

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED
JUNE 30, 2015 VERSUS 2014**

Revenues decreased approximately \$113 million compared to the prior year primarily due to lower fuel and purchased power costs and slightly lower sales in the residential and commercial sectors.

Fuel and purchased power costs decreased approximately \$117 million compared to the prior year due primarily to declining natural gas prices.

Operations and maintenance expense decreased \$52 million due primarily to the end of the transition services agreement, under which the Authority was allowed to use its former service provider's financial and other operating systems. Also contributing to the decrease is a delayed start in the 2015 commercial energy and efficiency programs.

Operations and maintenance—regulatory asset amortizations are non-cash amortizations related to restructuring costs which were approved by the Authority's Board for collection from customers beginning in 2014 over the remaining life of the Amended and Restated Operations Services Agreement. The increase of \$3 million is due to the mid-2014 implementation of the outage management system and the enterprise resource planning system.

Storm restoration expense increased \$2 million due to an increase in major storm activity year over year.

General and Administrative costs decreased \$2 million due to reduced staffing levels resulting in lower salary and benefit related costs and lower professional services costs.

Depreciation and amortization decreased \$31 million as the Authority incorporated the results of a new depreciation study in September 2014. The depreciation study resulted in extending the useful life of the Authority's electric utility assets, thus reducing depreciation expense.

PILOTs – revenue-based decreased \$1 million due to lower revenues.

PILOTs – property-based increased \$4 million due to increased town and school tax payments.

Other income and deductions decreased by \$3 million due to a lower level of fees associated with the receipt of power supply proposals and lower earnings on the Nine Mile Point 2 trust.

Grant income increased \$9 million due primarily to the receipt of a NYSERDA grant totaling \$12 million compared with \$5 million in the prior year.

Interest expense increased \$4 million due primarily to higher debt balances outstanding during 2015.

Statements of Revenues, Expenses and
Changes in Net Position
(Amounts in thousands)

	Six Months Ended June 30,	
	2015	2014
	(unaudited)	
Operating revenues - electric sales	\$ 1,682,606	\$ 1,795,753
Operating expenses:		
Operations - fuel and purchased power	790,589	907,096
Operations and maintenance	497,394	549,315
Operations and maintenance - regulatory asset amortizations	6,474	3,253
Storm restoration	12,790	10,833
General and administrative	12,069	13,741
Depreciation and amortization	110,116	141,314
Payments in lieu of taxes - revenue based	16,613	17,517
Payments in lieu of taxes - property based	149,838	146,085
Total operating expenses	1,595,883	1,789,154
Operating income	86,723	6,599
Other income and deductions, net	16,293	19,479
Grant Income	18,312	9,446
Interest charges and (credits)	186,863	182,992
Change in net position	(65,535)	(147,468)
Net position		
Total net position, beginning of year	434,592	378,101
Total net position, end of period	\$ 369,057	\$ 230,633

Long Island Power Authority and Subsidiaries

Statements of Net Position
(Amounts in thousands)

Assets and Deferred Outflows of Resources	June 30, 2015 (unaudited)	December 31, 2014
Current assets:		
Cash and cash equivalents	\$ 801,746	\$ 782,466
Restricted Cash	551,192	618,384
Counterparty collateral - posted by the Authority	25,169	4,500
Accounts receivable (less allowance for doubtful accounts of \$41,276 and \$38,817, respectively)	484,339	528,937
Other accounts receivable	65,236	145,796
Fuel inventory	106,300	128,201
Material and supplies inventory	47,311	41,538
Unrealized charges	34,356	56,735
Prepayments and other current assets	46,199	25,803
Regulatory assets due within one year	92,334	67,656
Total current assets	2,254,182	2,400,016
Noncurrent assets:		
Utility plant and property and equipment, net	6,731,409	6,727,057
Nuclear decommissioning trust	110,293	110,799
Other long-term receivables	28,321	28,325
Unrealized charges	215,970	224,235
Prepayments and other noncurrent assets	9,355	14,533
Regulatory assets:		
Operations Services Agreement - employee retirement benefits	592,019	597,592
Shoreham property tax settlement	456,080	460,419
Employee benefit plan settlement	205,523	216,339
Transition costs - operations services agreement	43,655	45,974
Enterprise resource planning system	42,401	38,710
Debt issuance costs	37,114	39,140
Fuel and purchased power costs	35,828	37,311
Outage management system	22,988	24,297
Transition costs - power supply management	16,072	16,918
Southampton visual benefit assessment	8,646	8,779
Acquisition adjustment (net of accumulated amortization)	1,986,180	2,041,867
Total noncurrent assets	10,541,854	10,632,295
Deferred outflows:		
Deferred loss on debt refunding	147,556	159,162
Accumulated increase in fair value of commodity derivatives	2,657	-
Accumulated decrease in fair value of financial derivatives	742	4,179
Total assets and deferred outflows	\$ 12,946,991	\$ 13,195,652

Long Island Power Authority and Subsidiaries

Statements of Net Position
(Amounts in thousands)

Liabilities and Net Position	June 30, 2015 (unaudited)	December 31, 2014
Current liabilities:		
Short-term debt	\$ 300,000	\$ 280,000
Current maturities of long-term debt	182,345	164,505
Current maturities of UDSA debt	45,000	15,000
Current portion of capital lease obligation	184,881	178,997
Accounts payable and accrued expenses	320,752	333,434
Regulatory liability - fuel and purchased power costs	-	40,245
Commodity derivative instruments	44,361	45,097
Accrued payments in lieu of taxes	32,352	45,678
Accrued interest	51,848	44,443
Counterparty collateral - held by the Authority	-	1,150
Customer deposits	37,395	39,266
Accrued storm costs	88,751	88,788
Total current liabilities	1,287,685	1,276,603
Noncurrent liabilities:		
Long-term debt	5,470,692	5,532,551
Long-term UDSA debt	1,984,481	2,019,340
Borrowings	89,435	91,779
Operations Services Agreement - employee retirement benefits	600,581	578,437
Capital lease obligation	2,284,157	2,379,250
Asset retirement obligation	68,288	66,414
Long-term liabilities and unrealized credits	103,261	97,291
Commodity derivative instruments	46,001	31,062
Financial derivative instruments	165,252	192,881
Claims and damages reserves	22,693	20,935
Total noncurrent liabilities	10,834,841	11,009,940
Deferred inflows:		
Grants received in advance	442,924	441,088
Accumulated increase in fair value of commodity derivatives	-	19,296
Accumulated increase in fair value of Nine Mile Point 2 trust	12,484	14,133
Total deferred inflows	455,408	474,517
Net position:		
Net investment in capital assets	(234,615)	(346,219)
Restricted	551,192	618,384
Unrestricted	52,480	162,427
Total net position	369,057	434,592
Total liabilities and net position	\$ 12,946,991	\$ 13,195,652

Statements of Cash Flows

(Amounts in thousands)

	Six Months Ended June 30,	
	2015	2014
	(unaudited)	
Cash flows from operating activities:		
Operating revenues received, net of refunds	\$ 1,745,879	1,808,244
Paid to suppliers and employees:		
Operations and maintenance	(535,967)	(842,750)
Fuel and purchased power	(736,512)	(811,785)
Payments in lieu of taxes	(230,806)	(253,659)
Collateral on fuel derivative transactions, net	(22,455)	(17,837)
Pension funding	(12,800)	(45,500)
Net cash provided by (used in) operating activities	<u>207,339</u>	<u>(163,287)</u>
Cash flows from investing activities:		
Earnings received on investments	767	191
Other	437	2,821
Restricted cash	67,192	53,671
Net cash provided by investing activities	<u>68,396</u>	<u>56,683</u>
Cash flows from noncapital financing related activities:		
Grant proceeds	99,155	146,398
Proceeds from credit facility draws and commercial paper program	450,000	400,000
Redemption of credit facility draws and commercial paper program	(330,000)	-
Net cash provided by noncapital related activities	<u>219,155</u>	<u>546,398</u>
Cash flows from capital and related financing activities:		
Capital and nuclear fuel expenditures	(156,043)	(264,209)
Interest paid, net	(167,387)	(120,791)
Proceeds from issuance of bonds	200,000	-
Redemption of long-term debt	(352,180)	(32,605)
Net cash used in capital and related financing activities	<u>(475,610)</u>	<u>(417,605)</u>
Net increase in cash and cash equivalents	19,280	22,189
Cash and cash equivalents at beginning of year	<u>782,466</u>	<u>378,821</u>
Cash and cash equivalents at end of the period	<u>\$ 801,746</u>	<u>401,010</u>
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 86,723	6,599
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	116,590	144,567
Nuclear fuel burned	6,952	4,952
Bad debt expense	10,942	14,189
Accretion of asset retirement obligation	1,874	2,315
Other, net	(4,089)	(6,376)
Changes in operating assets and liabilities:		
Accounts receivable, net	33,265	(23,314)
Regulatory assets	(41,070)	38,552
Fuel and material and supplies inventory	16,128	(5,402)
Counterparty collateral	(21,819)	(3,180)
Claims, damages and storm restoration	-	(92,979)
Accounts payable, accrued expenses and other	1,843	(243,210)
Net cash provided by (used in) operating activities	<u>\$ 207,339</u>	<u>(163,287)</u>