



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

Quarterly Unaudited Financial Report

For the nine-month period ended September 30, 2017

LONG ISLAND POWER AUTHORITY
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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.

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.

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.

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 is 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 and provide 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 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.

The Management's Discussion and Analysis of the Authority's financial performance provides an overview of the Authority's financial information for the nine-month period ended September 30, 2017 compared to 2016. The unaudited quarterly financial statements should be read in conjunction with the annual audited financial statements, which may be found on the Authority's website at www.lipower.org.

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.

(A Component Unit of the State of New York)

Consolidated Statements of Net Position

September 30, 2017 and December 31, 2016

(Amounts in thousands)

Assets and Deferred Outflows of Resources	2017 (unaudited)	2016 (audited)
Current assets:		
Cash and cash equivalents	\$ 164,646	562,156
Restricted cash - working capital requirements	252,939	207,045
Restricted cash	152,173	88,572
Investments	274,757	219,212
Counterparty collateral – posted by the Authority	19,256	8,365
Accounts receivable (less allowance for doubtful accounts of \$35,881 and \$37,716 at September 30, 2017 and December 31, 2016, respectively)	624,123	484,781
Other receivables	89,868	113,154
Fuel inventory	103,799	103,894
Material and supplies inventory	52,311	46,771
Regulatory assets to be recovered within one year	147,898	151,012
Prepayments and other current assets	60,174	54,222
Total current assets	<u>1,941,944</u>	<u>2,039,184</u>
Noncurrent assets:		
Restricted cash and cash equivalents	26,560	76,733
Restricted investments	320,145	394,239
Utility plant and property and equipment, net	7,985,182	7,768,551
Nuclear decommissioning trust	128,966	115,800
Other long-term receivables	27,757	28,285
Unrealized charges	133,926	136,131
Financial derivatives	6,204	2,846
Prepayments	—	3,215
Regulatory assets for future recovery	1,129,190	1,148,239
Acquisition adjustment (net of accumulated amortization)	1,017,229	1,100,760
Total noncurrent assets	<u>10,775,159</u>	<u>10,774,799</u>
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	250,825	273,558
Accumulated decrease in fair value of commodity derivatives	9,412	11,740
Pensions	631	1,481
Total deferred outflows of resources	<u>260,868</u>	<u>286,779</u>
Total assets and deferred outflows of resources	<u>\$ 12,977,971</u>	<u>13,100,762</u>

LONG ISLAND POWER AUTHORITY
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Consolidated Statements of Net Position

September 30, 2017 and December 31, 2016

(Amounts in thousands)

Liabilities and Net Position	2017 (unaudited)	2016 (audited)
Current liabilities:		
Short-term debt	\$ 443,125	405,625
Current maturities of long-term debt	71,200	117,250
Current maturities of UDSA debt	100,620	72,598
Current portion of capital lease obligation	177,842	195,959
Accounts payable and accrued expenses	436,940	445,566
Regulatory liabilities payable in one year	40,999	12,100
Commodity derivative instruments	7,043	11,569
Accrued payments in lieu of taxes	8,190	10,729
Accrued interest	82,511	48,042
Customer deposits	38,237	37,701
Total current liabilities	1,406,707	1,357,139
Noncurrent liabilities:		
Long-term debt	3,348,885	3,396,020
Long-term UDSA debt	4,267,473	4,360,731
Capital lease obligations	1,888,825	2,021,284
Borrowings	78,551	82,241
A&R Operations Services Agreement-employee retirement benefit	587,274	580,720
Financial derivative instruments	142,289	149,496
Commodity derivative instruments	9,345	2,324
Asset retirement obligation	67,795	66,487
Long-term liabilities and unrealized credits	65,289	69,933
Claims and damages	55,193	41,430
Total noncurrent liabilities	10,510,919	10,770,666
Deferred inflows of resources:		
Regulatory credits - grants	501,902	502,213
Accumulated increase in fair value of financial derivatives	6,205	2,846
Pensions	1,110	1,499
Accumulated increase in fair value of Nine Mile Point 2 Trust	16,660	9,353
Accumulated increase in fair value of OPEB Account	11,394	1,980
Total deferred inflows of resources	537,271	517,891
Net position:		
Net investment in capital assets	15,449	(115,699)
Restricted	109,654	73,879
Unrestricted	397,971	496,886
Total net position	523,074	455,066
 Total liabilities, deferred inflows of resources and net position	 \$ 12,977,971	 13,100,762

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

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

Nine-month period ended September 30, 2017 and 2016

(unaudited)

(Amounts in thousands)

	2017	2016
Operating revenues – electric sales	\$ 2,736,725	2,687,870
Operating expenses:		
Operations – power supply charge (a)	1,269,131	1,197,074
Operations - power supply charge-property tax related (b)	158,463	162,882
Operations and maintenance	480,033	443,334
Storm restoration	55,193	104,367
General and administrative	22,787	21,037
Depreciation and amortization	234,174	219,741
Payments in lieu of taxes and assessments	246,850	248,397
Total operating expenses	2,466,631	2,396,832
Operating income	270,094	291,038
Nonoperating revenues and expenses:		
Other income, net:		
Investment income	4,412	3,646
Grant income	22,694	11,822
Carrying charges on regulatory assets	19,153	20,027
Other	4,617	4,914
Total other income, net	50,876	40,409
Interest charges and (credits):		
Interest on long-term debt	256,938	246,462
Other interest	20,225	24,675
Other interest amortizations	(19,722)	(5,462)
Allowance for borrowed funds used during construction	(4,479)	(2,579)
Total interest charges and (credits)	252,962	263,096
Change in net position	68,008	68,351
Net position, beginning of year	455,066	481,499
Net position, end of period	\$ 523,074	549,850

(a) National Grid Power Supply Agreement (PSA) and Nine Mile Point 2 (NMP2) operating costs have been reclassified in 2016 from Operations and Maintenance to Power Supply Charge for comparative presentation purposes.

(b) Pass through taxes related to the PSA, NMP2 and certain other long term operating agreements for 2016 have been reclassified to Power Supply Charge for comparative presentation purposes.

LONG ISLAND POWER AUTHORITY
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Consolidated Statements of Cash Flows

Nine-month period ended September 30, 2017 and 2016

(unaudited)

(Amounts in thousands)

	2017	2016
Cash flows from operating activities:		
Operating revenues received	\$ 2,682,678	2,512,905
Paid to suppliers and employees:		
Operations and maintenance	(356,340)	(396,878)
Operations – power supply charge (a)	(1,337,487)	(1,264,184)
Power supply charge-property tax related (b)	(158,463)	(162,867)
Payments in lieu of taxes	(349,799)	(342,673)
Collateral on commodity derivative transactions, net	(9,948)	24,980
PSEG LI Pension funding	(35,000)	(28,100)
Net cash provided by operating activities	435,641	343,183
Cash flows from investing activities:		
Earnings received on investments	19,107	4,643
Restricted cash	(59,322)	(135,757)
Sales of restricted investment securities	74,094	—
Purchases of investment securities	(55,545)	(17,371)
Other	—	243
Net cash used in investing activities	(21,666)	(148,242)
Cash flows from noncapital financing related activities:		
Grant proceeds	19,219	18,787
Proceeds from credit facility draws and commercial paper program	130,000	170,625
Redemption of credit facility draws and commercial paper program	(92,500)	—
Net cash provided by noncapital related activities	56,719	189,412
Cash flows from capital and related financing activities:		
Capital expenditures	(504,839)	(366,423)
Proceeds from insurance recoveries	—	49,580
Proceeds from the issuance of long-term debt	—	1,513,384
Debt issuance costs	(259)	(7,768)
Other interest costs	(22,646)	(26,645)
Interest paid	(137,764)	(118,333)
Redemption of long-term debt	(70,290)	(1,597,394)
Interest paid - UDSA	(99,616)	(73,738)
Redemption of long-term debt - UDSA	(32,790)	(30,000)
Net cash used in capital and related financing activities	(868,204)	(657,337)
Net decrease in cash and cash equivalents	(397,510)	(272,984)
Cash and cash equivalents at beginning of year	562,156	600,698
Cash and cash equivalents at end of period	\$ 164,646	327,714
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 270,094	291,038
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	234,174	219,741
Other post-employment benefit non-cash expense	30,903	29,568
Nuclear fuel burned	10,121	7,929
Shoreham and VBA surcharges	35,208	37,173
Accretion of asset retirement obligation	2,715	2,667
Changes in operating assets and liabilities:		
Accounts receivable, net	(111,769)	(218,797)
Regulatory assets and liabilities	(33,927)	4,850
Fuel and material and supplies inventory	(5,445)	24,178
Accounts payable, accrued expenses and other	3,568	(55,164)
Net cash provided by operating activities	\$ 435,642	343,183

(a) National Grid Power Supply Agreement (PSA) and Nine Mile Point 2 (NMP2) operating costs have been reclassified in 2016 from Operations and Maintenance to Power Supply Charge for comparative presentation purposes.

(b) Pass through taxes related to the PSA, NMP2 and certain other long term operating agreements for 2016 have been reclassified to Power Supply Charge for comparative presentation purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Nine-Month Period ended September 30, 2017 Compared to 2016

The change in net position for the nine-month period ended September 30, 2017 was \$0.3 million less favorable than the nine-month period of 2016.

Operating Revenues

Operating revenue increased \$49 million compared to the nine-month period of 2016, resulting from rate changes effective January 1, 2017, consistent with the approved Three Year Rate Plan. In the 2017 approved budget, revenue was projected to grow to reflect anticipated (i) increases in the Power Supply Charge; (ii) increases in operating expenses to support new programs to maintain reliability, improve system resiliency and customer satisfaction; (iii) increases in property tax assessments; and (iv) increases in debt service, including fixed obligation coverage to support the Authority's capital improvement plan.

Operating Expenses

Effective January 1, 2017, the Power Supply Charge includes costs associated with the National Grid Power Supply Agreement (PSA) and operation and maintenance costs associated with the Authority's 18% interest in the Nine Mile Point 2 (NMP2) nuclear generating station. These changes were made to be more consistent with how other New York electric utilities classify generation capacity costs. To achieve conformity and comparability, the prior year amounts related to the PSA and NMP2 have been reclassified in the financial statements from operating costs to the Power Supply Charge. Power supply costs, including those related to pass through property taxes, increased \$68 million when compared to the same nine-month period of 2016 due to the purchase of zero emission credits which began in 2017 and increased capacity charges.

Operations and maintenance expense increased \$37 million compared to the same nine-month period of 2016 due to higher costs related to increased tree trimming to improve system resiliency. Also contributing to the increase was a lower level of storm activity (see below), which results in higher labor cost allocations to operating areas such as customer and business services.

Storm restoration expense decreased \$49 million when compared to the same nine-month period of 2016 due to a lower level of storm activity. The Authority experienced nine storms through September 2017, three of which required mutual assistance, compared with seventeen storms through September 2016, five of which required mutual assistance.

Depreciation and amortization increased \$14 million when compared to the same nine-month period of 2016 primarily due to increased utility plant assets placed in service.

Nonoperating Expenses

Other income increased \$10 million compared to the same nine-month period of 2016 primarily due to the receipt of the Renewable Greenhouse Gas Initiative (RGGI) grant from New York State in September 2017.

Interest charges decreased \$10 million compared to the same nine-month period of 2016 due to the interest savings resulting from the 2016 refunding of long term bonds.

Liquidity and Capital Resources

The Authority adopted a policy that it should at all times maintain cash on hand and available credit equivalent to at least 120 days of operating expenses. As of September 30, 2017 and December 31, 2016, the Authority's available sources of liquidity for operating purposes and capital program funding, as displayed below, achieved the policy target.

	(amounts in thousands)	
	September 30, 2017	December 31, 2016
Operating liquidity		
Unrestricted cash and cash equivalents	\$299,334	\$652,370
OPEB account cash, cash equivalents & investments	140,086	128,998
PSEG LI Working Capital requirements	252,939	207,045
Total operating liquidity	692,359	988,413
Available credit		
General Revenue Notes - Revolving Credit Facility	295,000	337,500
General Revenue Commercial Paper	186,875	169,375
Subordinated Revenue Commercial Paper	50,000	50,000
Total available credit	531,875	556,875
Total cash, cash equivalents, investments & available credit	\$1,224,234	\$1,545,288
Restricted cash		
FEMA - restricted	346,423	470,972
UDSA	152,173	88,572
Total restricted cash	\$498,596	\$559,544
Days cash & available credit on hand	148	197

Financing Activities

The Authority's consolidated debt at September 30, 2017 and December 31, 2016 is comprised of the following:

	(amounts in thousands)	
	September 30, 2017	December 31, 2016
Long-term debt:		
General Revenue Bonds	\$ 3,271,435	3,356,972
Unamortized premiums	148,650	156,298
Less: Current maturities	(71,200)	(117,250)
	\$ 3,348,885	3,396,020
UDSA Restructuring Bonds		
UDSA Restructuring Bonds	\$ 3,932,739	3,965,529
Unamortized premiums	435,354	467,800
Less: Current maturities	(100,620)	(72,598)
	\$ 4,267,473	4,360,731
Short-term debt:		
General revenue commercial paper notes	\$ 138,125	155,625
Subordinated commercial paper notes	250,000	250,000
General revenue notes - revolving credit facility	55,000	—
	\$ 443,125	405,625

Regulatory Assets and Liabilities

The table below are the Authority's costs to be recovered or return in a future period (regulatory assets or liabilities). Amounts to payable within the one year period showed an increase totaling \$29 million from December 31, 2016 to September 30, 2017 due primarily to the increase in the Power Supply Charge amount payable. Fixed capacity costs related to long-term purchased power agreements are recognized seasonally to appropriately match to the period of higher capacity requirements.

	(amounts in thousands)	
	September 30, 2017	December 31, 2016
Regulatory assets to be recovered within one year		
Operations services agreement – employee retirement benefits \$	58,000	54,199
Shoreham property tax settlement	47,093	43,498
Power supply charge	—	9,400
Employee benefit plan settlement	21,634	21,634
Revenue decoupling mechanism	10,239	15,024
New York State assessment	4,830	1,330
Debt issuance costs	3,209	3,209
Southampton visual benefit assessment	1,007	948
Distributed energy resources	1,886	1,770
Balance	\$ 147,898	151,012
Regulatory assets for future recovery		
Operations services agreement – employee retirement benefits	376,664	423,050
Shoreham property tax settlement	405,012	424,396
Employee benefit plan settlement	156,845	173,070
Power supply charge	74,915	44,649
Delivery service adjustment	77,088	41,841
Debt issuance costs	30,762	33,004
Southampton visual benefit assessment	7,904	8,229
Balance	\$ 1,129,190	1,148,239
Regulatory liabilities payable within one year		
Delivery service adjustment	\$ 3,021	12,100
Power supply charge	37,978	—
Balance	\$ 40,999	12,100