

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

Quarterly Unaudited Financial Report

For the period ended March 31, 2016

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

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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.

### *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 quarter ended March 31, 2016 compared to 2015. 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](http://www.lipower.org).

**LONG ISLAND POWER AUTHORITY**  
(A Component Unit of the State of New York)  
Statements of Net Position  
(Amounts in thousands)

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets and Deferred Outflows of Resources</b>	<b>(unaudited)</b>	<b>(audited)</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 547,689	600,698
Restricted cash - working capital requirements	196,476	208,099
Restricted cash	79,155	33,518
Investments - OPEB account	39,400	29,500
Counterparty collateral – posted by the Authority	41,764	48,357
Accounts receivable (less allowance for doubtful accounts)	378,500	489,757
Other receivables	73,534	85,988
Fuel inventory	107,203	117,616
Material and supplies inventory	46,140	47,808
Unrealized charges	78,573	75,574
<b>Regulatory assets due within one year:</b>		
A&R Operations Services Agreement - employee retirement benefits	54,199	54,199
Shoreham property tax settlement	43,498	43,498
Employee benefit plan settlement	21,634	21,634
Revenue decoupling mechanism	27,959	17,297
New York State assessment	4,709	1,708
Debt issuance costs	4,100	4,100
Enterprise resource planning system	—	4,860
Fuel and purchased power costs	63,108	3,108
Outage management system	—	2,424
Transition costs – power supply management	1,692	1,692
Southampton visual benefit assessment	888	888
Prepayments and other current assets	67,110	49,963
	<u>1,877,331</u>	<u>1,942,286</u>
<b>Noncurrent assets:</b>		
Restricted cash and cash equivalents	502,820	501,990
Utility plant and property and equipment, net	7,567,574	7,548,163
Nuclear decommissioning trust	113,000	110,436
Other long-term receivables	38,102	38,082
Unrealized charges	218,619	197,227
Prepayments	3,019	12,231
<b>Regulatory assets:</b>		
A&R Operations Services Agreement - employee retirement benefits	436,473	413,978
Shoreham property tax settlement	444,659	447,414
Employee benefit plan settlement	189,296	194,705
Debt issuance costs	37,622	38,498
Delivery service adjustments	37,816	—
Enterprise resource planning system	—	43,670
Fuel and purchased power costs	33,341	34,086
Outage management system	—	21,757
Transition costs – power supply management	14,801	15,224
Southampton visual benefit assessment	8,353	8,407
Acquisition adjustment (net of accumulated amortization)	1,184,291	1,212,134
Total noncurrent assets	<u>10,829,786</u>	<u>10,838,002</u>
<b>Deferred outflows:</b>		
Deferred loss on debt refunding	247,290	254,157
Accumulated decrease in fair value of financial derivatives	15,053	—
Pensions	195	195
Total deferred outflows	<u>262,538</u>	<u>254,352</u>
Total assets and deferred outflows	<u>\$ 12,969,655</u>	<u>13,034,640</u>

**LONG ISLAND POWER AUTHORITY**  
(A Component Unit of the State of New York)  
Statements of Net Position  
(Amounts in thousands)

<b>Liabilities and Net Position</b>	<b>March 31, 2016</b> <b>(unaudited)</b>	<b>December 31, 2015</b> <b>(audited)</b>
	<b>(unaudited)</b>	<b>(audited)</b>
Current liabilities:		
Short-term debt	\$ 380,000	350,000
Current maturities of long-term debt	178,295	178,295
Current maturities of UDSA debt	60,000	60,000
Current portion of capital lease obligation	194,052	190,955
Accounts payable and accrued expenses	409,957	456,649
Regulatory liability - fuel and purchased power costs refundable	14,264	30,027
Commodity derivative instruments	83,368	73,599
Accrued payments in lieu of taxes	2,662	10,008
Accrued interest	93,588	47,832
Customer deposits	38,201	38,419
Total current liabilities	1,454,387	1,435,784
Noncurrent liabilities:		
Long-term debt	4,309,272	4,305,146
Long-term UDSA debt	3,122,217	3,127,322
Capital lease obligations	2,137,863	2,188,295
Borrowings	85,868	87,064
A&R Operations Services Agreement - employee retirement benefits	535,933	491,678
Financial derivative instruments	202,632	173,199
Commodity derivative instruments	41,009	44,086
Asset retirement obligation	63,783	62,906
Long-term liabilities and unrealized credits	71,368	93,530
Claims and damages	27,504	27,822
Total noncurrent liabilities	10,597,449	10,601,048
Deferred inflows:		
Regulatory credits - grants	502,213	502,213
Accumulated increase in fair value of derivatives	2,679	4,514
Pensions	417	417
Accumulated increase in fair value of Nine Mile Point 2 trust	10,970	9,165
Total deferred inflows	516,279	516,309
Net position:		
Net investment in capital assets	(199,406)	(158,313)
Restricted	204,427	142,026
Unrestricted	396,519	497,786
Total net position	401,540	481,499
 Total liabilities, deferred inflows and net position	 \$ 12,969,655	 13,034,640

**LONG ISLAND POWER AUTHORITY**  
(A Component Unit of the State of New York)  
Statements of Revenues, Expenses, and Changes in Net Position  
Quarters ended March 31, 2016 and 2015  
(unaudited)  
(Amounts in thousands)

	<u>2016</u>	<u>2015</u>
Operating revenues – electric sales	\$ 715,932	878,474
Operating expenses:		
Operations – fuel and purchased power	259,760	456,981
Operations and maintenance	200,067	223,135
Operations and maintenance – amortizations	8,052	3,088
Storm restoration	50,906	4,442
General and administrative	6,626	6,502
Depreciation and amortization	63,659	56,104
Pass through taxes under certain long-term operating agreements	50,240	48,182
Payments in lieu of taxes and assessments	85,321	84,543
Total operating expenses	<u>724,631</u>	<u>882,977</u>
Operating loss	<u>(8,699)</u>	<u>(4,503)</u>
Nonoperating revenues and expenses:		
Other income, net:		
Investment income	2,393	453
Grant income	5,767	3,047
Carrying charges on regulatory assets	6,800	7,057
Other	1,070	284
Total other income, net	<u>16,030</u>	<u>10,841</u>
Interest charges and (credits):		
Interest on long-term debt, net	87,904	88,962
Other interest	1,172	4,842
Allowance for borrowed funds used during construction	(1,786)	(1,718)
Total interest charges and (credits)	<u>87,290</u>	<u>92,086</u>
Change in net position	(79,959)	(85,748)
Net position, beginning of year	<u>481,499</u>	<u>378,101</u>
Net position, end of period	<u>\$ 401,540</u>	<u>292,353</u>

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

Statements of Cash Flows

Quarters ended March 31, 2016 and 2015

(unaudited)

(Amounts in thousands)

	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Operating revenues received	\$ 797,739	882,086
Paid to suppliers and employees:		
Operations and maintenance	(265,686)	(238,565)
Pass through taxes under certain long-term operating agreements	(50,240)	(48,182)
Fuel and purchased power	(311,783)	(410,481)
Payments in lieu of taxes	(134,035)	(125,749)
Collateral on commodity derivative transactions, net	6,593	3,350
PSEG Long Island pension funding	(5,800)	(5,900)
Net provided by operating activities	36,788	56,559
Cash flows from investing activities:		
Earnings received on investments	2,067	454
Restricted cash	(34,844)	(87,416)
Purchase of investment securities	(9,900)	—
Other	510	129
Net cash used in investing activities	(42,167)	(86,833)
Cash flows from noncapital financing related activities:		
Grant proceeds	14,671	82,329
Proceeds from credit facility draws and commercial paper program	30,000	20,000
Net cash provided by noncapital related activities	44,671	102,329
Cash flows from capital and related financing activities:		
Capital and nuclear fuel expenditures	(103,695)	(52,561)
Proceeds from insurance recoveries and settlements	49,580	—
Debt issuance costs	(175)	—
Interest paid, net	(28,396)	(27,786)
Other interest costs	(9,615)	(10,827)
Redemption of long-term debt	—	(150,000)
Net cash used in capital and related financing activities	(92,301)	(241,174)
Net decrease in cash and cash equivalents	(53,009)	(169,119)
Cash and cash equivalents at beginning of year	600,698	782,466
Cash and cash equivalents at end of period	\$ 547,689	613,347
Reconciliation to net cash provided by operating activities:		
Operating loss	\$ (8,699)	(4,503)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	71,711	59,192
Nuclear fuel burned	2,299	3,338
Accretion of asset retirement obligation	877	931
Other, net	17,593	6,118
Changes in operating assets and liabilities:		
Accounts receivable, net	104,942	(24,794)
Regulatory assets and liabilities	(106,667)	(15,704)
Fuel and material and supplies inventory	12,081	25,274
Accounts payable, accrued expenses and other	(57,349)	6,707
Net cash provided by operating activities	\$ 36,788	56,559

## **Management's Discussion and Analysis (Unaudited)**

### **First Quarter 2016 Compared to 2015**

The change in net position for the first quarter of 2016 was \$6 million more favorable than the first quarter of 2015.

Operating revenue decreased \$163 million compared to the first quarter of 2015 primarily due to a \$197 million decline in fuel and purchased power revenues, partially offset by an increase in base revenue due to increased base rates effective January 1, 2016, as approved in the Three Year Rate Plan.

Fuel and purchased power expense decreased \$197 million compared to the first quarter of 2015 due to a decline in natural gas and oil prices and a reduction in the cost of purchased power. This decrease was partially offset by higher settlement costs on certain hedge positions.

Also contributing to the fuel and purchased power expense variation was the shift in the current year recognition of fixed capacity costs related to long-term purchased power agreements. Effective January 1, 2016, fixed capacity charges are recognized at higher amounts in the summer months to appropriately match the period of higher capacity requirements. As of March 31, 2016, approximately \$60 million of costs were deferred for future collection resulting in lower fuel and purchased power expenses for the period.

Operations and maintenance expense decreased \$23 million compared to the first quarter of 2015 primarily due to the diversion of labor expenses to increased storm activity and capital work in the first quarter of 2016.

Operations and maintenance expense for regulatory asset amortizations increased \$5 million due to the amortization of deferred pension and other related retirement costs effective January 1, 2016, as approved by the Board of Trustees.

Storm restoration expense increased \$46 million compared to the first quarter of 2015 due to the higher level of storm activity in 2016.

Depreciation and amortization increased \$8 million compared to the first quarter of 2015 primarily due to the change to whole life depreciation rates as approved in the Three Year Rate Plan in accordance with an updated depreciation study.

Other income increased \$5 million compared to the first quarter of 2015 primarily due to the receipt of \$4.3 million from the Federal Emergency Management Agency for reimbursement on a 2013 storm event.

Interest charges decreased \$5 million compared to the first quarter of 2015 due to the impact of the 2015 Utility Debt Securitization refinancing.