Authority and the UDSA principal and interest payments, including interest payments on the Authority’s commercial paper program and short-term debt.

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The Authority's calculation for its debt service coverage ratio, for the years ended December 31, 2016 and 2015, is shown below for informational purposes:

	<u>2016</u>	<u>2015</u>
(1) Operating revenues	\$ 3,399,101	3,505,209
(1) Other income	61,108	64,479
(2) Shoreham Settlement & VBA regulatory asset receipts	<u>49,976</u>	<u>39,995</u>
Total revenues and income	<u>3,510,185</u>	<u>3,609,683</u>
(1) Operating expenses	(3,163,353)	(3,187,383)
Add non cash expenses/(deduct cash funding):		
(1) Operations and maintenance – amortizations	31,015	11,403
(1) Depreciation and amortizations	263,037	223,607
(3) Capital lease allowance	320,264	310,882
(2) OPEB accrual expense ⁽⁴⁾	40,701	—
(2) Other interest expense	<u>(33,968)</u>	<u>(43,900)</u>
Total expenses	<u>(2,542,304)</u>	<u>(2,685,391)</u>
Funds available for debt service	\$ 967,881	924,292
(2) Principal – Authority	126,930	164,505
(2) Interest – Authority	142,656	214,278
(2) Principal – UDSA	60,000	15,000
(2) Interest – UDSA	162,139	86,286
(3) Capital lease obligation	<u>320,264</u>	<u>310,882</u>
Total fixed obligation debt service	\$ 811,989	790,951
Fixed Obligation Coverage Ratio:		
(5) Excluding UDSA	1.26	1.19
Including UDSA	1.19	1.17

(1) See Statements of Revenues, Expenses and Changes in Net Position

(2) See Statements of Cash Flows

(3) See Footnote 12 (f) (below)

(4) The public power model, adopted by the Authority's Board for 2016, adds back the OPEB accrual operating expense as cash available to pay debt service. There are no mandatory pre-funding requirements for these OPEB expenses. The Authority voluntarily sets aside funds for OPEB obligations in an OPEB Account after payment of all operating expenses and debt service each year. See footnote 10 for more detail.

(5) Excluding UDSA equal to $(\$967,881 \text{ less } (\$222,139))/(\$811,989 \text{ less } (\$222,139))$

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(f) Changes in noncurrent liabilities

The Authority's other long term liabilities as of December 31, 2016 are comprised of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Long term liabilities and unrealized credits	\$ 93,530	56,526	(80,123)	69,933
Borrowings	87,064	—	(4,823)	82,241
Claims and damages	27,822	18,250	(4,642)	41,430
Capital lease obligations	2,188,295	153,253	(320,264)	2,021,284
Total other long term liabilities	\$ <u>2,396,711</u>	<u>228,029</u>	<u>(409,852)</u>	<u>2,214,888</u>

The Authority's other long term liabilities as of December 31, 2015 are comprised of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Long term liabilities and unrealized credits	\$ 97,291	1,739	(5,500)	93,530
Borrowings	91,779	—	(4,715)	87,064
Claims and damages	20,935	8,547	(1,660)	27,822
Capital lease obligations	2,379,250	119,927	(310,882)	2,188,295
Total other long term liabilities	\$ <u>2,589,255</u>	<u>130,213</u>	<u>(322,757)</u>	<u>2,396,711</u>

(13) Operations Services Agreement Employee Retirement Benefit Obligations

In accordance with the terms of the A&R OSA, the costs to employ PSEG Long Island's workforce, including employee pension and other post-employment benefits (OPEB), are a "pass through expenditure" to the Authority, and therefore a contractual liability of the Authority. PSEG Long Island employee pension and OPEB obligations are legal obligations of PSEG Long Island, and the employees covered by these plans are PSEG Long Island employees, not Authority employees.

When transitioning NGRID employees to PSEG Long Island, to ensure the NGRID workforce serving the Authority was protected against benefit losses from the transition, the PSEG Long Island benefit plans credited NGRID transitioned employees for service prior to the A&R OSA effective date for purposes such as eligibility, participation, vesting, company match levels, subsidies (including any type of early retirement subsidy) and attainment of retirement dates. In addition, those employees who immediately prior to the

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A&R OSA effective date could have become eligible to participate in the NGRID post-retirement health and life insurance benefit plans, are entitled to receive substantially equivalent post-retirement health and life insurance benefits under a post-retirement health and life insurance plan established by PSEG Long Island. This arrangement created a prior service cost obligation totaling \$126 million for pensions and \$316 million for OPEBs. The following table provides a roll-forward of the changes to the benefit obligations and the fair value of the plan assets during each of the years in the periods ended December 31, 2016 and 2015. The liability increased during 2016 due to the update of certain assumptions regarding the census data, claims costs, excise taxes, and the discount rate. These changes resulted in a net actuarial loss of \$11 million for pensions and \$51 million for OPEBs, of which \$12 million and \$21 million, respectively, are attributable to the decrease in the prevailing market interest rates, which resulted in a decrease in the assumed discount rate. Updated claims assumptions (including updated excise tax) contributed \$39 million to the actuarial loss.

The table also provides the funded status of the PSEG Long Island plans and the amounts recognized as the long term contractual liability on the Statements of Net position at the end of both years. The table does not reflect the balance of the Authority's OPEB Account, which was established to pre-fund the contractual liability for such postretirement benefits.

	Pension benefits		Postretirement benefits	
	2016	2015	2016	2015
Benefit obligation at beginning of year	\$ 213,169	194,971	374,897	452,072
Service cost	24,180	26,229	12,377	18,801
Interest cost	9,525	8,767	16,697	22,584
Actuarial loss (gain)	11,216	(17,351)	50,552	(117,793)
Benefits paid	(641)	(221)	(2,117)	(767)
Plan amendment	5,013	774	—	—
Benefit obligation at end of year	<u>262,462</u>	<u>213,169</u>	<u>452,406</u>	<u>374,897</u>
Fair value of assets at beginning of year	96,388	68,606	—	—
Actual return on plan assets	10,301	(1,997)	—	—
Employer contribution	28,100	30,000	2,117	767
Gross benefits paid	<u>(641)</u>	<u>(221)</u>	<u>(2,117)</u>	<u>(767)</u>
Fair value of assets at end of year	<u>134,148</u>	<u>96,388</u>	<u>—</u>	<u>—</u>
Authority unfunded obligation	<u>\$ (128,314)</u>	<u>(116,781)</u>	<u>(452,406)</u>	<u>(374,897)</u>

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The Authority's Board authorized the creation of an OPEB Account to allow the Authority to segregate funds to meet future OPEB obligations for both the PSEG Long Island employees and Authority employees. During 2016 and 2015, the Authority deposited approximately \$71 million and \$28 million, respectively, into its OPEB Account to meet the future PSEG Long Island employee OPEB obligations. For a further discussion, see note 11.

The actuarial valuations related to pension and OPEB benefits involve estimates and assumptions regarding the probability of events in the future. Below are the weighted average assumptions used to calculate actuarial present values of benefit obligations at December 31, 2016 and 2015:

	Pension benefits		Postretirement benefits	
	2016	2015	2016	2015
Discount rate	4.61 %	4.92 %	4.71 %	4.97 %
Rate of compensation increase	3.25 %	3.25 %	3.25 %	3.25 %

Plan Assets

During 2016 and 2015, the Authority funded approximately \$28 million and \$30 million, respectively, to PSEG Long Island for deposit in its pension plan trust fund. The trust is sponsored, overseen and managed by the PSEG Thrift & Pension Investment Committee. The benefit plan assets are maintained separately by PSEG Long Island and are not commingled with other PSEG plans. The benefit plan assets are not assets of the Authority; and therefore, are not reflected on the Statements of Net Position. These assets, however, reduce the Authority's contractual obligation to PSEG Long Island for the benefit obligations of the PSEG Long Island employees. The following table outlines the PSEG Long Island pension assets as of December 31, 2016 and 2015:

Investment type	2016		2015	
	Amount	Allocation	Amount	Allocation
Equity	\$ 95,719	71.4%	67,877	70.4%
Fixed income	38,077	28.4	28,370	29.4
Other	352	0.2	141	0.2
	\$ 134,148	100.0%	96,388	100.0%

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(14) Authority Employee Benefits

All full-time Authority employees must participate in one of two employee benefit plans offered by the Authority, either (i) the New York State or Local Retirement System (the Retirement System) or (ii) the New York State Voluntary Defined Contribution Plan (VDC).

(a) Pension Plans

(i) Plan Description

The Retirement System is a cost-sharing multiple-employer defined benefit retirement system. The net position of the Retirement System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in fiduciary net position allocated to the Retirement System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the Retirement System. Retirement System benefits are established under the provisions of the New York State Retirement and Social Security Law (NYSRSSL). Once a public employer elects to participate in the Retirement System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Authority also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The Retirement System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

The Retirement System uses a tier concept to distinguish membership classes (i.e. tiers 1 through 6) with tier membership based on the date an employee joins the System. The Retirement System is noncontributory for tiers 1 and 2 employees who joined on or prior to July 27, 1976. Tiers 3 and 4 employees, who joined between July 28, 1976 and December 31, 2009 and have less than ten years of service, contribute 3% of their salary. Employees who joined the Retirement System after January 1, 2010 are Tier 5 employees and contribute 3% of their salary during their entire length of service. Tier 6 employees joined the Retirement System on or after April 1, 2012 and were required to contribute 3% of their salary. Effective April 1, 2013, Tier 6 employees are now required to contribute 3% of their salary and up to 6% thereafter, based on their annual salary, during their entire length of service. Members become vested in the plan after ten years of service and generally are eligible to receive benefits at age 55. The benefit is generally 1.67% of final average salary (FAS) times the number of years of service, for members who retire with less than 20 years of service, and 2% of FAS for members who retire with 20 or more years of service. The Retirement System provides an annual automatic cost of living adjustment to members or surviving spouses based on certain eligibility criteria.

(ii) Ordinary Disability Benefits

Generally, ordinary disability benefits, usually one-third of salary, are provided to eligible members after ten years of service; in some cases, they are provided after five years of service.

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(iii) *Accidental Disability Benefits*

For all eligible Tier 1 and Tier 2 members, the accidental disability benefit is a pension of 75% of final average salary, with an offset for any Workers' Compensation benefits received. The benefit for eligible Tier 3, 4, 5 and 6 members is the ordinary disability benefit with the years-of-service eligibility requirement dropped.

(iv) *Ordinary Death Benefits*

Death benefits are payable upon the death, before retirement, of a member who meets eligibility requirements as set forth by law. The first \$50,000 of an ordinary death benefit is paid in the form of group term life insurance. The benefit is generally three times the member's annual salary. For most members, there is also a reduced post-retirement ordinary death benefit available.

(v) *Post-Retirement Benefit Increases*

A cost-of-living adjustment is provided annually to: (i) all pensioners who have attained age 62 and have been retired for five years; (ii) all pensioners who have attained age 55 and have been retired for ten years; (iii) all disability pensioners, regardless of age, who have been retired for five years; (iv) Retirement System recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible member as computed on a base benefit amount not to exceed \$18,000 of the annual retirement benefit. The cost-of-living percentage shall be 50% of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1% or exceed 3%.

(vi) *Contributions*

The Retirement System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3% of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Retirement Systems' fiscal year ending March 31. The Authority's contributions for the year ended December 31, 2016, 2015 and 2014, were equal to 100% of the contributions required, and were \$0.2 million, zero (due to credit provided), and \$0.9 million, respectively.

(vii) *Adoption of GASB Statements No. 68 and No. 71*

GASB Statement No. 68 requires the Authority recognize its pension benefits obligation as a long-term liability and to comprehensively and comparably measure the annual costs of pension benefits. GASB Statement No. 68 also requires additional note disclosures and supplemental information. The Authority's January 1, 2015 net position was decreased by \$1.3 million as a

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cumulative effect of change in accounting principle in the Statements of Revenues, Expenses and Changes in Net Position.

(viii) *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At December 31, 2016 and 2015, the Authority reported a liability of \$1.7 million and \$0.9 million, respectively, for its proportionate share of the Retirement System net pension liability. The net pension liability was measured as of April 1, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015 with update procedures used to roll forward the total pension liability to March 31, 2016. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2016 and 2015, the Authority's proportion was 0.01% and 0.03%, respectively.

For the year ended December 31, 2016 and 2015, the Authority recognized pension expense of \$0.3 and \$0.8 million, respectively. At December 31, 2016 and 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2016</u>		<u>2015</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual expense	\$ 9	—	30	—
Changes of Assumptions	456	—	—	—
Net difference between projected and actual earnings on pension plan investments	1,016	203	165	—
The Authority's contributions subsequent to the measurement date	—	1,296	—	417
	<u>\$ 1,481</u>	<u>1,499</u>	<u>195</u>	<u>417</u>

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The net amount of the Authority's balances of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan years ended December 31:	
2017	\$ 4
2018	4
2019	4
2020	60
2021	—
Thereafter	—
	\$ 72

(ix) *Actuarial Assumptions*

The total pension liability as of the measurement date was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuation used the following assumptions:

Measurement date:	March 31, 2016
Actuarial valuation date:	April 1, 2015
Actuarial cost method:	Entry age normal
Inflation:	2.50 %
Salary Scale:	3.80 %
Investment rate of return, including inflation (compounded annually, net of expenses):	7.00 %
Cost of living adjustments, annually:	1.30 %
Decrement tables:	April 1, 2010 – March 31, 2015 Retirement System's Experience
Mortality improvement:	Society of Actuaries Scale MP-2014

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance.

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Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return (%)</u>
Domestic equity	38 %	7.30
International equity	13	8.55
Private equity	10	11.00
Real estate	8	8.25
Absolute return strategies	3	6.75
Opportunistic portfolio	3	8.60
Real assets	3	8.65
Bonds and mortgages	18	4.00
Cash	2	2.25
Inflation-Indexed bonds	2	4.00
	<u>100 %</u>	

(x) *Discount Rate*

The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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(xi) *Sensitivity of the Net Pension Liability to the Discount Rate Assumption*

The following presents the current-period net pension liability of the Authority's proportionate share of the net pension liability calculated using the current-period discount rate assumption of 7.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current assumption:

	1% Decrease (6.0%)	Current assumption (7.0%)	1% Increase (8.0%)
Authority's proportionate share of the net pension liability (asset)	\$ 3.9 million	1.7 million	(103) thousand

(b) Deferred Compensation and Savings Plans

The Authority offers certain full-time employees participation in a Voluntary Defined Contribution Plan, which is an alternative to the State's existing defined benefit pension systems. This defined contribution plan option is available to all unrepresented State, New York City, and local public employees who are hired on or after July 1, 2013 and are paid at a rate of \$75,000 or more on an annual basis. For those employees choosing this option, the Authority is required to contribute 8% of their gross salary. An independent trustee is responsible for the administration of this plan.

(c) Deferred Savings Plans

The Authority also offers employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. This plan permits participants to defer a portion of their salaries until future years. Amounts deferred under the plan are not available to employees or beneficiaries until termination, retirement, death or unforeseeable emergency. An independent trustee is also responsible for the administration of this plan.

(d) Other Postemployment Benefits

The Authority is a participating employer in the New York State Health Insurance Program (NYSHIP), which is administered by the New York State Department of Civil Service, as an agent multiple employer defined benefit plan. Through NYSHIP, the Authority provides certain health care for eligible retired employees and their dependents. Article XI of the New York State Civil Service Law assigns the authority to NYSHIP to establish and amend the benefit provisions of the plans and to establish maximum obligations of the plan members to contribute to the plan. The Authority's Board is authorized to establish the contribution rates of its employees and retirees below those set by Civil Service Law. Participation in the NYSHIP program provides for employees and/or their dependents to continue eligibility for these benefits in retirement if the employee had at least one year of full-time service with the Authority, and satisfied the requirements for retiring as a member of the Retirement System or is enrolled in the VDC. Eligible retirees contribute 10% of the cost of single coverage and 25% of the cost of dependent coverage for health insurance benefits. Participants included approximately 79 Authority employees and retired and/or spouses of retired employees who were eligible to receive these benefits

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at December 31, 2016. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State.

The Authority accounts for its OPEB obligations, in accordance with GASB Statement No. 45, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment mortality and the healthcare cost trend. Amounts determined regarding the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The Authority's annual OPEB cost for the plan is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. GASB Statement No. 45 does not require that an employer actually fund its ARC, but allows for the financing of these benefits on a pay-as-you-go basis. The ARC in future periods represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year, actuarial assumptions and plan changes, and interest on the unfunded actuarial liability. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligation.

The following table shows the components of the Authority's annual OPEB cost and the changes in the Authority's net OPEB obligation as recorded in long term liabilities:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual OPEB cost:			
Annual required contribution (ARC):			
Normal cost	\$ 886	984	937
Amortization payment	25,120	24,726	23,444
Interest to the end of the year	—	—	—
Total	<u>26,006</u>	<u>25,710</u>	<u>24,381</u>
ARC adjustment	(25,120)	(24,726)	(25,007)
Interest on net OPEB obligation	<u>913</u>	<u>755</u>	<u>764</u>
Annual OPEB cost	<u>\$ 1,799</u>	<u>1,739</u>	<u>138</u>

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	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net OPEB obligation:			
Net OPEB obligation at beginning of year	\$ 25,209	23,971	24,243
Annual required contribution:			
Annual OPEB cost	1,799	1,739	138
Employer contribution:			
Retiree benefit payments during year	<u>(701)</u>	<u>(501)</u>	<u>(410)</u>
Net OPEB obligation at year end	<u>\$ 26,307</u>	<u>25,209</u>	<u>23,971</u>

The funding of the Authority's net OPEB obligation is at the discretion of management and the Authority's Board. The net OPEB obligation is paid on a pay-as-you-go basis. However, during 2015, the Authority's Board authorized the creation of an OPEB Account to pre-fund future OPEB obligations of both Authority and PSEG Long Island employees (as discussed above). As of December 31, 2016 and 2015, the Authority deposited \$1.8 million and \$1.2 million, respectively, into this account to meet the OPEB obligations of Authority employees, which deposits are not reflected in the table above.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For 2016 and 2015 actuarial valuation, the projected unit credit actuarial cost method was used. For 2016 and 2015, the actuarial assumptions included an investment rate of return (net of administrative expenses) of 3.50% and 3.15%, respectively.

The medical trend assumption begins at 5.30% and decreases to a 4.75% long-term trend rate after eight years. The drug trend assumption begins at 10.0% and decreases to a 4.75% long-term trend rate after eight years. The Medicare Part B trend assumption begins at 5.30% and decreases to a 4.75% long-term trend rate after six years.

(15) Commitments and Contingencies

(a) Amended and Restated Power Supply Agreement

The A&R PSA, which became effective on May 28, 2013, is the successor agreement to the original PSA between NGRID and LIPA. The A&R PSA provides for the sale to the Authority by NGRID of all the capacity, energy and, ancillary services from the oil and gas fired generating plants on Long Island formerly owned by LILCO. Sales are made at cost based on wholesale rates regulated by the Federal Energy Regulatory Commission (FERC). The rates may be modified in accordance with the terms of the A&R PSA for: (i) agreed upon labor and expense indices applied to the base year; (ii) a return of and return on net capital additions, which require approval by the Authority; and (iii) certain reasonably incurred expenses that are outside of the control of NGRID. The annual capacity charge in 2016 and

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2015 was \$447 million and \$456 million, respectively. The variable charge under both the PSA and A&R PSA is constant at \$0.90/MWH of electric energy generated by the plants.

The A&R PSA has provisions for penalties in the event that annual guarantees for heat rate and unforced capacity (UCAP) are not met. No penalties were assessed in either 2016 or 2015 under the A&R PSA.

Included in the annual capacity charge are pension and other post-employment benefit (P&OPEB) expenses of NGRID employees. Each contract year, the annual capacity charge is adjusted through a single purpose filing with FERC, in mid-year, to reflect the actuarially determined amounts of P&OPEB expense for that contract year. NGRID has asserted that their P&OPEB plan obligations are underfunded. Pursuant to a 2016 amendment to the A&R PSA, beginning in mid-2017, NGRID will file with the Authority an annual statement detailing the extent of any underfunding. It is the intent of the 2016 amendment to develop greater transparency for plan funding. Annually, the plans will be funded at the actuarially determined P&OPEB expense, and will be reflected in the annual filing with FERC by NGRID. Each contract year such amounts will be recovered by NGRID from the Authority as a component of the capacity charge. The Authority does not expect to have any material liability for P&OPEB obligations under the A&R PSA upon termination of the contract.

(b) Power Purchase and Transmission Agreements

The Authority has entered into power purchase agreements (PPAs) with several private companies to develop and operate generating units at sites throughout Long Island. Generally, the PPAs provide for the Authority to purchase 100% of the capacity (and associated energy and ancillary services as needed), for the term of each contract, which vary in duration for up to 30 years from commercial operation date. Additionally, the Authority has entered into PPAs with several private companies for capacity and/or energy from facilities via undersea cables under long term firm transmission capacity purchase agreements (FTCPAs). These PPAs and FTCPAs have been accounted for as capitalized lease obligations on the Statements of Net Position.

The Authority has also entered into several agreements to purchase renewable energy from on and off Long Island sources. Certain of these power producing facilities have also been accounted for as capitalized lease obligations and the commitments that do not meet the criteria for capitalization are being accounted for as operating leases.

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The following table presents estimated future payments pertaining to purchase power commitments with remaining terms greater than one year for both capital and operating leases:

	<u>Capital leases</u>	<u>Operating leases</u>
Minimum lease/rental payments:		
2017	\$ 302,529	237,188
2018	277,367	194,163
2019	256,886	177,053
2020	251,144	159,733
2021	242,550	99,787
2022 through 2026	1,158,143	409,003
2027 through 2031	429,829	365,999
2032 through 2036	13,493	46,260
2037 through 2039	—	31,024
Total	<u>2,931,941</u>	<u>1,720,210</u>
Less imputed interest	<u>743,645</u>	<u>451,172</u>
Net present value	<u>\$ 2,188,296</u>	<u>1,269,038</u>

As provided by the Authority's tariff, the costs of all the facilities noted above are includable and recoverable through the Power Supply Charge.

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(c) Fleet Vehicle Leases

The Authority entered into long-term leases for financing the purchase of certain fleet vehicles. Such leases are classified as capital leases for accounting purposes and are recorded at the present value of the future minimum lease payments at the inception of the lease. The future minimum payments under these leases are as follows for the years ended:

		<u>Capital lease</u>
Minimum lease/rental payments:		
2017	\$	5,747
2018		5,368
2019		5,067
2020		4,436
2021		3,629
2022 through 2026		<u>7,514</u>
Total		31,761
Less imputed interest		<u>2,814</u>
Net present value	\$	<u><u>28,947</u></u>

(d) Office Lease

The Authority's office lease agreement is classified as an operating lease. The lease includes scheduled base rent increases and rent "holidays" over the term of the lease and the total amount of the base rent payments is charged to expense on the straight-line method over the term of the lease. The termination date of the agreement is April 30, 2024. The Authority recorded a deferred credit to reflect the excess of rent expense over cash payments since inception of the lease. The future minimum payments under this lease is as follows for the years ended:

		<u>Operating lease</u>
Minimum lease/rental payments:		
2017	\$	1,682
2018		1,736
2019		1,792
2020		1,850
2021		1,911
2022 through 2024		<u>4,697</u>
Total	\$	<u><u>13,668</u></u>

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(e) Insurance Programs

The Authority's insurance program is comprised of a combination of policies, from major insurance companies, self-insurance, and contractual transfer of liability, including naming the Authority as an additional named insured and indemnification.

The Authority has purchased Workers' Compensation insurance from the New York State Insurance Fund to provide coverage for claims arising from employee injuries. In addition, the Authority carries Employment Practices Liability Insurance from a major insurance company and the Authority's office property and liability coverage is administered by the New York State Office of General Services Bureau of Risk & Insurance Management through a master policy the State procures for various State entities, including the Authority. Liability related to construction projects and similar risks is transferred through contractual indemnification and compliance with Authority insurance requirements. The Authority also has insurance coverage on its interest in NMP2 as disclosed in detail in note 10.

The Authority has commercially available excess general liability and property insurance for claims above its self-insurance provisions. For general liability, including automobile liability, the Authority is self-insured up to \$3 million. For property damage and extra expense combined, the Authority is self-insured up to \$1.5 million per occurrence. For property damage or loss due to a named windstorm and flood, 2% of the value at risk is self-insured per occurrence with a minimum of \$1.5 million and up to a maximum self-insured level of \$7.5 million.

The Authority has no general property insurance for damage to its poles and wires and is self-insured.

(16) Legal Proceedings

(a) PSEG Long Island

In accordance with the A&R OSA, PSEG Long Island is not entitled to payment from the Authority for any losses attributable to a third party claim arising from any negligent act, omission or willful misconduct by PSEG Long Island in performing its obligations to operate and maintain the Authority's T&D system. Other than losses attributable to PSEG Long Island's gross negligence or willful misconduct for which there is no limitation on PSEG Long Island's liability, PSEG Long Island's liability for third party claims is generally limited to amounts above \$2.5 million in the aggregate in any contract year up to a maximum aggregate amount of \$2.5 million per contract year. PSEG Long Island is not responsible for any liabilities that occurred prior to January 1, 2014.

(b) Superstorm Sandy

Four purported class actions were filed against the Authority and NGRID related to Superstorm Sandy that contain common allegations of wrongdoing and/or gross negligence relating to the Authority's and NGRID's preparedness for and response to the storm. All of these actions seek monetary damages, fees and other relief. Twelve more individual actions have been filed on behalf of the owners of approximately 100 properties in the Breezy Point, Belle Harbor and Rockaway Park neighborhoods of the Rockaway Peninsula, in the Queens portion of the Service Territory. These suits allege generally that the failure to de-energize the electrical system in the Rockaways in advance of the tidal surges experienced during the storm resulted in fires that caused various types of property damage, ranging

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from all or partial loss of customers' homes. The class action cases and the fire cases are being defended, and although the amounts sought in damages are material, the outcome of these matters cannot be predicted with certainty at this time. The Authority does not believe that they will have a material impact on the operating results or financial condition of the Authority.

(c) Environmental

NGRID and the Authority are parties to the Liabilities Undertaking and Indemnification Agreements which, when taken together, provide, generally, that environmental liabilities will be divided between NGRID and the Authority on the basis of whether they relate to assets transferred to NGRID or retained by the Authority as part of the 1998 LIPA/LILCO Merger (Merger). In addition, to clarify and supplement these agreements, NGRID and the Authority also entered into an agreement to allocate between them certain liabilities, including environmental liabilities, arising from events occurring prior to the Merger and relating to the business and operations to be conducted by the Authority after the Merger (the Retained Business) and to the business and operations to be conducted by NGRID after the Merger (the Transferred Business).

NGRID is responsible for all liabilities arising from all manufactured gas plant operations on Long Island (MGP Sites), including those currently or formerly operated by NGRID or any of its predecessors, whether or not such MGP Sites related to the Transferred Business or the Retained Business. In addition, NGRID is liable for all environmental liabilities traceable to the Transferred Business and certain scheduled environmental liabilities. Environmental liabilities that arise from the nonnuclear generating business may be recoverable by NGRID as part of the capacity charge under the A&R PSA. The Authority is responsible for all environmental liabilities traceable to the Retained Business and certain scheduled environmental liabilities.

Environmental liabilities other than those related to MGP sites that existed as of the date of the Merger that are untraceable, including untraceable liabilities that arise out of common and/or shared services have been allocated to the Authority and NGRID, as provided for in the Merger.

The A&R PSA addresses the terms by which the Authority will continue to purchase electricity from certain NGRID facilities. Generally, NGRID's liabilities under this contract are limited to losses due to gross negligence or willful misconduct or violations of environmental laws not consistent with prudent utility practices.

(d) Environmental Matters Retained by the Authority

Superfund Sites: Under Section 107(a) of the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA, also commonly referred to as Superfund), parties that generated or arranged for disposal of hazardous substances are liable for costs incurred by the Environmental Protection Agency (EPA) or others that are responding to a release or threat of release of the hazardous substances.

Port Washington Landfill: LILCO was identified as a Potentially Responsible Party (PRP) at this 54-acre municipal solid waste landfill located in the Town of North Hempstead. The landfill operated from 1973 to 1983. The New York State Attorney General sought to recover Environmental Quality Bond Act

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funds advanced to the Town of North Hempstead so it could properly close out the site with oversight by the New York State Department of Environmental Conservation (DEC). The landfill has been remediated and this matter is only concerned with cost recovery. Beginning in January 2001, LILCO and eleven other parties signed a series of tolling agreements with the Attorney General to extend the statute of limitations under CERCLA. Six of the 11 tolling agreement PRPs, including LILCO, have formed a Joint Defense Group (JDG) that acts as one with respect to dealing with the Attorney General. In August 2013, the Attorney General accepted JDG's settlement offer of \$1.8 million. A consent decree was subsequently executed by the JDG and the Attorney General and accepted by the federal court (EDNY). The Authority's contribution to the settlement is approximately \$260,000, which will not have a material impact on the Authority's operating results or financial condition. JDG's third and final settlement payment was timely made in March 2016 and the JDG's monitoring obligation is concluded. In September 2016, the JDG filed a third-party complaint against over 100 PRPs that did not participate in the settlement with the Attorney General. To date, the JDG has accepted settlements with approximately one half of these PRPs.

Metal Bank: Cottman Avenue is a National Priorities List site with PCB contamination on the Delaware River in Philadelphia, Pennsylvania. EPA sued a number of PRPs and subsequently settled with all defendants, among them a number of utility companies— including LILCO – alleged to have sent used transformers to the site during the 1960s and 1970s. The remediation has been completed and monitoring at the site continues. The Authority's contribution toward the settlement and monitoring costs has not been material. The Department of Interior (Interior) and the Pennsylvania Fish and Boat Commission and Departments of Environmental Protection and Conservation and Natural Resources notified the PRP group that they have claims for damages to natural resources allegedly impacted by releases of hazardous substances to and from the Cottman site. While disputing liability, the PRP group has had some preliminary settlement discussions with these agencies. The Authority is unable to estimate the likelihood or amount of any settlement but believes that the claims and a potential settlement would not have a material impact on the operating results or financial condition of the Authority. EPA has also notified the PRP group of concerns about PCB contamination at another former Metal Bank facility located on State Road in Philadelphia. The PRP group and EPA entered into an Administrative Settlement Agreement and Order on Consent (AOC) under which the PRP group, without admitting liability, agreed to perform certain repairs on the existing asphalt cover at the State Road site. Those repairs have been completed and the site's owner is responsible for maintaining the cover. The Authority's contribution toward those repair costs was not material, inasmuch as the AOC provides that the costs of the repairs will be reimbursed from a fund maintained by EPA.

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Asbestos Proceedings

Litigation is pending in State Court against the Authority, LILCO, NGRID and various other defendants, involving thousands of plaintiffs seeking damages for personal injuries or wrongful death allegedly caused by exposure to asbestos. The cases for which the Authority may have financial responsibility involve employees of various contractors and subcontractors engaged in the construction or renovation of one or more of LILCO's six major power plants. These cases include extraordinarily large damage claims, which have historically proven to be excessive. The actual aggregate amount paid to plaintiffs alleging exposure to asbestos at LILCO power plants over the years has not been material to the Authority. Due to the nature of how these cases are litigated, it is difficult to determine how many of the remaining cases that have been filed (or of those that will be filed in the future) involve plaintiffs who were exposed to asbestos at any of the LILCO power plants. Based upon experience, it is likely that the Authority will have financial responsibility in a significantly smaller percentage of cases than are currently pending (or which will be filed in the future) involving plaintiffs who allege exposure to asbestos at any of the LILCO power plants.

(17) Subsequent Events

On January 25, 2017, the Authority's Board approved a purchased power agreement for a 90 megawatt offshore wind farm, to be installed off the coast of Long Island and expected to be commercially operational by 2022.

LONG ISLAND POWER AUTHORITY
Required Supplementary Information

SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

NYSLRS Pension Plan
Last 10 Fiscal Years*

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
The Authority's proportion of the net pension liability (asset)								0.0106679%	0.0280362%	0.0280362%
The Authority's proportionate share of the net pension liability (asset)								\$ 1,712,234	\$ 947,131	\$ 1,266,916
The Authority's covered-employee payroll								\$ 5,387,872	\$ 4,787,173	\$ 5,472,436
The Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll								31.78%	19.78%	23.15%
Plan fiduciary net position as a percentage of the total pension liability								90.70%	97.95%	97.20%

*The amounts presented for each fiscal year were determined as of the measurement date of the plans.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority has presented information for those years for which information is available.

See paragraph on Supplementary and Other Information included in independent auditor's report.



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Trustees
Long Island Power Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Long Island Power Authority (the Authority), which comprise the consolidated statements of net position as of December 31, 2016 and 2015, and the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended December 31, 2016, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

New York, New York
March 29, 2017