

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

Consolidated Financial Statements
and Required Supplementary Information

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

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

Consolidated Financial Statements

December 31, 2017 and 2016

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KPMG LLP
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New York, NY 10154-0102

Independent Auditors' Report

To the Board of Trustees
Long Island Power Authority:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the business-type activities and fiduciary funds of the Long Island Power Authority (the Authority), a component unit of the State of New York, as of and for the years ended December 31, 2017 and 2016, and the related notes to the consolidated financial statements, which collectively comprise the Authority's consolidated financial statements as listed in the table of contents.

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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 the 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 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 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 Consolidated Financial Statement

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary funds of the Long Island Power Authority as of December 31, 2017 and 2016, and the respective changes in their net position and, where applicable, 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 on pages 3 through 20 and Required Supplementary Information on pages 95 through 97, 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, 2018 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 solely 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, 2018

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

December 31, 2017 and 2016

(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.

The Authority entered into operating agreements to provide the operating personnel, and a significant portion of the power supply resources, necessary 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).

LIPA Reform Act

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.

LIPA Reform Act – Part A

Part A addresses the reorganization of the Authority, substantially changed its operating responsibilities and the relationship with its service provider. PSEG Long Island was selected as the Authority's service provider pursuant to the Amended and Restated Operations Services Agreement (OSA) for a term of twelve years.

PSEG Long Island commenced operating the Authority's electric T&D system on January 1, 2014 under the PSEG Long Island brand name and provides day-to-day T&D system operating functions as well as certain administrative support functions to LIPA. PSEG Long Island acts as LIPA's agent in performing many of LIPA's obligations and in return receives (a) reimbursement for pass-through operating expenditures, (b) a fixed management fee and (c) an incentive fee contingent on meeting certain performance metrics. In addition, there is the opportunity for the parties to extend the contract for an additional eight years subject to the achievement by PSEG Long Island of certain performance levels.

The Authority also has a contract with PSEG Energy Resources and Trade LLC (PSEG ER&T) to provide services related to fuel and power supply management and certain commodity activities. Separately from its

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contract with PSEG ER&T, the Authority maintains power purchase agreements with various third-party power generators.

The Authority's Board of Trustees (Board) approves the annual budget, expenditures and the electric rates. Under Part A of the Reform Act, a rate proceeding on electric rates was filed to allow the New York State Department of Public Service (DPS) the opportunity to make recommendations to the Board. As such, the Authority filed a Three Year Rate Plan for 2016 to 2018 (Three Year Rate Plan) with the DPS on January 30, 2015. Pursuant to the Reform Act, the DPS was required to review and make recommendations to the Authority's Board within 240 days of such filing. Accordingly, on September 28, 2015, the DPS submitted its Rate Recommendation to the Authority's Board. On December 16, 2015, the Authority's Board implemented the Three Year Rate Plan set forth in the DPS Recommendation.

LIPA Reform Act – Part B

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, 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 Securitization Law allowed the UDSA to issue restructuring bonds totaling approximately \$4.5 billion, the proceeds of which refunded Authority bonds and generated total net present value debt service savings of \$492 million for the Authority's customers.

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, 2017 and 2016. 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.

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The Authority's Consolidated Statements of Net Position as of December 31, 2017, 2016 and 2015 are summarized below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(Amounts in thousands)		
Assets and deferred outflows of resources:			
Capital assets	\$ 8,088,014	7,768,551	7,548,163
Current assets	1,922,648	1,888,172	1,786,878
Regulatory assets	1,329,148	1,299,251	1,373,147
Other noncurrent assets	1,542,921	1,858,009	2,073,357
Deferred outflows of resources	<u>275,026</u>	<u>286,779</u>	<u>254,352</u>
Total assets and deferred outflows of resources	<u>13,157,757</u>	<u>13,100,762</u>	<u>13,035,897</u>
Liabilities and deferred inflows of resources:			
Long-term debt	7,978,731	7,756,751	7,432,468
Current liabilities	1,267,330	1,345,039	1,405,757
Regulatory liabilities	14,910	12,100	30,027
Other noncurrent liabilities	2,883,642	3,013,915	3,169,837
Deferred inflows of resources	<u>540,956</u>	<u>517,891</u>	<u>516,309</u>
Total liabilities and deferred inflows of resources	<u>12,685,569</u>	<u>12,645,696</u>	<u>12,554,398</u>
Total net position	<u>472,188</u>	<u>455,066</u>	<u>481,499</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 13,157,757</u>	<u>13,100,762</u>	<u>13,035,897</u>

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Assets and Deferred Outflows of Resources

2017 Compared to 2016

Assets and deferred outflows of resources increased \$57 million compared to 2016 due to increases of \$320 million in capital assets, \$34 million in current assets, and \$30 million in regulatory assets, partially offset by a \$315 million decrease in noncurrent assets, and a \$12 million decrease in deferred outflows of resources.

Capital assets increased by \$320 million compared to 2016 primarily due to higher investment in reliability capital projects as well as certain storm hardening projects, 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 \$34 million compared to 2016 primarily due to increased mark-to-market valuations on the Authority's investment accounts.

Regulatory assets increased by \$30 million primarily due to the increase of \$48 million in the Delivery Service Adjustment (DSA) and the Power Supply Charge (PSC), partially offset by the scheduled annual recovery or amortizations of regulatory assets totaling \$18 million. For a full discussion of the regulatory assets and liabilities, see note 5 to the Authority's Consolidated Financial Statements.

Noncurrent assets decreased by \$315 million primarily due to the \$195 million decrease in restricted cash and cash equivalents due to expenditures for storm hardening capital projects primarily funded by FEMA and \$111 million of scheduled amortization of the Acquisition Adjustment.

Deferred outflow of resources decreased by \$12 million primarily due to the change in the mark-to-market valuation of the Authority's effective commodity derivatives.

2016 Compared to 2015

Assets and deferred outflows of resources increased \$65 million compared to 2015 due to increases of \$220 million in capital assets, \$101 million in current assets, and \$32 million in deferred outflows of resources, partially, offset by a \$215 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, primarily funded by FEMA. These capital additions were partially offset by asset retirements and annual depreciation expense.

Current assets increased by \$101 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.

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

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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.

Noncurrent assets decreased by \$215 million primarily due to \$111 million of scheduled amortization of the Acquisition Adjustment, a \$23 million decrease 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 primarily funded by FEMA.

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 produced net present value debt service savings of \$187 million over the life of the UDSA Restructuring Bonds, Series 2016A and Series 2016B.

Liabilities and Deferred Inflows of Resources

2017 Compared to 2016

Liabilities and deferred inflows of resources increased \$40 million due to an increase of \$222 million in long-term debt, an increase of \$3 million in regulatory liabilities, an increase of \$23 million in deferred inflows of resources, partially offset by decreases of \$78 million in current liabilities, and \$130 million in noncurrent liabilities.

Long-term debt increased by \$222 million. This increase reflects \$369 million of UDSA Restructuring Bonds, Series 2017, which together with \$71 million of premium received on the bonds, allowed the Authority to retire approximately \$400 million of its existing debt. The refunding generated total net present value debt service savings of \$45 million. The Authority also issued \$350 million Electric System General Revenue Bonds Series 2017, which together with the \$56 million of premium received on the bonds, funded capital projects. These increases were partially offset by the \$193 million of current debt maturities classified as current liabilities.

Current liabilities decreased by \$78 million primarily due to the \$45 million decrease in outstanding short-term debt, lower current portion due for capital leases of \$19 million, with the remaining decrease due to various lower accruals.

Noncurrent liabilities decreased by \$130 million primarily due to the amortization of the capital lease obligations of approximately \$177 million, a \$21 million decrease in the deferred mark-to-market valuation on the Authority's interest derivatives, and a \$25 million decrease in the Authority's postemployment retirement benefit obligations resulting from the funding of a Section 115 trust. These decreases were partially offset by a \$90 million increase in the PSEG Long Island's workforce retirement benefit obligations resulting from an updated actuarial valuation.

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Deferred inflows of resources increased by \$23 million primarily due to increased mark-to-market valuations on certain investment accounts.

2016 Compared to 2015

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 \$1.27 billion of its existing debt. The refunding generated a net present value debt service savings of \$187 million. 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, funded capital projects and refinanced outstanding debt. The refinanced bonds generated \$8 million of net present value debt service 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 DSA 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 DSA see note 5 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 decrease 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 the PSEG Long Island's workforce retirement benefit obligations resulting from an updated actuarial valuation.

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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, 2017, 2016 and 2015 are summarized as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Electric revenue	\$ 3,481,613	3,399,101	3,505,209
Operating expenses	(3,214,117)	(3,163,353)	(3,187,383)
Interest expense	(336,071)	(349,809)	(361,725)
Total expenses	<u>(3,550,188)</u>	<u>(3,513,162)</u>	<u>(3,549,108)</u>
Revenue less operating and interest expenses	<u>(68,575)</u>	<u>(114,061)</u>	<u>(43,899)</u>
Grant income	42,058	43,929	54,329
Other income	43,639	43,699	37,744
Total other income	<u>85,697</u>	<u>87,628</u>	<u>92,073</u>
Change in net position	<u>17,122</u>	<u>(26,433)</u>	<u>48,174</u>
Beginning net position	455,066	481,499	434,592
Cumulative effect of change in accounting principle	—	—	(1,267)
Net position, beginning of year, as restated	<u>455,066</u>	<u>481,499</u>	<u>433,325</u>
Net position, end of year	<u>\$ 472,188</u>	<u>455,066</u>	<u>481,499</u>

Operating Revenues

2017 Compared to 2016

Electric operating revenues for 2017 totaled \$3.48 billion, an increase of \$83 million compared to 2016 due to higher power supply costs totaling \$15 million and implementation of the DSA, partially offset by lower sales in 2017.

2016 Compared to 2015

Electric operating revenues 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 DSA totaling \$30 million.

The following table and chart shows revenue for the years ended December 31, 2017, 2016 and 2015 by customer class (residential, commercial and other).

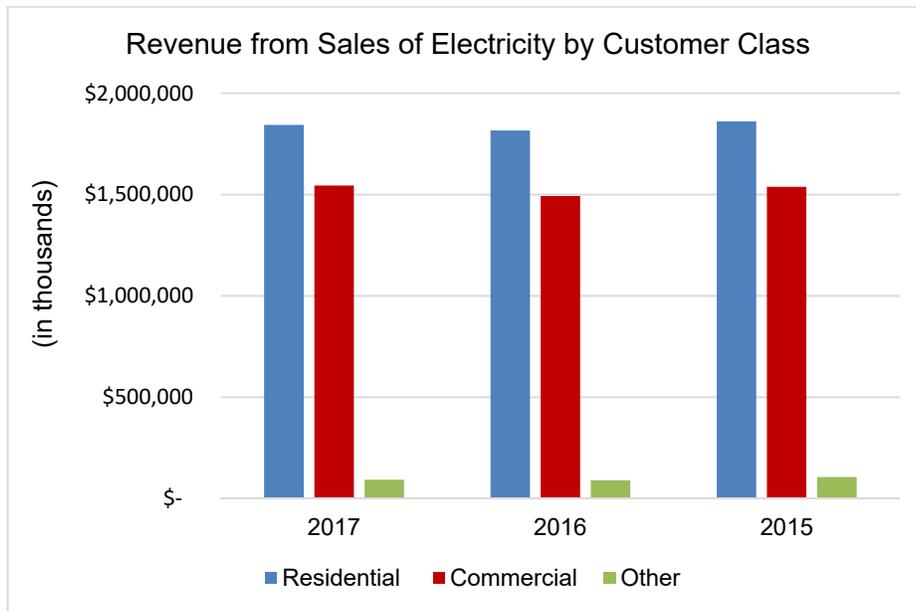
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<u>Revenues from sales of electricity</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Residential	\$ 1,843,735	1,815,921	1,860,865
Commercial	1,544,607	1,492,815	1,537,844
Other	93,271	90,365	106,500
Total	\$ <u>3,481,613</u>	<u>3,399,101</u>	<u>3,505,209</u>



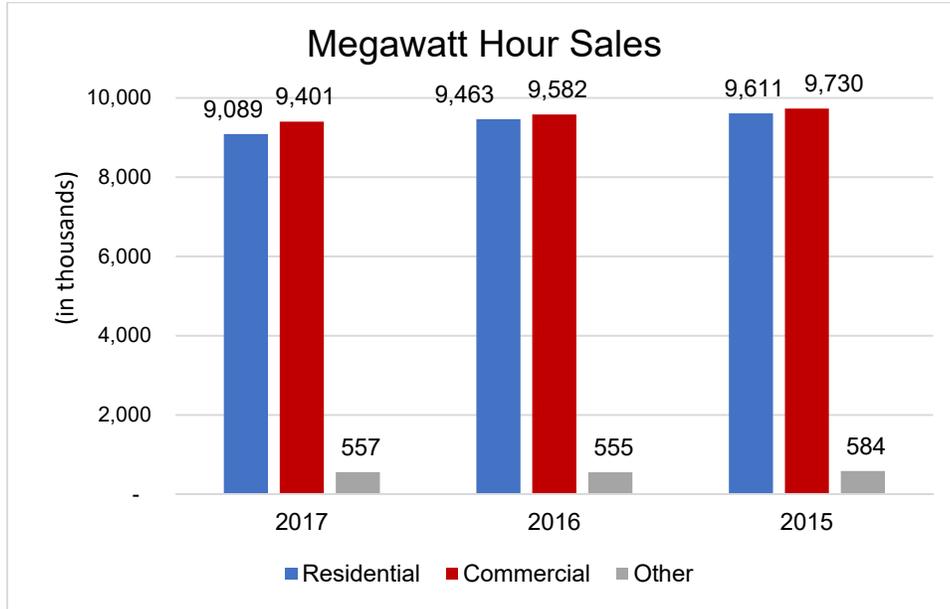
The following chart shows sales by megawatt hour (MWh) for the years ended December 31, 2017, 2016 and 2015 by customer class (residential, commercial and other). The largest customer in the Service Area (the Long Island Rail Road) accounted for less than 2% of total sales and less than 2% of revenue. In addition, the ten largest customers in the Service Area accounted for approximately 7% of total sales and less than 7% of revenue.

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Operating and Interest Expenses

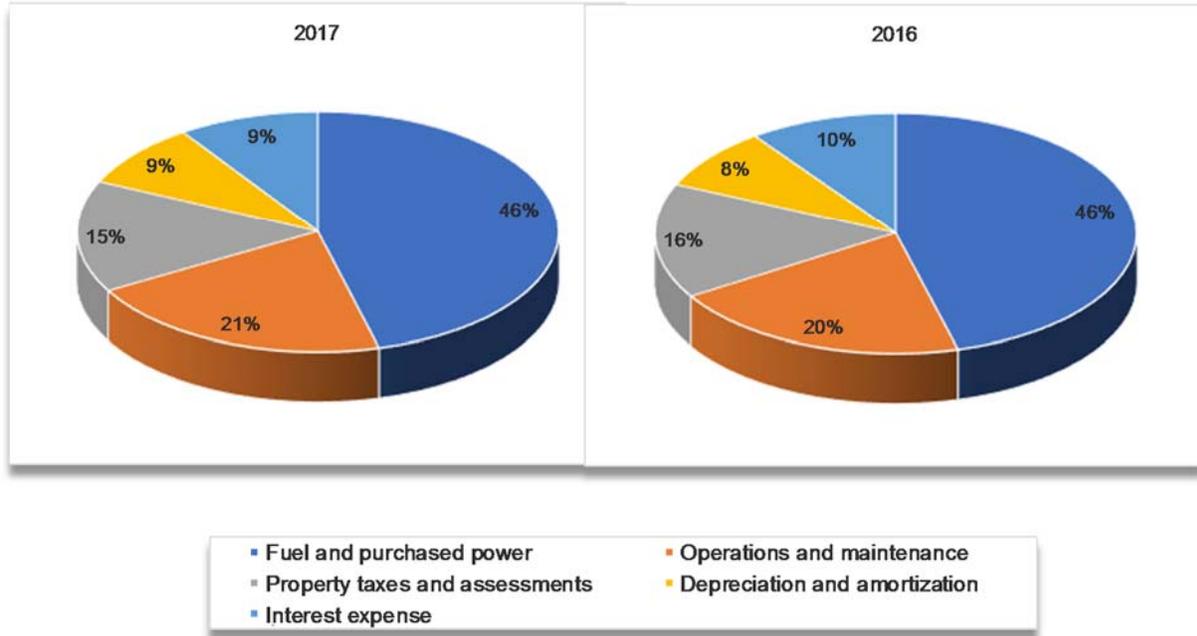
For the years ended December 31, 2017 and 2016, the Authority's expenses were comprised of (i) fuel and purchased power (including the Power Supply Agreement and NMP2); (ii) operations and maintenance; (iii) payments in lieu of taxes, other taxes and assessments; (iv) interest expense; and (v) depreciation and amortization, as shown below:

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2017 Compared to 2016

For the year ended December 31, 2017, operating and interest expenses totaled \$3.55 billion, an increase of \$37 million compared to 2016. The increase is primarily due to higher operating and maintenance costs of the T&D system of \$66 million, greater power supply costs of \$15 million and higher depreciation expense of \$15 million. These increases were partially offset by lower storm restoration costs of \$46 million due to fewer storms requiring mutual aid assistance in 2017. Also offsetting increased costs were lower interest costs of \$14 million.

2016 Compared to 2015

Operating and interest expenses for 2016 totaled \$3.51 billion, a decrease of \$36 million compared to 2015. The decrease is primarily due to lower power supply costs of \$161 million and lower interest costs of \$12 million, partially offset by higher storm restoration costs and higher operating and maintenance costs.

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Capital Asset and Financing Activities

The Authority's 2018 budget projects expenditures of approximately \$757 million for various capital improvements. The Authority anticipates that a portion of these expenditures will be funded using long-term tax-exempt bonds. The Authority's Three Year Rate Plan for 2016 to 2018 incorporated a new Board financial policy that seeks to reduce the portion of the Authority's capital plan funded by debt to 64% or less and, over five years, 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). The Authority's debt is currently rated A3 by Moody's, A- by S&P, and A- by Fitch. While the Authority has budgeted for the objectives of the Three Year Rate Plan, the Authority cannot predict whether it will meet its credit rating objectives.

In 2017, the Authority had approximately \$667 million in capital improvements which were partially funded with the issuance of \$350 million of Electric System General Revenue Bonds, Series 2017.

In addition, during 2017, the UDSA issued \$369.5 million of 2017 Restructuring Bonds, exhausting the statutory authority of bonds allowed under the Securitization Law of \$4.5 billion. The 2017 UDSA refinancing generated \$45.4 million in net present value debt service savings, resulting in aggregate net present value debt service savings of \$492 million for all the UDSA refinancings.

During 2017, the Authority and UDSA paid scheduled debt maturities totaling \$190 million. During 2016, the Authority and UDSA paid scheduled debt maturities totaling \$187 million. In 2016, the Authority also refinanced \$175 million of long-term variable-rate bonds that had bank facilities subject to renewal, and issued

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\$57.7 million of bonds to refinance \$64.6 million of existing fixed-rate debt to generate \$8 million in net present value debt service savings.

The table below summarizes the financing activity for the Authority and the UDSA for the years ended December 31, 2017 and 2016:

	Bonds to fund capital projects	Refinancing of fixed-rate bonds for savings	Refinancing of variable-rate bonds
2017:			
General Revenue Bonds	\$ 350,000	—	—
UDSA Restructuring Bonds	—	369,465	—
2016:			
General Revenue Bonds	\$ 350,000	57,675	175,000
UDSA Restructuring Bonds	—	1,106,090	—

For a full discussion on the Authority's debt activities during 2017 and 2016, see note 12 to the Consolidated Financial Statements.

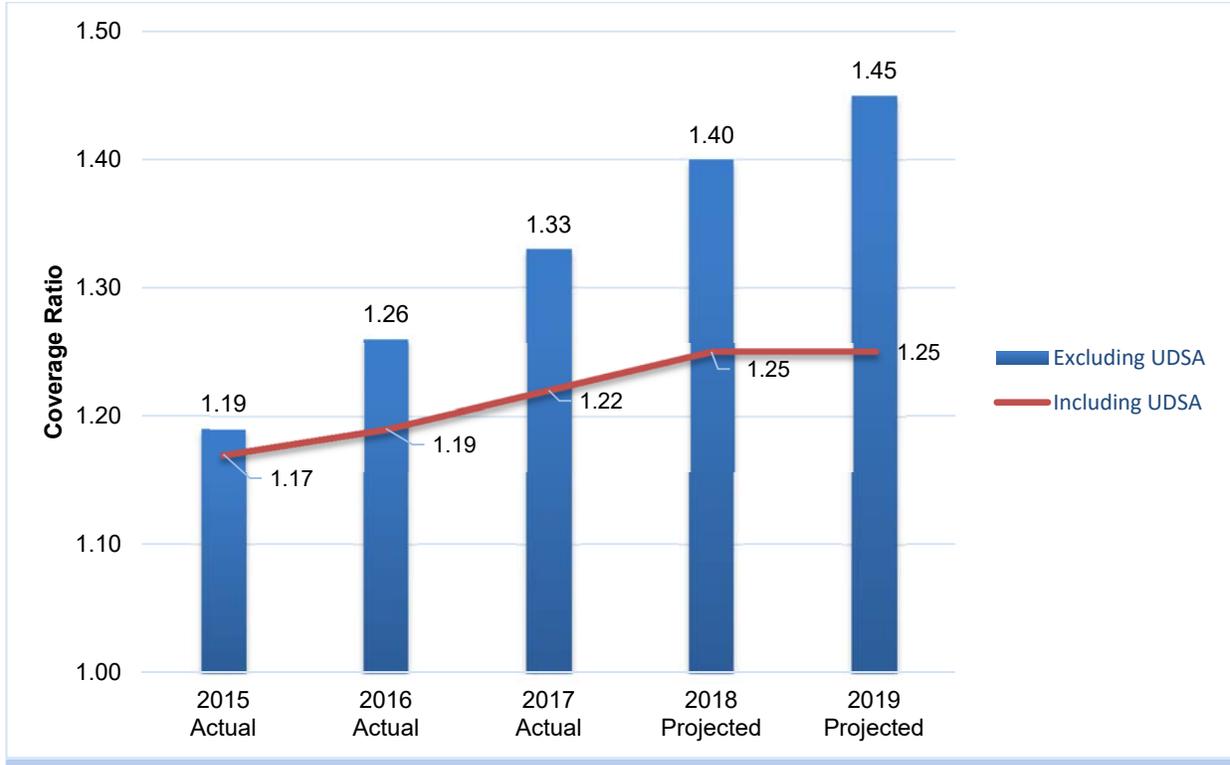
Fixed Obligation Coverage Ratios

The Three Year Rate Plan for 2016 to 2018 adopted the "public power model" of budgeting and rate setting, employing the debt service coverage method to determine revenue requirements. The Authority budgets 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, 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 fixed obligation coverage ratios excludes certain specified noncash items from expenses.

The Authority's fixed obligation coverage ratios for the years ended December 31, 2015, 2016 and 2017 were 1.19x, 1.26x and 1.33x, respectively. The fixed obligation coverage ratios, inclusive of the UDSA restructuring bonds, were 1.17x, 1.19x, and 1.22x, for 2015, 2016 and 2017, respectively. The Authority achieved its targeted coverage goal for 2016 and 2017. The Authority budgeted for but cannot predict whether the targets or goals for 2018 or beyond 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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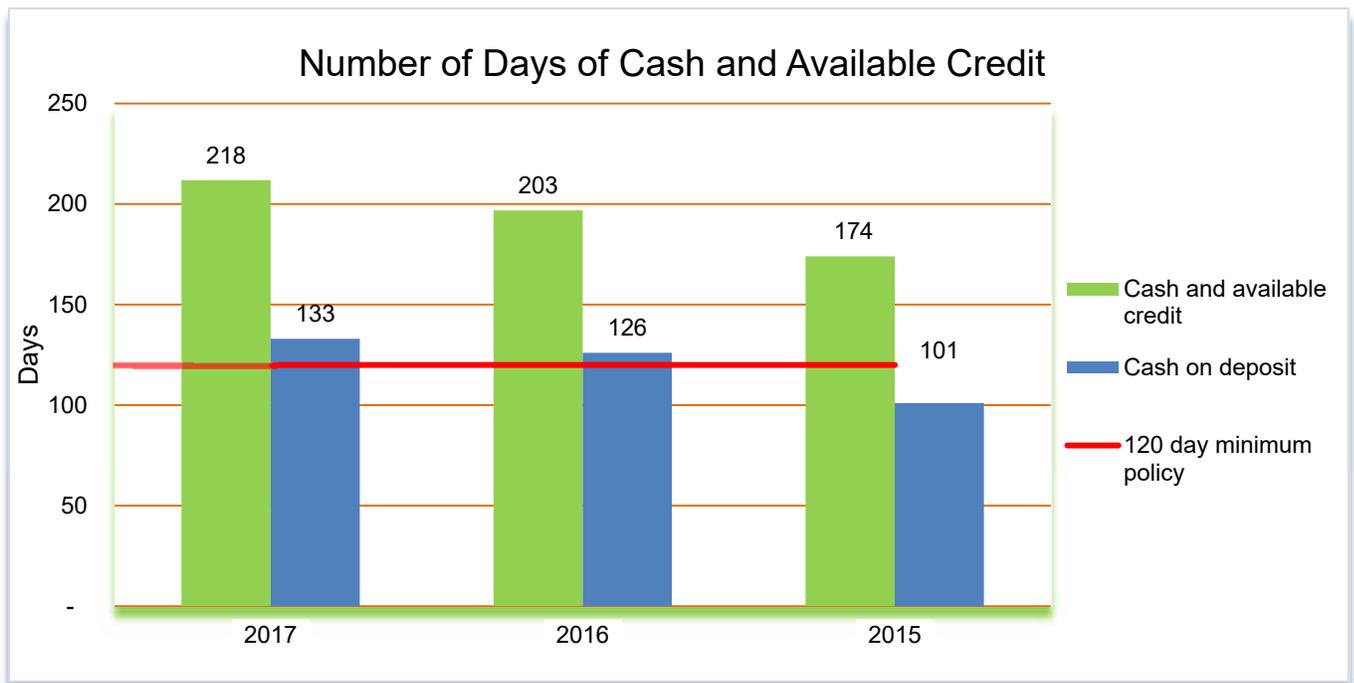


Liquidity and Capital Resources

The Authority's Board policy is to maintain cash on hand and available credit equivalent of at least 120 days of operating expenses. As of December 31, 2017 and 2016, the Authority's available sources of liquidity for

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operating purposes and capital program funding, achieved the policy target with 218 days and 203 days of cash and available credit, respectively.



Liquidity

The Authority's available liquidity includes an unrestricted OPEB Account established to pre-fund certain future postemployment health and life insurance obligations of both the Authority and PSEG Long Island employees. In 2017, the Authority's Board approved separating the Authority employee and retiree portion of the obligation by funding a segregated LIPA Other Postemployment Benefit Trust (OPEB Trust). The Authority transferred approximately \$19 million from the existing unrestricted OPEB Account to the restricted OPEB Trust. The remaining balance in the unrestricted OPEB Account is intended to fund the PSEG Long Island employee retiree contractual obligation. However, in the event that revenues are insufficient to pay reasonable and necessary operating expenses or to make payments on bonds or parity obligations, these funds are available; as such they are considered unrestricted cash, cash equivalents and investments. As of December 31, 2017 and 2016, the unrestricted OPEB Account had approximately \$195 million and \$129 million on deposit, respectively.

The Authority's restricted OPEB Trust balances are irrevocable, and funds can only be used to provide benefits to Authority retirees and their beneficiaries. As such, amounts in the OPEB Trust are not included in the

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Authority's available liquidity. The OPEB Trust is a separate component unit and is reported as a fiduciary fund in the Authority's Consolidated Financial Statements.

Also included in the Authority's available liquidity balances are accounts dedicated to pre-funding PSEG Long Island's working capital needs totaling approximately \$212 million and \$207 million as of December 31, 2017 and 2016, respectively. These accounts are owned by the Authority and are available only for the Authority's operating and capital 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 as these funds are available to meet LIPA's operating and capital needs.

Restricted cash, cash equivalents and investments

The Authority's restricted cash, cash equivalents and investments as of December 31, 2017 and 2016 was \$385 million and \$560 million, respectively, of which approximately \$276 million and \$471 million, respectively was the 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 2017 and 2016, the Authority funded mitigation projects with FEMA funds totaling approximately \$195 million and \$31 million, respectively, and expects to expend the balance on the program through 2019.

The remaining balance of restricted cash and cash equivalents related to UDSA debt service payments and required debt service and operating reserves of \$109 million and \$89 million as of December 31, 2017 and 2016, respectively.

Short-Term Borrowing Program

The Authority also maintains a short-term borrowing program to provide resources to meet interim working capital needs, fund its 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 summer peaking and the seasonal nature of its sales. In accordance with the Board's policy, the maximum outstanding balances of total combined short-term borrowings may not exceed \$1.0 billion.

Included in the Authority's short-term borrowing program are: (i) \$375 million Senior Lien Series 2015 General Revenue Notes, of which \$98 million and \$156 million were outstanding at December 31, 2017 and 2016, respectively, (ii) \$300 million Series 2014 Subordinate Revenue Commercial Paper Notes, of which \$250 million were outstanding as of December 31, 2017 and 2016 and (iii) a Revolving Credit Facility Agreement, which has a maximum capacity of \$350 million of which approximately \$13 million was outstanding as of December 31, 2017 and no amounts were outstanding as of December 31, 2016.

The combined outstanding balance of the Authority's short-term borrowings totaled \$361 million and \$406 million as of December 31, 2017 and 2016, respectively.

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The short-term borrowing programs are supported by various bank agreements that expire during 2018 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 2018 to meet its planned operating, maintenance and capital programs.

The table and chart below summarize the Authority's operating liquidity and available credit capacity:

	2017	2016	2015
Operating liquidity			
Unrestricted cash and cash equivalents	\$ 633,531	652,370	578,619
OPEB account cash, cash equivalents & investments	194,699	128,998	51,579
PSEG Long Island Working Capital requirements	211,972	207,045	208,099
Total operating liquidity	\$ 1,040,202	988,413	838,297
Available credit			
General Revenue Notes - Revolving Credit Facility	337,180	337,500	337,500
General Revenue Notes - Commercial Paper	277,500	219,375	275,000
Subordinated General Revenue Notes - Commercial Paper	50,000	50,000	-
Total available credit	\$ 664,680	606,875	612,500
Total cash, cash equivalents, investments & available credit	\$ 1,704,882	1,595,288	1,450,797
Restricted cash			
FEMA - restricted	275,783	470,972	501,990
UDSA	109,167	88,572	33,518
Total restricted cash	\$ 384,950	559,544	535,508

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Risk Management

The Authority is exposed to commodity and interest rate risk during the conduct of its operations. The Authority's Enterprise Risk Management Committee (ERMC) identifies and manages such risks. As part of risk management, 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 the Board policy established for interest rate exchange agreements. The Authority also has a dedicated Enterprise Risk Management group to identify operating and other risks within each business unit and assist such business units in developing an ongoing risk identification, monitoring and mitigation program.

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 effective hedging derivatives. The Authority defers, as unrealized gains and losses, changes in fair value for investing derivatives consistent with its ratemaking 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)

In connection with its November 2017 Electric System General Revenue Bond offering, the Authority received a rating from S&P of A- with a Positive Outlook, an upgraded outlook from Stable. During 2016, Moody's upgraded the Authority's 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 either the ratings of the credit support provider, or that of the Authority.

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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.

LONG ISLAND POWER AUTHORITY
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Consolidated Statements of Net Position

December 31, 2017 and 2016

(Amounts in thousands)

Assets and Deferred Outflows of Resources	2017	2016
Current assets:		
Cash and cash equivalents	\$ 425,472	562,156
Restricted cash - working capital requirements	211,972	207,045
Restricted cash	109,167	88,572
Investments	402,758	219,212
Counterparty collateral – posted by the Authority	19,507	8,365
Accounts receivable (less allowance for doubtful accounts of \$31,459 and \$37,716 at December 31, 2017 and December 31, 2016, respectively)	463,447	484,781
Other receivables	91,303	113,154
Fuel inventory	94,380	103,894
Material and supplies inventory	52,026	46,771
Unrealized charges	13,162	—
Regulatory assets to be recovered within one year	191,634	151,012
Prepayments and other current assets	39,454	54,222
	2,114,282	2,039,184
Noncurrent assets:		
Restricted cash and cash equivalents	2,970	76,733
Restricted investments	272,813	394,239
Utility plant and property and equipment, net	8,088,014	7,768,551
Nuclear decommissioning trust	132,202	115,800
Other long-term receivables	28,424	28,285
Unrealized charges	114,574	136,131
Financial derivatives	2,552	2,846
Prepayments	—	3,215
Regulatory assets for future recovery	1,137,514	1,148,239
Acquisition Adjustment, net	989,386	1,100,760
	10,768,449	10,774,799
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	273,836	273,558
Accumulated decrease in fair value of commodity derivatives	—	11,740
Pensions	1,190	1,481
	275,026	286,779
Total assets and deferred outflows of resources	\$ 13,157,757	13,100,762

See accompanying notes to consolidated financial statements.

LONG ISLAND POWER AUTHORITY
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Consolidated Statements of Net Position

December 31, 2017 and 2016

(Amounts in thousands)

Liabilities, Deferred Inflows of Resources and Net Position	2017	2016
Current liabilities:		
Short-term debt	\$ 360,320	405,625
Current maturities of long-term debt	69,880	117,250
Current maturities of UDSA debt	122,803	72,598
Current portion of capital lease obligation	177,361	195,959
Accounts payable and accrued expenses	440,919	445,566
Regulatory liabilities payable in one year	14,910	12,100
Commodity derivative instruments	6,556	11,569
Accrued payments in lieu of taxes	9,570	10,729
Accrued interest	41,254	48,042
Customer deposits	38,667	37,701
Total current liabilities	1,282,240	1,357,139
Noncurrent liabilities:		
Long-term debt	3,344,223	3,396,020
Long-term UDSA debt	4,634,508	4,360,731
Capital lease obligations	1,843,515	2,021,284
Borrowings	77,307	82,241
Operations Services Agreement-employee retirement benefits	670,861	580,720
Financial derivative instruments	128,139	149,496
Commodity derivative instruments	—	2,324
Asset retirement obligation	67,787	66,487
Long-term liabilities and unrealized credits	40,112	69,933
Claims and damages	55,921	41,430
Total noncurrent liabilities	10,862,373	10,770,666
Deferred inflows of resources:		
Regulatory credits - grants	501,404	502,213
Accumulated increase in fair value of financial derivatives	2,552	2,846
Accumulated increase in fair value of commodity derivatives	620	—
Pensions	1,110	1,499
Accumulated increase in fair value of NMP2 Trust and OPEB account	35,270	11,333
Total deferred inflows of resources	540,956	517,891
Net position:		
Net investment in capital assets	(3,815)	(115,699)
Restricted	99,524	73,879
Unrestricted	376,479	496,886
Total net position	472,188	455,066
Total liabilities, deferred inflows of resources and net position	\$ 13,157,757	13,100,762

See accompanying notes to consolidated financial statements.

LONG ISLAND POWER AUTHORITY
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Consolidated Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2017 and 2016

(Amounts in thousands)

	<u>2017</u>	<u>2016</u>
Operating revenues – electric sales	\$ 3,481,613	3,399,101
Operating expenses:		
Operations – power supply charge	1,631,475	1,610,604
Operations – power supply charge-property tax related	211,112	217,205
Operations and maintenance	638,944	572,714
Storm restoration	66,574	112,337
General and administrative	31,648	27,582
Depreciation and amortization	308,755	294,051
Payments in lieu of taxes and assessments	325,609	328,860
Total operating expenses	<u>3,214,117</u>	<u>3,163,353</u>
Operating income	<u>267,496</u>	<u>235,748</u>
Nonoperating revenues and expenses:		
Other income, net:		
Investment income	13,084	9,096
Grant income	42,058	43,929
Carrying charges on regulatory assets	25,365	26,520
Other	5,190	8,083
Total other income, net	<u>85,697</u>	<u>87,628</u>
Interest charges and (credits):		
Interest on long-term debt	342,552	331,354
Other interest	25,936	32,458
Other interest amortizations	(26,513)	(10,469)
Allowance for borrowed funds used during construction	(5,904)	(3,534)
Total interest charges and (credits)	<u>336,071</u>	<u>349,809</u>
Change in net position	17,122	(26,433)
Net position, beginning of year	<u>455,066</u>	<u>481,499</u>
Net position, end of year	<u>\$ 472,188</u>	<u>455,066</u>

See accompanying notes to consolidated financial statements.

LONG ISLAND POWER AUTHORITY
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Consolidated Statements of Cash Flows
Years ended December 31, 2017 and 2016

(Amounts in thousands)

	2017	2016
Cash flows from operating activities:		
Operating revenues received	\$ 3,643,767	3,493,062
Paid to suppliers and employees:		
Operations and maintenance	(500,295)	(847,669)
Operations – power supply charge	(1,761,518)	(1,380,113)
Operations – power supply charge-property tax related	(211,112)	(217,185)
Payments in lieu of taxes	(429,998)	(434,927)
Collateral on commodity derivative transactions, net	(13,925)	39,992
PSEG Long Island pension funding	(35,000)	(28,100)
Net cash provided by operating activities	691,919	625,060
Cash flows from investing activities:		
Earnings received on investments	25,215	12,498
Restricted cash	—	371,257
Purchase of restricted investment securities	—	(394,239)
Sales of restricted investment securities	121,426	—
Purchases of investment securities	—	(189,712)
Other	(1,000)	3,207
Net cash provided by (used in) investing activities	145,641	(196,989)
Cash flows from noncapital financing related activities:		
Grant proceeds	29,794	51,281
Proceeds from credit facility draws and commercial paper program	130,000	170,625
Redemption of credit facility draws and commercial paper program	(175,305)	(115,000)
Net cash (used in) provided by noncapital related activities	(15,511)	106,906
Cash flows from capital and related financing activities:		
Capital expenditures	(697,400)	(531,774)
Proceeds from insurance recoveries	—	49,580
Proceeds from the issuance of long-term debt	846,491	1,991,497
Payment to bond escrow agent to refinance bonds	(429,873)	(1,546,976)
Debt issuance costs	(3,507)	(10,153)
Other interest costs	(25,458)	(33,968)
Interest paid	(165,610)	(142,656)
Redemption of long-term debt	(83,260)	(126,930)
Interest paid - UDSA	(192,213)	(162,139)
Redemption of long-term debt - UDSA	(72,598)	(60,000)
Net cash used in capital and related financing activities	(823,428)	(573,519)
Net decrease in cash and cash equivalents	(1,379)	(38,542)
Cash and cash equivalents at beginning of year	562,156	600,698
Cash and cash equivalents at end of year	\$ 560,777	562,156
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 267,496	235,748
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	308,755	294,052
Other postemployment benefit non-cash expense	41,080	40,701
Nuclear fuel burned	13,646	10,946
Shoreham and VBA surcharges	45,814	49,976
Accretion of asset retirement obligation	3,645	3,581
Changes in operating assets and liabilities:		
Accounts receivable, net	43,706	(23,253)
Regulatory assets and liabilities	(130,435)	(26,096)
Fuel and material and supplies inventory	4,259	14,759
Accounts payable, accrued expenses and other	93,953	24,646
Net cash provided by operating activities	\$ 691,919	625,060

See accompanying notes to consolidated financial statements.

LONG ISLAND POWER AUTHORITY OPEB TRUST

Statement of Fiduciary Fund Position

Year ended December 31, 2017

(Amounts in thousands)

	<u>2017</u>
Assets	
Cash and cash equivalents	\$ <u>18,651</u>
Total assets	<u>18,651</u>
Liabilities	<u>—</u>
Total liabilities	<u>—</u>
Deferred inflows of resources	<u>—</u>
Total deferred inflows of resources	<u>—</u>
Net position	
Total net position - restricted for OPEB	\$ <u>18,651</u>
Total liabilities and net position	\$ <u>18,651</u>

LONG ISLAND POWER AUTHORITY OPEB TRUST

Statement of Changes in Fiduciary Net Position

Year ended December 31, 2017

(Amounts in thousands)

	<u>2017</u>
Additions to net position attributed to:	
Contributions:	
Employer	19,071
Interest income	123
Total additions	<u>19,194</u>
Deductions from net position attributed to:	
Retirement benefits	543
Administrative expenses	—
Total deductions	<u>543</u>
Change in net position	18,651
Net position restricted for OPEB, beginning of year	<u>—</u>
Net position restricted for OPEB, end of year	<u>\$ 18,651</u>

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(1) Nature of Operations

The Long Island Power Authority (the Authority) is the owner of the electric 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 also owns 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.

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 also subject to the LIPA Reform Act (Reform Act). The Authority's role significantly changed as a result of the 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 of the Reform Act addressed the reorganization of the Authority and changed its operating responsibilities and the relationship with its service provider, 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 debt service savings to the Authority's customers on a net present value basis. The restructuring bonds are to be repaid by irrevocable, nonbypassable restructuring charges 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 subject to review and recommendations by the New York State Department of Public Service (DPS) to the Authority's Board of Trustees (Board).

For a further discussion on the UDSA and the DPS, see note 3 and 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 (OSA): 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 OSA. The OSA expires December 31, 2025 and includes a provision that if PSEG Long Island achieves certain levels of performance during the first 10 years of the 12 year initial term, 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 incentive compensation related to specified performance metrics.

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During the years ended December 31, 2017 and 2016, PSEG Long Island was paid a management fee totaling approximately \$64 million and \$62 million, respectively. For 2016, PSEG Long Island was paid an incentive fee totaling approximately \$9 million. For 2017, PSEG Long Island may earn an incentive fee up to approximately \$9.5 million, which will be determined by June 2018.

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.

Amended and Restated Power Supply Agreement (A&R PSA): National Grid 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 other 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, 2017 and 2016, PSEG ER&T was paid a management fee totaling approximately \$17 million. The agreements 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.

During 2017, the Authority established a legally separate trust under Section 115 of the Internal Revenue Code known as the Long Island Power Authority OPEB Trust (OPEB Trust) to fund the Authority's Other Postemployment Benefit Plan (OPEB) that provides health care for the Authority's qualified retired employees ages 55 or older. The OPEB Trust is reported as a fiduciary component unit.

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(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. On the Consolidated Statements of Revenues, Expenses, and Changes in Net Position and the Consolidated Statements of Cash Flows, operating costs associated with the A&R PSA and NMP2 have been reclassified to power supply costs consistent with the Authority's tariff changes.

(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.

Funds held by the Authority are administered in accordance with the Authority's investment policies pursuant to Section 2925 of the New York State Public Authorities Law. These policies 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, 2017 and 2016, the Authority was required to post \$19.5 million and \$8.4 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 diesel and other liquid fuels that the Authority had on hand at each year-end. 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 material and supplies inventory supports the operations and maintenance of the T&D system. The inventory is accounted for on a weighted average cost basis of accounting. During the year there were no significant write-downs for obsolescence.

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The Authority owns 18% of the material and supplies inventory needed to support the operation of the NMP2 nuclear power station. As of December 31, 2017 and 2016, the value of the NMP2 inventory totaled approximately \$11 million and \$10 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.

The long-term portion of other receivables is comprised primarily of the net present value of 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 2007.

(i) Unrealized Charges

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

(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 totaling 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).

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(m) Commodity and Financial Derivative Instruments

Represents the amount the Authority believes it would be required to pay in order to terminate its commodity and financial derivative instruments and approximates fair value.

(n) Long-Term Liabilities and Unrealized Credits

Long-term liabilities and unrealized credits consists primarily of the impacts of any changes resulting from updated asset retirement studies and deferred ineffective mark-to-market values on derivative transactions.

(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 month-end. The Authority accrues unbilled revenues by estimating unbilled consumption at the customer meter. Unbilled revenues totaled \$191 million and \$180 million as of December 31, 2017 and 2016, respectively.

(q) 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 average composite depreciation rates were 2.29% and 2.19% for 2017 and 2016, respectively. Property and equipment is being depreciated over its estimated useful life using the straight-line method.

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.

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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 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 this obligation.

The AROs are continually reviewed for adequacy and any necessary changes are updated annually.

A summary of the ARO activity of the Authority for the years ended December 31, 2017 and 2016 is included below:

	<u>2017</u>	<u>2016</u>
Asset retirement obligation:		
Beginning balance	\$ 66,487	62,906
Change due to updates	(2,345)	—
Accretion expense	3,645	3,581
Balance at December 31	<u>\$ 67,787</u>	<u>66,487</u>

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(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.

(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 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 4.38% and 4.17% for the years ended December 31, 2017 and 2016, 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.

(w) Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB Statement No. 72), 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

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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

During 2017, the Authority implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans* (GASB Statement No. 75). GASB Statement No. 75 refines reporting guidance established under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB Statement No. 45). GASB Statement No. 75 concluded that OPEBs are a form of employee compensation and should be recognized in the same period in which the compensated service is provided by the employees. GASB Statement No. 45 provided for an amortization for the unfunded actuarial accrued liabilities (or funding excess) of the plan over a period up to thirty years. GASB Statement No. 75 eliminated this phase in over a period of years and requires the related expense be recognized in one year. During the adoption of GASB Statement No. 45, the Authority recognized the accrued OPEB liability in one year rather than phases and therefore, there is no impact to prior periods upon adopting GASB Statement No. 75 and retroactive application is not applicable.

GASB Statement No. 84, *Fiduciary Activities*, addresses criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria is generally on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 85, *Omnibus 2017*, addresses issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, addresses the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 87, *Leases*, addresses the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or

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outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

The Authority is currently evaluating the impact of these statements on the accompanying consolidated financial statements.

(3) Rate Matters

The 1986 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. Under Part A of the LIPA Reform Act, the Authority was required to submit a three year rate proposal for 2016 to 2018 to the New York State Department of Public Service (DPS) for review and recommendation to the Authority's Board. As such, the Authority filed a Three Year Rate Plan for 2016 to 2018 (Three Year Rate Plan) with the DPS on January 30, 2015. The DPS was required to review and make recommendations to the Authority's Board within 240 days of such filing. Accordingly, on September 28, 2015, the DPS submitted its Rate Recommendation to the Authority's Board. The Authority's Board considered the DPS Rate Recommendation and did not find any portion of the recommendation to be inconsistent with the Authority's statutory obligations. Therefore, pursuant to the LIPA Reform Act, the Three Year Rate Plan (as modified by the DPS Rate Recommendation) became effective on December 16, 2015. The Three Year Rate Plan authorized 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% over the three years of the rate plan.

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 budgeting 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 PSEG Long Island

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employee OPEBs. In 2016 and 2017, the Authority achieved a fixed obligation coverage ratio of 1.26x and 1.33x, respectively, on Authority issued debt and 1.19x and 1.22x, respectively, when the UDSA restructuring bonds are included, meeting its targets. The Authority budgeted for but cannot predict whether such targets will be realized in 2018 and beyond.

The DPS Recommendation also includes an update process, referred to as Staged Updates, which took place in December 2015, 2016, and 2017, to adjust delivery rates higher or lower to reflect measurable changes in certain specified 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.

The Staged Updates provide for updating electric rates at the beginning of each year for known and measurable changes in 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); property based PILOTs; and certain other legal or regulatory changes. Each autumn projections are updated, subject to DPS review, and presented to the Authority's Board during the annual budget process. The initial 2015 Staged Update lowered the Authority's 2016 revenue requirements by \$10.3 million from the DPS Recommendation. The second Staged Update in 2016 resulted in an upward adjustment of approximately \$0.75 million to the Authority's 2017 revenue requirements from the DPS Recommendation. The third Staged Update in 2017 resulted in a downward adjustment of \$6.2 million to the Authority's 2018 revenue requirements from the DPS Recommendation.

The DSA provides cost recovery or refunding for certain items that vary due to external factors, which items include: debt service (variances in interest rates, capital expenditures and savings derived from the UDSA financings) and storm restoration expenditures (variances from the approximately \$34 million per year budgeted for storm restoration expenses). 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 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.

The Authority's Board adopted a resolution implementing the DPS Recommendation by, among other things, approving the 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.

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After the Three Year Rate plan period, the Authority and PSEG Long Island are required to submit a proposed rate increase for DPS review only 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 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 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 debt service savings to the Authority's customers as measured on a net present value basis. The Securitization Law, as amended, allowed for a total issuance of up to \$4.5 billion of UDSA restructuring bonds. In 2017, all such authorization was exhausted.

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.

The Authority's Board adopted Financing Orders, which allowed the UDSA to issue restructuring bonds. All such financing orders are substantively the same, and each financing order permits the UDSA to issue restructuring bonds in an aggregate amount not to exceed the amount authorized by the Securitization Law. The issuance of the 2017 Restructuring Bonds utilized the available capacity of restructuring bonds permitted to be issued by the Securitization Law. Below is a summary of each financing order and amounts issued:

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Financing Order	Date Issued	Initial Amount Issued	Net Present Value Savings	Restructuring Charge Rate Effective Date
Financing Order No. 1	December 18, 2013	\$ 2,022,324	\$ 131,609	March 1, 2014
Financing Order No. 2	October 27, 2015	1,002,115	127,978	January 1, 2016
Financing Order No. 3	April 7, 2016	636,770	115,238	April 7, 2016
Financing Order No. 4	September 8, 2016	469,320	71,647	September 8, 2016
Financing Order No. 5	November 21, 2017	369,465	45,387	January 1, 2018
		<u>\$ 4,499,994</u>	<u>\$ 491,859</u>	

To pass through the benefits of securitization to customers, the Authority modified its rate structure to create restructuring offset charges, which is an amount equal to and opposite the Restructuring Charges; the net result is that the customer bill is less than it would have been absent the sale of restructuring bonds. The restructuring offset charges are adjusted coincident with changes to the Restructuring Charges to maintain that equality.

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. See note 17 for consolidating condensed combining information.

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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 ratemaking purposes and their treatment under generally accepted accounting principles for non-regulated entities. These actions result in regulatory assets and liabilities, which are summarized in the table below:

	2017	2016
Regulatory assets to be recovered within one year		
Operations services agreement – employee retirement benefits	\$ 67,381	54,199
Shoreham property tax settlement	45,274	43,498
Delivery service adjustment	29,424	—
Employee benefit plan settlement	21,634	21,634
Revenue decoupling mechanism	14,811	15,024
Power supply charge recoverable	4,660	9,400
Debt issuance costs	3,209	3,209
New York State assessment	2,443	1,330
Distributed energy resources charges	1,850	1,770
Southampton visual benefit assessment	948	948
Balance at December 31,	\$ 191,634	151,012
Regulatory assets for future recovery		
Operations services agreement – employee retirement benefits	422,819	423,050
Shoreham property tax settlement	402,589	424,396
Employee benefit plan settlement	151,437	173,070
Power supply charge	53,211	44,649
Delivery service adjustment	58,712	41,841
Debt issuance costs	32,858	33,004
Unfunded actuarially determined reserves	8,018	—
Southampton visual benefit assessment	7,870	8,229
Balance at December 31,	\$ 1,137,514	1,148,239
Regulatory liabilities payable within one year		
Delivery service adjustment	—	12,100
Power supply charge refundable	14,910	—
Balance at December 31,	\$ 14,910	12,100
Regulatory credits		
Grants	501,404	502,213
Balance at December 31,	\$ 501,404	502,213

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(a) 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 OSA, including the cost for these retirement benefits (and any required pre-funding of such benefits).

The PSEG Long Island workforce includes both former National Grid electric-serving employees under the expired Management Services Agreement (MSA) (referred to as transitioned employees) and PSEG Long Island employees hired since the beginning of the OSA on January 1, 2014. 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 OSA – Employee Retirement Benefits regulatory asset 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 National Grid benefits, are equal to the benefit they would have received had the transitioned employees remained with National Grid. This provision created a prior service cost liability totaling \$442 million at the beginning of the OSA on January 1, 2014.

Retirement benefit obligations are 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 amounts collected from customers and amounts owed to PSEG Long Island for these benefits may 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. For a further discussion of the OPEB Accounts, see note 11.

(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

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\$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 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 National Grid provided, among other things, that upon termination of the MSA, when a third party succeeded National Grid as the service provider, the successor would assume the rights and obligations of National Grid regarding certain employee benefit plan liabilities. The 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 National Grid employees.

On December 31, 2013, the Authority signed an Employee Benefit Plan Settlement with National Grid and its affiliates. The settlement resolved the parties' respective employee benefit plan funding obligations for National Grid's electric-serving employees. As of January 1, 2016, 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 OSA, as virtually all former employees of National Grid covered by these plans have been transitioned to PSEG Long Island and continue to serve electric customers. As of December 31, 2017 and 2016, the balance remaining totaled \$173 million and \$195 million, respectively.

(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) and storm restoration expenditures (variances from the approximately \$34 million per year budgeted for storm restoration expenses). The DSA is calculated through the end of September each year, and as of September 30, 2017 a \$29 million regulatory asset was incorporated into the 2018 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

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amortized over a three year period. The balance carried forward for recovery in future years at December 31, 2017 totaled approximately \$59 million.

(e) Revenue Decoupling Mechanism (RDM)

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, 2017 was approximately \$15 million due from customers and is set to be collected in 2018. The RDM balance as of December 31, 2016 was approximately \$15 million due from customers and was collected from customers in 2017.

(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 was phased out by December 31, 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) Power Supply Costs Recoverable or Refundable

The Authority's tariff includes a Power Supply Charge with a monthly reconciliation of power supply costs. For the year ended December 31, 2017, actual power supply costs were below amounts recovered in the Power Supply Charge, resulting in the recognition of a regulatory liability totaling \$15 million, which will be returned to customers in 2018. In the year ended December 31, 2016, actual power supply costs were above amounts recovered in the Power Supply Charge, resulting in the recognition of a regulatory asset totaling \$5 million, which was collected from customers in 2017.

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Also recoverable through the Power Supply Charge are deferred transition costs associated with the transfer of the power supply management contract to PSEG ER&T. Collection of these costs totaling \$19 million are being recovered over an eleven-year period, as approved by the Authority's Board, commencing January 1, 2015, coincident with the contract beginning January 1, 2015 and expiring December 31, 2025. As of December 31, 2017 and 2016, the remaining balance of such costs totaled \$14 million and \$15 million, respectively.

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) are also recoverable as Power Supply Charge. As of December 31, 2017 and 2016, the balance was \$30 million and \$34 million, respectively.

Deferred as a component of Power Supply Charge are actuarially determined potential costs related to certain power purchase agreements totaling \$13 million. Such amounts will not be reflected in rates until settlement costs are paid.

(i) 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.

(j) Regulatory Credits – Grants

The Authority has received grants for storm restoration and storm hardening. The Authority's Board authorized the deferral of grant income recognition as a regulatory credit for grants related to capital expenditures for storm hardening. This regulatory credit will be deferred to match the depreciable lives of the related capital assets so as to recognize grant income over the same time period as the depreciation expense on the associated capital assets.

(k) Distributed Energy Resources

The Distributed Energy Resources (DER) charge recovers costs of the Authority's energy efficiency and renewable resources programs. The Authority funds significant energy efficiency programs, which are the most cost effective resource available. 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.

(l) Unfunded Actuarially Determined Reserves

Unfunded actuarially determined reserves are amounts recorded for non-cash reserves that will not be recovered in rates but will remain deferred until settlement costs are paid. Such estimates were calculated by an actuary based on experience.

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(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 refunded 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*

Under hedge accounting, the accumulated changes in the mark-to-market valuation of a hedging derivative instrument that are deemed effective are reported as deferred inflows or deferred outflows of resources 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 PSEG Long Island 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. For a further discussion on the Authority's NMP2 decommissioning obligations and OPEB Account, see notes 10 and 11. For a further discussion on the Authority's OPEB Account, see note 11.

(d) *Pension and OPEB*

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (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 the Authority's contributions and the proportionate share of contributions, and changes in the Authority's contributions to the pension system subsequent to the measurement date as deferred inflows or outflows of resources.

In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75), the Authority reports the changes in the Authority's net OPEB liability that have not been included in OPEB expense as deferred inflows or deferred outflows of resources. Amounts included would result from changes of assumptions, the net

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difference between projected and actual earnings on the OPEB Trust, and the Authority's contributions subsequent to the measurement date.

(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.

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. A portion of this grant agreement included funding for future storm hardening and mitigation efforts. The Authority maintains a restricted segregated account for any unused portion of the grant proceeds and as of December 31, 2017 and 2016, this segregated grant account totaled approximately \$276 million and \$471 million, respectively.

(8) Derivative Instruments

Derivative instruments are used by the Authority in its normal course of business to limit some of the volatility associated with interest rate changes and market price fluctuations in 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 of resources 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. GASB Statement No. 72, establishes a fair value hierarchy that prioritizes the inputs to valuation

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techniques used to measure fair value into three levels: Level 1, Level 2 and Level 3 (as discussed in note 2). The interest rate derivative contracts are based on the present value of cash flows using the income approach. The interest rate derivative contracts are classified as Level 2 (as defined in note 2) as their valuation relies primarily on observable inputs.

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, 2017	Net change in fair value	Fair value December 31, 2016	Type of hedge	Financial statement classification for changes in fair value
Hedging derivative instruments:					
Financial derivatives:					
Total return sw ap	\$ 1,074	(792)	1,866	Cash flow	Deferred inflow s
Total return sw ap	1,478	498	980	Cash flow	Deferred inflow s
Total	<u>\$ 2,552</u>	<u>(294)</u>	<u>2,846</u>		
Commodity derivatives:					
Purchased pow er sw aps	\$ (1,595)	7,470	(9,065)	Cash flow	Deferred inflow s
Natural gas basis sw aps	2,215	4,890	(2,675)	Cash flow	Deferred inflow s/(outflow s)
Total	<u>\$ 620</u>	<u>12,360</u>	<u>(11,740)</u>		
Investment derivative instruments:					
Financial derivatives:					
Synthetic Fixed-A	\$ (189,822)	16,194	(206,016)	N/A	Unrealized charges
Basis Sw ap-A	(7,812)	5,049	(12,861)	N/A	Unrealized charges
Basis Sw ap-B	(3,906)	2,524	(6,430)	N/A	Unrealized charges
Basis Sw ap-C	(3,906)	2,524	(6,430)	N/A	Unrealized charges
Total	<u>\$ (205,446)</u>	<u>26,291</u>	<u>(231,737)</u>		
Commodity derivatives:					
Pow er – financial basis	(550)	44	(594)	N/A	Unrealized charges
Purchased pow er sw aps	965	17,468	(16,503)	N/A	Unrealized charges
Natural gas options	(801)	1,851	(2,652)	N/A	Unrealized charges
Natural gas sw aps	(6,032)	(23,628)	17,596	N/A	Unrealized charges
Total	<u>\$ (6,418)</u>	<u>(4,265)</u>	<u>(2,153)</u>		

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In accordance with GASB Statement No. 72, the Authority determines the level of fair value hierarchy 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:

	2017			2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative assets:						
Financial derivatives	\$ —	2,552	—	—	2,846	—
Commodity derivatives	(3,817)	965	—	17,596	—	—
Derivative liabilities:						
Financial derivatives	—	(205,445)	—	—	(231,737)	—
Commodity derivatives	—	(2,946)	—	(2,675)	(28,814)	—
	<u>\$ (3,817)</u>	<u>(204,874)</u>	<u>—</u>	<u>14,921</u>	<u>(257,705)</u>	<u>—</u>

The terms of the Authority's commodity derivative instruments that were outstanding at December 31, 2017 and 2016 are summarized in the table below:

	Notional amount (in thousands)	Units	Beginning date	Ending date	Authority pays per unit (in dollars)	Authority receives
2017:						
Natural Gas Swaps	100,715	Dthms	1/1/2018	12/1/2020	\$ 2.62 to \$ 3.46	Natural Gas at Henry Hub
Natural Gas Basis Swaps	25,720	Dthms	1/1/2018	3/1/2020	\$ 2.34 to \$ 8.13	Gas Basis between Henry Hub & Transco Z6, NY
Natural Gas Options	2,520	Dthms	1/1/2018	12/1/2018	\$ 3.75 to \$ 4.25	Natural Gas at Henry Hub
Purchased Power Swaps ⁽¹⁾	5,010	Mw hs	1/1/2018	12/1/2020	\$ 22.60 to \$ 52.50	Power at PJM West or JCPL
Purchased Power Basis	3,052	Mw hs	1/1/2018	12/1/2020	\$ (3.00) to \$ 4.50	Power Basis between PJM West to JCPL
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	Mw hs	1/1/2017	12/1/2019	\$ 22.750 to \$ 75.790	Power at PJM West or JCPL
Purchased Power Basis	3,078	Mw hs	1/1/2017	12/1/2019	\$ (6.000) to \$ 1.600	Power Basis between PJM West to JCPL

⁽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

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The terms of the Authority's interest rate derivative instruments that were outstanding at December 31, 2017 are summarized in the table below:

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

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

The Authority has outstanding Electric System General Revenue Bonds, Series 2015A Municipal Market Data (MMD) Floating Rate Notes (FRN) totaling \$200 million and Electric System General Revenue Bonds, Series 2016A MMD FRNs totaling \$175 million.

Immediately following each direct placement of these FRNs, 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. 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 grade. If, at the time of termination, the mark-to-market valuation of the derivative was a liability of the

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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 table 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, 2017 (amounts in millions):

Counterparty	Moody's	S&P	Counterparty's unsecured line of credit (\$M)
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	A3	A-	—
UBS AG, Stamford Branch	A1	A+	—
Wells Fargo Bank, N.A.	Aa2	A+	—
Commodity Derivative Instruments:			
Bank of Nova Scotia	A1	A+	25
BP Energy Company	A2	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.	A3	A-	20
Morgan Stanley Capital Group Inc.	A3	BBB+	10
Next Era Power Marketing	Baa1	A-	2
Pacific Summit Energy LLC	Baa2	A-	10
Societe Generale	A2	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

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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.

The following schedule summarizes the utility plant and property and equipment of the Authority as of December 31, 2017:

	<u>Beginning balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balances</u>
Utility plant	\$ 7,196,868	537,593	(113,241)	7,621,220
Utility plant assets under capital lease	32,144	—	(1,438)	30,706
Office equipment, furniture, and leasehold improvements	17,792	33	—	17,825
Long lived assets – asset retirement cost	15,542	—	—	15,542
Accumulated depreciation	<u>(2,039,547)</u>	<u>(186,328)</u>	<u>169,944</u>	<u>(2,055,931)</u>
Total utility plant – net	<u>5,222,799</u>	<u>351,298</u>	<u>55,265</u>	<u>5,629,362</u>
Generation and transmission assets under capital lease	3,751,349	—	(262,480)	3,488,869
Accumulated depreciation	<u>(1,563,055)</u>	<u>(190,953)</u>	<u>262,480</u>	<u>(1,491,528)</u>
Total generation and transmission assets under capital lease – net	<u>2,188,294</u>	<u>(190,953)</u>	<u>—</u>	<u>1,997,341</u>
Construction work in progress	352,962	638,470	(537,593)	453,839
Retirement work in progress	4,496	57,784	(54,808)	7,472
	<u>357,458</u>	<u>696,254</u>	<u>(592,401)</u>	<u>461,311</u>
Totals	<u>\$ 7,768,551</u>	<u>856,599</u>	<u>(537,136)</u>	<u>8,088,014</u>

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

	Beginning balances	Increases	Decreases	Ending balances
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	(1,951,050)	(166,701)	78,204	(2,039,547)
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	(1,372,100)	(190,955)	—	(1,563,055)
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	10,010	38,256	(43,770)	4,496
	<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>

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

The Authority owns an undivided 18% interest in NMP2 in Oswego County, New York. The other 82% is owned by Constellation Energy Nuclear Group (CENG), a joint venture of Exelon Corporation (Exelon) 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, and operated at a capacity factor of 98% in 2017. 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 \$545 million and \$558 million as of December 31, 2017 and 2016, respectively.

Nuclear Plant Decommissioning

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

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As of December 31, 2017 and 2016, the Authority's share of the estimated costs for decommissioning of the unit and restoration of the site is \$61 million and \$60 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, 2017 and 2016, the NDT had an approximate value of \$132 million and \$116 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 operating license, will be sufficient to meet its obligations.

Liability for Nuclear Accidents

The Federal Price-Anderson Act currently requires owners of nuclear power plants to pay an annual premium for \$450 million in private insurance for offsite liability coverage for each reactor site (not each reactor). Exelon maintains this coverage for the Nine Mile Point site, and LIPA reimburses Exelon for its proportionate share of its cost. The Act further stipulates that in the event offsite damages exceed the amount of private-insurance coverage, each reactor licensee is retroactively liable for a prorated share of the excess. This liability is limited to \$121.3 million per reactor, payable at no more than \$19 million per reactor per incident per year. The Authority's maximum liability under this provision is \$21.8 million, payable at \$3.4 million per incident per year.

(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 State law, the Bond Resolution, certain banking agreements and the Authority's investment policy.

(a) Unrestricted cash, cash equivalents and investments

As of December 31, 2017 and 2016, the Authority had unrestricted cash, cash equivalents and investments totaling approximately \$828 million and \$781 million, respectively. 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 anticipated to meet the Authority's obligations to its employees and the employees of PSEG Long Island for certain postemployment health and life insurance benefits. In 2017, the Authority's Board approved the creation of a legally separate Section 115 Trust (OPEB Trust) separating its eligible employee and retiree OPEB obligation from the OPEB Account. Based on the funding analysis of a 2017 actuarial study, the Authority transferred approximately \$19 million from the existing unrestricted OPEB Account to the OPEB Trust, funding approximately 96% of its net OPEB liability. The OPEB Trust is restricted to funding Authority employee and retiree OPEB obligations.

The remaining balance in the unrestricted OPEB Account is intended to fund the PSEG Long Island employee retiree contractual obligation. The Authority has invested such funds, as permitted by the Authority's investment policy, 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

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actuarial study to determine the appropriate level of funding to ensure the OPEB Account will be sufficient to meet this contractual obligation. As of December 31, 2017 and December 31, 2016, the OPEB Account balance totaled approximately \$195 million and \$129 million, respectively.

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 members of 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 invested in domestic and international stock mutual funds (66%), as well as inflation protected and bond market institutional mutual funds (34%).

The following tables summarize the Authority's unrestricted cash, cash equivalents and investments as of December 31, 2017 and 2016. 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>2017 Fair value</u>	<u>Percent of portfolio</u>	<u>Cash and cash equivalents</u>	<u>Investments</u>
Cash and collateralized deposits		\$ 30,481	5 %	\$ 30,481	—
Discount notes:					
Certificates of deposit		58,287	9	30,775	27,512
Commercial paper	P-1/A-1/F1	59,844	9	59,844	—
Corporate	Baa1/BBB+/A	90,274	14	10,010	80,264
Federal agencies	Aaa/AA+/AAA	26,225	4	—	26,225
Treasury bills		167,647	26	93,582	74,065
Money-market mutual funds		200,774	33	200,774	—
Subtotal		<u>633,532</u>	<u>100 %</u>	<u>425,466</u>	<u>208,066</u>
OPEB Account investment type:					
Mutual fund – equities		129,251	66 %	—	129,251
Mutual fund – fixed income		65,441	34	—	65,441
Money-market funds		6	—	6	—
Subtotal		<u>194,698</u>	<u>100 %</u>	<u>6</u>	<u>194,692</u>
Total		<u>\$ 828,230</u>		<u>\$ 425,472</u>	<u>402,758</u>

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<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	39,560	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		38,820	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>

(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 USDA Collection Account.

Restricted Cash for Working Capital Requirements

In accordance with the 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 three months of anticipated T&D operating and capital costs in this account in addition to separate storm, tax and power supply funding accounts. These accounts totaled \$212 million and \$207 million, as of December 31, 2017 and 2016, 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 in advance approximately \$502 million from FEMA restricted for storm hardening work on certain Authority assets. As of December 31, 2017, approximately \$276 million remains as long-term cash, cash equivalent and investments. The Authority funds are expended by PSEG Long Island for approved projects, and the Authority reimburses itself for approved projects as

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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 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, 2017 includes \$49 million in the General Subaccounts and \$60 million in the Reserve Subaccounts. Restricted cash, as of December 31, 2016, includes \$36 million in the General Subaccounts, and \$53 million in the Reserve 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, 2017 and 2016. 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>2017 Fair value</u>	<u>Percent of portfolio</u>	<u>Cash and cash equivalents</u>	<u>Investments</u>
Cash and collateralized deposits		\$ 211,972	35 %	211,972	—
Discount notes:					
Certificates of deposit		77,457	13	2,502	74,955
Commercial paper	P-1/A-1/F1	58,164	10	—	58,164
Corporate	Baa1/BBB+/A	84,580	14	—	84,580
Federal agencies	Aaa/AA+/NR	10,030	2	—	10,030
Treasury bills		45,084	8	—	45,084
Money-market mutual funds		109,635	18	109,635	—
Total		<u>\$ 596,922</u>	<u>100 %</u>	<u>324,109</u>	<u>272,813</u>

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<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		\$ 216,595	28 %	216,595	—
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>\$ 766,589</u>	<u>100 %</u>	<u>372,350</u>	<u>394,239</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 risks associated with 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, repurchase agreements (A-1 or P-1), commercial paper (A-1 or P-1), supranationals (provided certain criteria are met), corporate notes and master notes (A-1/P-1, A-/A3), asset backed securities (A-1+/P-1, AAA/Aaa), certificates of deposit (A-1/P-1, A-/A3), money-market mutual funds (AAAm/Aaamf), investment contracts (Two highest LT rating category), bankers' acceptances (A-1/P-1), municipal obligations (SP-1/MIG1, A-/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 non-government issuer. Additionally, no more than: (i) 40% of the portfolio may be invested in securities of any one Federal agency, (ii) 10% of the portfolio may be invested in supranationals, (iii) 40% of the portfolio may be invested in agency mortgage backed securities.

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.

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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 counterparty 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.

As of December 31, 2017 and 2016, the Authority had deposits of \$242 million and \$229 million, respectively, which are included in both restricted and unrestricted cash and cash equivalents.

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 90 days, commercial paper may not exceed 270 days, bankers' acceptances may not exceed 180 days, and asset backed securities shall not exceed an average life of 5.5 years.

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%.

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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%, however, in anticipation of the Authority terminating the qualified trust, the investment policy will allow for an increased target of 50%. 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.

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>2017 Fair value</u>	<u>Percent of portfolio</u>
Discount notes:		
Corporate	\$ 24,313	18 %
Federal agencies	16,608	13
Treasury bills	34,191	26
Mutual funds – domestic equities	55,172	42
Money-market mutual funds	1,918	1
Total	<u>\$ 132,202</u>	<u>100 %</u>

<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	45,502	39
Total	<u>\$ 115,800</u>	<u>100 %</u>

The overall duration of the three individual accounts averaged 6.0 years and 5.8 years at December 31, 2017 and 2016, respectively.

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(e) Fair Value of Investments

The following table presents the Authority's unrestricted and 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>2017 Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Unrestricted and restricted investments				
Discount notes:				
Certificates of deposit	\$ 102,467	—	102,467	—
Commercial paper	58,164	—	58,164	—
Corporate	164,844	—	164,844	—
Federal agencies	36,255	—	36,255	—
Treasury bills	119,149	119,149	—	—
Money-market mutual funds	194,692	194,692	—	—
Total	<u>\$ 675,571</u>	<u>313,841</u>	<u>361,730</u>	<u>—</u>
NDT:				
Discount notes:				
Corporate	\$ 24,313	—	24,313	—
Federal agencies	16,608	—	16,608	—
Treasury bills	34,191	34,191	—	—
Mutual funds - domestic equities	55,172	55,172	—	—
Money-market mutual funds	1,918	1,918	—	—
Total	<u>\$ 132,202</u>	<u>91,281</u>	<u>40,921</u>	<u>—</u>

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<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>

(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. The Authority's Revenue Bonds contain restrictive covenants including the maintenance of a Rate Stabilization Fund and a rate covenant to ensure rates and charges are set at a level sufficient to fund annual operating and debt service expenses.

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

2017			
Revenue Obligations:	2017 General Revenue Bonds	Par Amount:	\$ 350,000
Purpose:	Fund system improvements and pay issuance costs	Date Closed:	December 14, 2017
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

(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; however, the UDSA is a component unit of the Authority and consolidated into these financial statements.

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

2017			
Revenue Obligations:	2017 Restructuring Bonds	Par Amount:	\$ 369,465
Purpose:	Retire certain higher cost Authority bonds and pay issuance costs	Date Closed:	November 21, 2017
		NPV Savings:	\$ 45,387
		Escrow Deposit:	\$ 433,741
		Deferred Defeasance:	\$ 30,791

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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
		Escrow Deposit:	\$	782,607
		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
		Escrow Deposit:	\$	552,147
		Deferred Defeasance:	\$	4,731

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The Authority's long-term debt at December 31, 2017 consisted of the following:

	Beginning balance	Accretion/ additions	Maturities	Repaid/ Refundings	Ending balance	Years of Maturity	Interest Rate (%)	
General revenue bonds/notes:								
Series 1998A	\$ 113,100	5,973	12,970	8,093	98,010	2018-2028	5.28-5.30	(a)
Series 2000A	334,367	18,812	33,990	—	319,189	2018-2029	5.81-5.95	(a)
Series 2003C	36,645	—	—	—	36,645	2029	5.25	
Series 2006F	28,535	—	28,535	—	—	—	—	
Series 2008B	15,060	—	—	15,060	—	—	—	
Series 2009A	191,670	—	10,120	181,550	—	—	—	
Series 2010B	210,000	—	—	—	210,000	2020-2041	4.85-5.85	(c)
Series 2011A	221,635	—	7,730	195,590	18,315	2018-2038	4.00-5.00	(b)
Series 2012A	250,000	—	—	—	250,000	2037-2042	5.00	(b)
Series 2012B	179,035	—	—	—	179,035	2021-2029	5.00	(b)
Series 2014A	413,070	—	—	—	413,070	2034-2044	4.00-5.00	(b)
Series 2014B	164,950	—	—	—	164,950	2018-2026	2.36-4.13	(b)
Series 2014C FRN	150,000	—	—	—	150,000	2033	1.74	(b)(d)
Series 2015A1 FRN	51,000	—	—	—	51,000	2033	3.21	(b)(d)
Series 2015A2 FRN	149,000	—	—	—	149,000	2029	3.37	(b)(d)
Series 2015B	117,230	—	—	—	117,230	2019-2045	3.00-5.00	
Series 2015C FRN	149,000	—	—	—	149,000	2033	1.97	(b)(d)
Series 2016A FRN	175,000	—	—	—	175,000	2033	3.39	(b)(d)
Series 2016B	407,675	—	23,905	—	383,770	2018-2046	4.00-5.00	
Series 2017	—	350,000	—	—	350,000	2021-2047	5.00	
Subtotal	<u>3,356,972</u>	<u>374,785</u>	<u>117,250</u>	<u>400,293</u>	<u>3,214,214</u>			
UDSA restructuring bonds:								
Series 2013T	482,934	—	13,148	—	469,786	2018-2023	2.04-3.44	
Series 2013TE	1,374,390	—	—	—	1,374,390	2023-2039	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	—	59,450	—	409,870	2018-2033	4.00-5.00	
Series 2017	—	369,465	—	—	369,465	2020-2039	5.00	
Subtotal	<u>3,965,529</u>	<u>369,465</u>	<u>72,598</u>	<u>—</u>	<u>4,262,396</u>			
	<u>7,322,501</u>	<u>744,250</u>	<u>189,848</u>	<u>400,293</u>	<u>7,476,610</u>			
Plus: Net premium	624,098	127,144	56,438	—	694,804			
Less: Current maturities	(189,848)				(192,683)			
Total Long-term debt	<u>\$ 7,756,751</u>				<u>7,978,731</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 the December 31, 2017)

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

	Beginning balance	Accretion/ additions	Maturities	Repaid/ Refundings	Ending balance	Years of Maturity	Interest Rate (%)	
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 FRN	51,000	—	—	—	51,000	2033	3.81	(b)(d)
Series 2015A2 FRN	149,000	—	—	—	149,000	2029	3.57	(b)(d)
Series 2015B	117,230	—	—	—	117,230	2019-2045	3.00-5.00	
Series 2015C FRN	149,000	—	—	—	149,000	2033	1.42	(b)(d)
Series 2016A FRN	—	175,000	—	—	175,000	2023-2033	3.80	(b)(d)
Series 2016B	—	407,675	—	—	407,675	2017-2046	4.00-5.00	
Subtotal	<u>4,380,595</u>	<u>608,647</u>	<u>126,930</u>	<u>1,505,340</u>	<u>3,356,972</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	2023-2039	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>7,300,034</u>	<u>1,714,737</u>	<u>186,930</u>	<u>1,505,340</u>	<u>7,322,501</u>			
Plus: Net premium	370,729	302,732	49,363	—	624,098			
Less: Current maturities	<u>(238,295)</u>				<u>(189,848)</u>			
Total Long-term debt \$	<u><u>7,432,468</u></u>				<u><u>7,756,751</u></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)

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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, 2017 are as follows:

Due	Principal*	Interest	Net swap payments (receipts)	Total
2018	\$ 192,683	319,176	16,726	528,585
2019	192,191	317,841	16,726	526,758
2020	225,417	313,216	16,738	555,371
2021	290,879	306,058	16,728	613,665
2022	296,241	295,512	16,726	608,479
2023–2027	1,685,275	1,285,095	83,672	3,054,042
2028–2032	2,057,750	911,392	2,146	2,971,288
2033–2037	1,395,055	510,104	(1,103)	1,904,056
2038–2042	1,037,175	195,476	—	1,232,651
2043–2047	266,460	31,744	—	298,204
Total	\$ 7,639,126	4,485,614	168,359	12,293,099

* 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, 2017. 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.

Terms by which interest rates change for variable rate debt are as follows:

The 2014C Bonds bear interest at 70% of one-month LIBOR, plus the per annum spread of 0.65%. The rate is determined on the second London Banking Day prior to the first business day of each month.

The 2015A-1 FRNs bears interest at the sum of the prevailing 18-year AAA MMD general obligation index and the applicable spread of 100 basis points. The MMD FRN rate resets on the first business day of each month.

The 2015A-2 Bonds during the MMD rate period bear interest at the sum of the prevailing 14-year AAA MMD general obligation index and the applicable spread of 100 basis points. The MMD FRN rate resets on the first business day of each month.

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The 2015C Bonds bear interest at 70% of one month LIBOR, plus the per annum spread of 0.88%. The rate is determined on the second London Banking Day prior to the first business day of each month.

The 2016A Bonds during the MMD rate period bear interest at the sum of the prevailing 17-year AAA MMD general obligation index and the applicable spread of 105 basis points. The MMD FRN rate resets on the first business day of each month.

(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

The Authority's Board authorized the issuance of short-term borrowings in an amount not to exceed \$1.0 billion outstanding at any given time. The short-term borrowing program provides the Authority resources to meet interim working capital needs and cash flow requirements from unforeseen circumstances such as severe weather events. Among other factors, the Authority's operating and capital needs vary during the year given the seasonal nature of sales.

The Authority's short-term borrowing program is supported by various bank agreements expiring from 2018 through 2021 which the Authority expects to renew or replace as needed prior to expiration. For a further discussion, see note 18.

The Authority's short-term debt as of December 31, 2017 consists of the following instruments:

		Maximum Authorized Par Amount	Beginning Balance	Additions	Payments	Ending Balance	Supporting Letter of Credit Expiration Date
General revenue notes:							
Series 2013A	Revolving Credit Agreement	\$ 350,000	—	130,000	117,180	12,820	3/22/2019
Series 2015GR1A/B CP	Commercial Paper	200,000	85,000	—	17,500	67,500	6/29/2021
Series 2015GR2A/B CP	Commercial Paper	75,000	70,625	—	40,625	30,000	3/29/2018
Series 2015GR3A/B CP	Commercial Paper	100,000	—	—	—	—	3/23/2020
Subordinated revenue notes:							
Series 2014 CP 1AB	Commercial Paper	200,000	150,000	—	—	150,000	3/15/2018
Series 2014 CP 2AB	Commercial Paper	100,000	100,000	—	—	100,000	3/15/2018
	Total short-term debt	<u>\$ 1,025,000</u>	<u>405,625</u>	<u>130,000</u>	<u>175,305</u>	<u>360,320</u>	

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The Authority's short-term debt as of December 31, 2016 consists of the following instruments:

		Maximum Authorized Par Amount	Beginning Balance	Additions	Payments	Ending Balance	Supporting Letter of Credit Expiration Date
General revenue notes:							
Series 2013A	Revolving Credit Agreement	\$ 337,500	—	—	—	—	3/24/2017
Series 2015GR1A/B CP	Commercial Paper	200,000	50,000	100,000	65,000	85,000	6/29/2020
Series 2015GR2A/B CP	Commercial Paper	75,000	—	70,625	—	70,625	3/29/2018
Series 2015GR3A/B CP	Commercial Paper	100,000	—	—	—	—	3/23/2020
Subordinated revenue notes:							
Series 2014 CP 1AB	Commercial Paper	200,000	200,000	—	50,000	150,000	12/21/2017
Series 2014 CP 2AB	Commercial Paper	100,000	100,000	—	—	100,000	12/15/2017
Total short-term debt		<u>\$ 1,012,500</u>	<u>350,000</u>	<u>170,625</u>	<u>115,000</u>	<u>405,625</u>	

(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 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 short-term borrowing program.

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The Authority's calculation for its debt service coverage ratio, for the years ended December 31, 2017 and 2016, is shown below for informational purposes:

	<u>2017</u>	<u>2016</u>
(1) Operating revenues	\$ 3,481,613	3,399,101
(1) Other income	60,332	61,108
(2) Shoreham Settlement & VBA regulatory asset receipts	45,814	49,976
Total revenues and income	<u>3,587,759</u>	<u>3,510,185</u>
(1) Operating expenses	(3,214,117)	(3,163,353)
Add non cash expenses/(deduct cash funding):		
(1) Depreciation and amortizations	308,755	294,052
(3) Capital lease allowance	308,276	320,264
(2) (4) OPEB accrual expense	41,080	40,701
(2) Other interest expense	(25,458)	(33,968)
Total expenses	<u>(2,581,464)</u>	<u>(2,542,304)</u>
Funds available for debt service	\$ 1,006,295	967,881
(2) Principal – Authority	83,260	126,930
(2) Interest – Authority	165,610	142,656
(2) Principal – UDSA	72,598	60,000
(2) Interest – UDSA	192,213	162,139
(3) Capital lease obligation	308,276	320,264
Total fixed obligation debt service	\$ 821,957	811,989
Fixed Obligation Coverage Ratio:		
(5) Excluding UDSA	1.33	1.26
Including UDSA	1.22	1.19

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

(2) See Statements of Cash Flow s

(3) See note 12 (f) (below)

(4) The public power model, adopted by the Authority's Board, adds back the PSEG Long Island 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 note 10 for more detail.

(5) Excluding UDSA equal to (\$1,006,295 less (\$264,811))/(821,957 less (\$264,811))

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(f) Changes in noncurrent liabilities

The Authority's other long term liabilities as of December 31, 2017 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	\$ 69,933	8,859	(38,680)	40,112
Borrowings	82,241	—	(4,934)	77,307
Claims and damages	41,430	47,836	(33,345)	55,921
Capital lease obligations	2,021,284	130,507	(308,276)	1,843,515
Total other long term liabilities	<u>\$ 2,214,888</u>	<u>187,202</u>	<u>(385,235)</u>	<u>2,016,855</u>

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>

(13) OSA – Employee Retirement Benefits Obligations

In accordance with the terms of the OSA, the costs to employ PSEG Long Island's workforce, including employee pension and other postemployment benefits, are a "pass through expenditure" and 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.

When transitioning National Grid employees to PSEG Long Island, to ensure the National Grid workforce serving the Authority was protected against benefit losses from the transition, the PSEG Long Island benefit plans credited National Grid transitioned employees for service prior to the 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 OSA effective date could have become eligible to participate in the National Grid postemployment health and life insurance benefit plans, are entitled to receive substantially equivalent postemployment health and life insurance benefits under a postemployment health and life insurance plan

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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 rollforward of the changes to the benefit obligations and the fair value of the plan assets during each of the years ended December 31, 2017 and 2016.

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 prefund the contractual liability for such postemployment benefits.

	Pension benefits		Postemployment benefits	
	2017	2016	2017	2016
Benefit obligation at beginning of year	\$ 262,462	213,169	452,406	374,897
Service cost	26,845	24,180	14,618	12,377
Interest cost	10,942	9,525	19,016	16,697
Actuarial loss (gain)	21,726	11,216	59,758	50,552
Benefits paid	(1,453)	(641)	(4,240)	(2,117)
Plan amendment	—	5,013	—	—
Benefit obligation at end of year	<u>320,522</u>	<u>262,462</u>	<u>541,558</u>	<u>452,406</u>
Fair value of assets at beginning of year	134,148	96,388	—	—
Actual return on plan assets	23,524	10,301	—	—
Employer contribution	35,000	28,100	4,240	2,117
Gross benefits paid	<u>(1,453)</u>	<u>(641)</u>	<u>(4,240)</u>	<u>(2,117)</u>
Fair value of assets at end of year	<u>191,219</u>	<u>134,148</u>	<u>—</u>	<u>—</u>
Authority unfunded obligation \$	<u><u>129,303</u></u>	<u><u>128,314</u></u>	<u><u>541,558</u></u>	<u><u>452,406</u></u>

The contractual liability related to pension and post-retirement benefits increased during 2017 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 \$22 million for pension benefits and \$60 million for post-retirement benefits as follows:

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	<u>Pension benefits</u>	<u>Postemployment benefits</u>
Updated census data	\$ 2.3	0.1
Updated assumptions	(22.9)	(56.6)
Updated medical trend	N/A	25.8
Impact of adopting granular method	1.6	3.2
Discount rate changes (see table below)	40.7	87.3
Total (gain)/loss	<u>\$ 21.7</u>	<u>59.8</u>

The Authority's Board authorized the creation of an OPEB Account to allow the Authority to segregate funds to meet future OPEB obligations for the PSEG Long Island employees. As of December 31, 2017 and 2016, the Authority had on deposit approximately \$195 million and \$129 million, respectively, in its OPEB Account intended to meet the future PSEG Long Island employee OPEB obligations. For a further discussion, see note 11.

The actuarial valuations related to pension and post-retirement 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, 2017 and 2016:

	<u>Pension benefits</u>		<u>Postemployment benefits</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Discount rate	3.90 %	4.61 %	3.96 %	4.71 %
Rate of compensation increase	3.25 %	3.25 %	3.25 %	3.25 %

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Plan Assets

During 2017 and 2016, the Authority provided approximately \$35 million and \$28 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, 2017 and 2016:

<u>Investment type</u>	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>Allocation</u>	<u>Amount</u>	<u>Allocation</u>
Equity	\$ 137,228	71.8%	95,719	71.4%
Fixed income	53,599	28.0	38,077	28.4
Other	392	0.2	352	0.2
	<u>\$ 191,219</u>	<u>100.0%</u>	<u>134,148</u>	<u>100.0%</u>

(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 and 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 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.

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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 Retirement 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 who joined the Retirement System on or after April 1, 2012 are required to contribute 3% of their salary. Effective April 1, 2013, Tier 6 employees contribution rate vary from 3% to 6% depending on 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.

(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

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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 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 between 3% to 6% 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, 2017, 2016 and 2015, were equal to 100% of the contributions required, and were \$0.56 million, \$0.2 million, and zero (due to credit provided) respectively.

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

At December 31, 2017 and 2016, the Authority reported a liability of \$1.0 million and \$1.7 million, respectively, for its proportionate share of the Retirement System net pension liability. The net pension liability was measured as of April 1, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2016 with update procedures used to roll forward the total pension liability to March 31, 2017. 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, 2017 and 2016, the Authority's proportion was 0.01% of the Retirement System net pension liability.

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For the year ended December 31, 2017 and 2016, the Authority recognized pension expense of \$0.2 million and \$0.3 million, respectively. At December 31, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2017</u>		<u>2016</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>
Difference between expected and actual expense	\$ 24	142	9	—
Net difference between projected and actual earnings on investments	187	—	1,016	203
Changes of Assumptions	321	—	456	—
Net difference between the Authority's contributions and proportionate share of contributions	99	968	—	—
The Authority's contributions subsequent to the measurement date	559	—	—	1,296
	<u>\$ 1,190</u>	<u>1,110</u>	<u>1,481</u>	<u>1,499</u>

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:	
2018	\$ (153)
2019	(153)
2020	(66)
2021	(107)
2022	—
Thereafter	—
	<u>\$ (479)</u>

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(viii) *Actuarial Assumptions*

The total pension liability as of the measurement date was determined by using an actuarial valuation as of April 1, 2016, 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, 2017
Actuarial valuation date:	April 1, 2016
Actuarial cost method:	Aggregate Cost Method
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 are summarized below:

<u>Asset class</u>	<u>Long-term expected real rate of return (%)</u>
Domestic equity	4.55
International equity	6.35
Private equity	7.75
Real estate	5.80
Absolute return strategies	4.00
Opportunistic portfolio	5.89
Real assets	5.54
Bonds and mortgages	1.31
Cash	(0.25)
Inflation-indexed bonds	1.50

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

The following represents 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)	\$ 3.0 million	0.9 million	(0.8) million

(b) Deferred Compensation and Savings Plans

The Authority offers certain full-time employees participation in a Voluntary Defined Contribution Plan (VDC), which is an alternative to the State's existing defined benefit retirement pension system. 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.

(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 an unforeseeable emergency. An independent trustee is also responsible for the administration of this plan.

(d) Other Postemployment Benefits

(i) Plan Description

The Authority is a participating employer in the New York State Health Insurance Program (NYSHIP), which is an agent multiple-employer plan administered by the New York State Department of Civil Service. 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

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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. The Authority allows each employee to accumulate up to 1,500 hours of unused sick time and apply the value of this to fund their required contribution. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State.

As of December 31, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	62
Active employees	38
	100
	100

During 2017, the Authority's Board approved the creation of a legally separate Section 115 trust for its OPEB obligation to the eligible Authority employees and retirees to accumulate resources to fund the Authority's obligation to pay for OPEB benefits under the plan. Contributions to the OPEB Trust are based on an actuarial valuation. The Authority contributed approximately \$19 million to the OPEB Trust during 2017.

Furthermore, effective 2017, the Authority implemented GASB Statement No. 75, which refines reporting guidance established under GASB Statement No. 45. GASB Statement No. 75 concluded that OPEBs are a form of employee compensation and should be recognized in the same period in which the compensated service is provided by the employees. OPEB includes postemployment healthcare benefits (including medical, dental, vision, hearing and other health-related benefits) and other forms of postemployment benefits (including life insurance, disability and long-term care).

The Authority used the following facts, actuarial methods and assumptions in determination of the net OPEB liability. 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 OPEB expense are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

(ii) Net OPEB Liability

The Authority's net OPEB liability was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

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The following table shows the components of the Authority's changes in its total OPEB liability, the OPEB Trust fiduciary net position, and the net OPEB liability during the measurement period ending December 31, 2017:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at December 31, 2016	\$ 25,343	—	25,343
Changes for the year:			
Service cost	1,152	—	1,152
Interest	969	—	969
Changes of benefits	—	—	—
Differences between expected and actual experience	—	—	—
Changes of assumptions	(7,067)	—	(7,067)
Employer contributions	—	19,071	(19,071)
Net investment income	—	123	(123)
Benefit payments	(543)	(543)	—
Administrative expense	—	—	—
Net changes	<u>(5,489)</u>	<u>18,651</u>	<u>(24,140)</u>
Balances at December 31, 2017	<u>\$ 19,854</u>	<u>18,651</u>	<u>1,203</u>

During the measurement year, the net OPEB liability decreased approximately \$24 million due to the creation of the OPEB Trust. 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. In developing the projection of cash flows used to determine the discount rate, the employer contributions will continue to follow the contribution policy. The total Authority contribution rate is the sum of the normal cost rate plus an amortization of the plan's unfunded actuarial liability plus a provision for expenses. The normal cost rate is determined under the entry age actuarial cost method while the unfunded actuarial liability rate is that necessary to pay down the unfunded actuarial liability over an open one-year level percent of pay. The January 1, 2017 liability was rolled forward using update procedures from standard actuarial principles to December 31, 2017.

There were no changes in the benefits during the year. There was a discount rate change between December 31, 2016 and December 31, 2017 from 3.5% to 6.0% due to the OPEB Trust funding policy adopted during 2017. This created an assumption gain of \$7 million, which will be amortized over the average expected remaining life of all active and inactive members of the plan.

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Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments for current members. Consequently, the single equivalent rate used to determine the total OPEB liability as of December 31, 2017 is 6.0%, the long-term expected rate of return on OPEB Trust assets.

(iii) Actuarial assumptions

Measurement date:	December 31, 2017
Actuarial valuation date:	January 1, 2017
Actuarial cost method:	Entry Age Normal Cost Method
Asset valuation method:	Market Value
Amortization method:	One year open amortization, level percentage of payroll
Discount rate:	6.00 %
Salary increases:	3.50 %
Mortality:	Mortality: RP 2014 Standard Table, projected Fully Generational using scale MP-2014

The actuarial assumptions used in the December 31, 2017 valuation were based on results of an actuarial experience study for the period from April 1, 2010 through March 31, 2015.

(iv) Discount Rate

The discount rate used to calculate the total OPEB liability was 6.0%, the long term rate of return on the OPEB Trust assets. The discount rate was based on a long-term assumption comprised of 65% equity investments and 35% fixed income investments. Changes in the discount rate affect the measurement of the total OPEB liability. Lower discount rates produce a higher liability and higher discount rates produce a lower liability. The table below shows the sensitivity of the total OPEB liability to the discount rate.

	1% Decrease (5.0%)	Current assumption (6.0%)	1% Increase (7.0%)
Total OPEB liability	\$ 22,634	19,854	17,575
Plan fiduciary net position	18,651	18,651	18,651
Net OPEB liability	<u>\$ 3,983</u>	<u>1,203</u>	<u>(1,076)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	82.4%	93.9%	106.1%

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(v) *Sensitivity of the Net OPEB Liability to the changes in Healthcare Cost Trend Rates*

Changes in the healthcare trends affect the measurement of the total OPEB liability. The table below shows the sensitivity of the net OPEB liability to the changes in the healthcare trends.

	<u>1% Decrease</u>	<u>Healthcare Trend</u>	<u>1% Increase</u>
Total OPEB liability	\$ 17,311	19,854	22,971
Plan fiduciary net position	18,651	18,651	18,651
Net OPEB liability	\$ <u>(1,340)</u>	<u>1,203</u>	<u>4,320</u>
Plan fiduciary net position as a percentage of the total OPEB liability	107.7%	93.9%	81.2%

The non-Medicare medical trend assumption begins at 6.25% and decreases to a 4.50% long-term trend rate after eight years. The Medicare medical trend assumption begins at 5.20% and decreases to a 4.50% long-term trend rate after eight years. The drug trend assumption begins at 9.50% and decreases to a 4.50% long-term trend rate after eight years. The Medicare Part B trend assumption begins at 5.20% and decreases to a 4.50% long-term trend rate after eight 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 GENCO and LIPA. The A&R PSA provides for the sale to the Authority by GENCO 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 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 National Grid. The annual capacity charge in 2017 and 2016 was \$450 million and \$447 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 2017 or 2016 under the A&R PSA.

The capacity charge of the A&R PSA is adjusted each year for the actuarially required contributions for the pension and OPEB benefits of the employees that work at the National Grid power plants. The

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actuarially required contributions are reflected in annual filings by National Grid with FERC. As of the most recent estimate provided by National Grid's actuary dated March 2017, the P&OPEB plan obligations are underfunded by approximately \$46 million. This underfunding is the component in the development of the actuarially required contributions in each year. 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 (COD). 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 several agreements to purchase renewable energy from on and off Long Island sources. Certain of these power producing facilities have 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 minimum obligations for these purchase power commitments:

	<u>Capital leases</u>	<u>Operating leases</u>
Minimum lease/rental payments:		
2018	\$ 277,366	194,163
2019	256,885	177,053
2020	251,144	159,734
2021	242,550	99,788
2022	243,741	78,360
2023 through 2027	1,068,187	418,228
2028 through 2032	289,538	292,964
2033 through 2037	—	39,236
2038 through 2040	—	23,498
Total	<u>2,629,411</u>	<u>1,483,024</u>
Less imputed interest	<u>632,071</u>	<u>387,657</u>
Net present value	<u>\$ 1,997,340</u>	<u>1,095,367</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.

(c) Battery Storage Project

During 2017, the Authority entered into two 20-year contracts for 5-megawatt storage batteries, which are expected to store energy for use primarily to meet daily and seasonal peak loads on the South Fork. Both contracts target commercial operation in 2018. The Authority has no financial commitment until these projects are operational.

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(d) Deepwater Wind Project

On January 25, 2017, the Authority's Board approved a 20 year purchased power agreement for a 90 megawatt offshore wind farm to be installed off the coast of Long Island that is expected to be commercially operational by 2022. The Authority will only pay for energy when delivered without taking construction risk and has no financial commitment until the wind farm is commercially operational.

(e) Other Leasing Agreements

PSEG Long Island, as the Authority's agent, has 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.

PSEG Long Island has entered into a ten-year office operating lease expiring in 2028 and the Authority has an office operating lease which expires April 30, 2024.

The estimated net present value of the future minimum payments under these leases are as follows for the years ended:

	<u>Vehicle lease</u>	<u>Office lease</u>
Minimum lease/rental payments:		
2018	\$ 4,685	5,293
2019	4,510	5,244
2020	3,992	5,197
2021	3,299	5,150
2022	2,434	5,103
2023 through 2027	4,612	19,433
2028	—	3,424
	<u> </u>	<u> </u>
Net present value	\$ <u>23,532</u>	<u>48,844</u>

(f) 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 accidents or 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

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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 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 \$3.0 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 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.

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(b) Superstorm Sandy

Four purported class actions were filed against the Authority and National Grid related to Superstorm Sandy that contain common allegations of wrongdoing and/or gross negligence relating to the Authority's and National Grid's preparedness for, and response to the storm. 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 from all or partial loss of customers' homes. In February 2018, the Court of Appeals, New York State's highest court, affirmed lower court rulings that the Authority is not entitled at this point to dismissal of the fire cases. 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

National Grid 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 National Grid and the Authority on the basis of whether they relate to assets transferred to National Grid or retained by the Authority as part of the 1998 LIPA/LILCO Merger (Merger). In addition, to clarify and supplement these agreements, National Grid 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 National Grid after the Merger (the Transferred Business).

National Grid is responsible for all liabilities arising from all manufactured gas plant operations on Long Island (MGP Sites), including those currently or formerly operated by National Grid or any of its predecessors, whether or not such MGP Sites related to the Transferred Business or the Retained Business. In addition, National Grid is responsible for all environmental liabilities traceable to the Transferred Business and certain scheduled environmental liabilities. Environmental liabilities that arise from the nonnuclear generating business (a Transferred Business) may be recoverable by National Grid 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 National Grid, as provided for in the Merger.

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The A&R PSA addresses the terms by which the Authority will continue to purchase electricity from certain National Grid facilities. Generally, National Grid'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.

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 potentially responsible parties (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. In November 2017, the Commonwealth of Pennsylvania (Commonwealth) and the PRP group entered into a Consent Order and Agreement for the Payment of Response Costs (COA) to settle the Commonwealth's claim for response costs in exchange for a payment by the PRP group of \$45,000. The COA releases the PRP group from any future claims by the Commonwealth for response and oversight costs at the site. The Authority's contribution toward the settlement is not material. 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, since, under the terms of the AOC, the costs of the repairs were reimbursed from a fund maintained by EPA.

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(e) Asbestos Proceedings

Litigation is pending in New York State Court against the Authority, LILCO, National Grid 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 certain power plants formerly owned by LILCO. 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 these 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 these power plants. Based upon experience, it does not appear that currently pending or future claims involving plaintiffs who allege exposure to asbestos at any of these power plants will have a material impact on the operating results or financial condition of the Authority.

(17) Component Unit Condensed Consolidating Statements

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. See condensed combining information for December 31, 2017 below:

Consolidating Condensed Statements of Net Position

	<u>Authority</u>	<u>UDSA</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets and deferred outflows of resources:				
Current assets	\$ 1,954,435	162,360	(2,513)	2,114,282
Utility plant and property and equipment, net	8,088,014	—	—	8,088,014
Noncurrent assets	2,655,736	4,700,023	(4,675,324)	2,680,435
Deferred outflows of resources	275,026	—	—	275,026
Total assets and deferred outflows of resources	<u>\$ 12,973,211</u>	<u>4,862,383</u>	<u>(4,677,837)</u>	<u>13,157,757</u>
Liabilities and net position:				
Current liabilities	\$ 1,148,312	136,441	(2,513)	1,282,240
Long-term debt	3,344,223	4,634,508	—	7,978,731
Noncurrent liabilities	7,558,966	—	(4,675,324)	2,883,642
Deferred inflows of resources	540,956	—	—	540,956
Net position	380,754	91,434	—	472,188
Total liabilities, deferred inflows of resources and net position	<u>\$ 12,973,211</u>	<u>4,862,383</u>	<u>(4,677,837)</u>	<u>13,157,757</u>

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Consolidating Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>Authority</u>	<u>UDSA</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenues	\$ 3,186,447	297,679	(2,513)	3,481,613
Operating expenses	3,094,432	122,198	(2,513)	3,214,117
Operating income	<u>92,015</u>	<u>175,481</u>	<u>—</u>	<u>267,496</u>
Nonoperating revenue and expenses	84,708	989	—	85,697
Interest charges and (credits):				
Interest on long-term debt	155,389	187,163	—	342,552
Other interest and amortizations	34,471	(40,952)	—	(6,481)
Total interest charges and (credits)	<u>189,860</u>	<u>146,211</u>	<u>—</u>	<u>336,071</u>
Change in net position	(13,137)	30,259	—	17,122
Beginning net position	393,891	61,175	—	455,066
Ending net position	<u>\$ 380,754</u>	<u>91,434</u>	<u>—</u>	<u>472,188</u>

Consolidating Condensed Statement of Cash Flows

	<u>Authority</u>	<u>UDSA</u>	<u>Eliminations</u>	<u>Total</u>
Net cash provided by operating activities	\$ 415,070	276,849	—	691,919
Net cash provided by investing activities	10,336	—	—	10,336
Net cash used in noncapital related activities	(15,511)	—	—	(15,511)
Net cash used in capital and related financing activities	<u>(567,174)</u>	<u>(256,254)</u>	<u>—</u>	<u>(823,428)</u>
Net (decrease) increase in cash and cash equivalents	(157,279)	20,595	—	(136,684)
Cash and cash equivalents at beginning of year	473,584	88,572	—	562,156
Cash and cash equivalents at end of year	<u>\$ 316,305</u>	<u>109,167</u>	<u>—</u>	<u>425,472</u>

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See condensed combining information for December 31, 2016 below:

Consolidating Condensed Statement of Net Position

	<u>Authority</u>	<u>UDSA</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets and deferred outflows of resources:				
Current assets	\$ 1,913,020	128,267	(2,103)	2,039,184
Utility plant and property and equipment, net	7,768,551	—	—	7,768,551
Noncurrent assets	2,981,929	4,383,747	(4,359,428)	3,006,248
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 Statement of Revenues, Expenses, and Changes in Net Position

	<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	<u>65,722</u>	<u>170,026</u>	<u>—</u>	<u>235,748</u>
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)	<u>215,131</u>	<u>134,678</u>	<u>—</u>	<u>349,809</u>
Change in net position	(62,006)	35,573	—	(26,433)
Beginning net position	<u>455,897</u>	<u>25,602</u>	<u>—</u>	<u>481,499</u>
Ending net position	<u>\$ 393,891</u>	<u>61,175</u>	<u>—</u>	<u>455,066</u>

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Consolidating Condensed Statement of Cash Flows

	<u>Authority</u>	<u>UDSA</u>	<u>Eliminations</u>	<u>Total</u>
Net cash provided by operating activities	\$ 370,362	254,698	—	625,060
Net cash provided by (used in) investing activities	1,111,220	(1,308,209)	—	(196,989)
Net cash provided by noncapital related activities	106,906	—	—	106,906
Net cash (used in) provided by capital and related financing activities	<u>(1,682,084)</u>	<u>1,108,565</u>	<u>—</u>	<u>(573,519)</u>
Net (decrease) increase in cash and cash equivalents	(93,596)	55,054	—	(38,542)
Cash and cash equivalents at beginning of year	<u>567,180</u>	<u>33,518</u>	<u>—</u>	<u>600,698</u>
Cash and cash equivalents at end of year	<u>\$ 473,584</u>	<u>88,572</u>	<u>—</u>	<u>562,156</u>

(18) Subsequent Events

In March 2018, the Authority completed the reissuance of its Electric System General Revenue (GR) Notes (Notes). The Notes are comprised of series GR1 through GR6 totaling \$800 million. Each series has a remarketing agent and are credit enhanced with a direct pay Letter of Credit (LOC). Upon completion of the reissuance, all LOCs and broker-dealer agreements will have like covenants, reporting requirements, and similar terms. In addition, no Commercial Paper (CP) Notes will be issued under the subordinate lien. The maturity restriction on the Senior Lien General Revenue Notes has been eliminated obviating the need for the issuance of Subordinate Lien CP. Upon completion of the reissuance, the Authority will have a \$350 million revolving credit facility and \$800 million in available multi-modal General Revenue Notes, which are expected to be issued in commercial paper mode. The Board policy of the Authority limits short-term indebtedness outstanding to no more than \$1.0 billion at any one time.

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

Required Supplementary Information

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>2023-2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
The Authority's proportion of the net pension liability		0.0099883%	0.0106679%	0.0280362%	0.0280362%
The Authority's proportionate share of the net pension liability	\$ 938,526	\$ 1,712,234	\$ 947,131	\$ 1,266,916	
The Authority's covered-employee payroll	\$ 4,019,750	\$ 4,138,358	\$ 4,787,173	\$ 5,472,436	
The Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll		23.35%	41.37%	19.78%	23.15%
Plan fiduciary net position as a percentage of the total pension liability		94.70%	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.

LONG ISLAND POWER AUTHORITY
Required Supplementary Information

SCHEDULE OF CHANGES IN THE AUTHORITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS

(Amounts in thousands)

	<u>2017</u>
<u>Total OPEB liability</u>	
Service cost	\$ 1,152
Interest	969
Change of benefit terms	—
Differences between expected and actual experience	—
Change of assumptions	(7,067)
Benefit payments	<u>(543)</u>
Net change in total OPEB liability	(5,489)
Total OPEB liability-beginning	<u>25,343</u>
Total OPEB liability-ending	<u>\$ 19,854</u>
 <u>Plan fiduciary net position</u>	
Contributions - employer	19,071
Contributions - member	—
Net investment income	123
Benefit payments	(543)
Administrative expense	<u>—</u>
Net change in plan fiduciary net position	18,651
Plan fiduciary net position - beginning	<u>—</u>
Plan fiduciary net position - ending	<u>\$ 18,651</u>
 Net OPEB liability - ending	 <u>\$ 1,203</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 93.94%
Covered-employee payroll	\$ 5,306
Total OPEB liability as a percentage of covered-employee payroll	22.67%

Notes to Schedule:

Discount rate assumed is 6.00%

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

LONG ISLAND POWER AUTHORITY
Required Supplementary Information

SCHEDULE OF ACTUARIALLY DETERMINED CONTRIBUTIONS AND BENEFIT PAYMENTS

(Amounts in thousands)

		<u>2017</u>
Actuarially determined contribution	\$	19,071
Covered-employee payroll	\$	5,306
Actuarially determined contribution as a percentage of covered-employee payroll		359.42%
Benefit payments	\$	543

Notes to Schedule:

Actuarial Cost Method:	Entry Age Normal Cost Method
Asset Valuation Method:	Market Value
Amortization Method:	One year open amortization, level percentage of payroll
Discount Rate:	6.00 %
Salary Increases:	3.50 %
Mortality:	Mortality: RP 2014 Standard Table, projected fully generational using scale MP-2014



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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*

To the Board of Trustees
Long Island Power Authority:

We have audited, in accordance with the 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, the consolidated financial statements of the business-type activities and fiduciary funds of the Long Island Power Authority (the Authority), a component unit of the State of New York, as of and for the years ended December 31, 2017 and 2016, and the related notes to the consolidated financial statements, which collectively comprise the Authority's consolidated financial statements as listed in the table of contents, and have issued our report thereon dated March 29, 2018.

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, 2017, 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 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 consolidated 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 results 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, 2018