

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

Quarterly Unaudited Financial Report

For the six month period ended June 30, 2016

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

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Introduction

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

Overview of the Consolidated Financial Statements

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

The Management's Discussion and Analysis of the Authority's financial performance provides an overview of the Authority's financial information for the six month period ended June 30, 2016 compared to 2015. The unaudited quarterly financial statements should be read in conjunction with the annual audited financial statements, which may be found on the Authority's website at www.lipower.org.

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

| Assets and Deferred Outflows of Resources | June 30, 2016 | December 31, 2015 |
|--|----------------------|--------------------------|
| | (unaudited) | (audited) |
| Current assets: | | |
| Cash and cash equivalents | \$ 421,313 | 600,698 |
| Restricted cash - working capital requirements | 185,468 | 208,099 |
| Restricted cash | 51,544 | 33,518 |
| Investments - OPEB account | 40,186 | 29,500 |
| Counterparty collateral – posted by the Authority | 10,123 | 48,357 |
| Accounts receivable (less allowance for doubtful accounts) | 439,448 | 489,757 |
| Other receivables | 75,756 | 85,988 |
| Fuel inventory | 105,978 | 117,616 |
| Material and supplies inventory | 45,442 | 47,808 |
| Unrealized charges | 30,120 | 75,574 |
| Regulatory assets due within one year: | | |
| Fuel and purchased power costs | 71,680 | 3,108 |
| A&R Operations Services Agreement - employee retirement benefits | 54,199 | 54,199 |
| Shoreham property tax settlement | 43,498 | 43,498 |
| Employee benefit plan settlement | 21,634 | 21,634 |
| Revenue decoupling mechanism | 52,502 | 17,297 |
| Delivery service adjustments | 6,276 | — |
| New York State assessment | 2,224 | 1,708 |
| Debt issuance costs | 4,100 | 4,100 |
| Enterprise resource planning system | — | 4,860 |
| Outage management system | — | 2,424 |
| Transition costs – power supply management | 1,692 | 1,692 |
| Distributed energy resources | 1,106 | — |
| Southampton visual benefit assessment | 888 | 888 |
| Prepayments and other current assets | 97,733 | 49,963 |
| | <u>1,762,910</u> | <u>1,942,286</u> |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | 503,860 | 501,990 |
| Utility plant and property and equipment, net | 7,655,324 | 7,548,163 |
| Nuclear decommissioning trust | 114,634 | 110,436 |
| Other long-term receivables | 28,250 | 38,082 |
| Unrealized charges | 184,917 | 197,227 |
| Prepayments | — | 12,231 |
| Regulatory assets: | | |
| A&R Operations Services Agreement - employee retirement benefits | 385,981 | 413,978 |
| Shoreham property tax settlement | 441,323 | 447,414 |
| Employee benefit plan settlement | 183,881 | 194,705 |
| Debt issuance costs | 31,194 | 38,498 |
| Delivery service adjustments | 31,379 | — |
| Enterprise resource planning system | — | 43,670 |
| Fuel and purchased power costs | 32,600 | 34,086 |
| Outage management system | — | 21,757 |
| Transition costs – power supply management | 14,378 | 15,224 |
| Southampton visual benefit assessment | 8,290 | 8,407 |
| Distributed energy resources | 1,106 | — |
| Acquisition adjustment (net of accumulated amortization) | 1,156,447 | 1,212,134 |
| Total noncurrent assets | <u>10,773,564</u> | <u>10,838,002</u> |
| Deferred outflows: | | |
| Deferred loss on debt refunding | 286,984 | 254,157 |
| Accumulated decrease in fair value of financial derivatives | 5,905 | — |
| Pensions | 195 | 195 |
| Total deferred outflows | <u>293,084</u> | <u>254,352</u> |
| Total assets and deferred outflows | <u>\$ 12,829,558</u> | <u>13,034,640</u> |

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

| Liabilities and Net Position | June 30, 2016 (unaudited) | December 31, 2015 (audited) |
|--|--|--|
| Current liabilities: | | |
| Short-term debt | \$ 520,625 | 350,000 |
| Current maturities of long-term debt | 143,650 | 178,295 |
| Current maturities of UDSA long-term debt | 36,540 | 60,000 |
| Current portion of capital lease obligation | 203,395 | 190,955 |
| Accounts payable and accrued expenses | 433,061 | 456,649 |
| Regulatory liability - fuel and purchased power costs refundable | 11,649 | 30,027 |
| Commodity derivative instruments | 35,372 | 73,599 |
| Accrued payments in lieu of taxes | 5,205 | 10,008 |
| Accrued interest | 44,986 | 47,832 |
| Customer deposits | 37,923 | 38,419 |
| Total current liabilities | 1,472,406 | 1,435,784 |
| Noncurrent liabilities: | | |
| Long-term debt | 3,513,668 | 4,305,146 |
| Long-term UDSA debt | 3,891,050 | 3,127,322 |
| Capital lease obligations | 2,115,406 | 2,188,295 |
| Borrowings | 84,667 | 87,064 |
| A&R Operations Services Agreement - employee retirement benefits | 506,161 | 491,678 |
| Financial derivative instruments | 197,138 | 173,199 |
| Commodity derivative instruments | 2,033 | 44,086 |
| Asset retirement obligation | 64,672 | 62,906 |
| Long-term liabilities and unrealized credits | 72,847 | 93,530 |
| Claims and damages | 27,051 | 27,822 |
| Total noncurrent liabilities | 10,474,693 | 10,601,048 |
| Deferred inflows: | | |
| Regulatory credits - grants | 502,213 | 502,213 |
| Accumulated increase in fair value of derivatives | 3,401 | 4,514 |
| Pensions | 417 | 417 |
| Accumulated increase in fair value of Nine Mile Point 2 trust | 12,850 | 9,165 |
| Total deferred inflows | 518,881 | 516,309 |
| Net position: | | |
| Net investment in capital assets | (81,863) | (158,313) |
| Restricted | 197,525 | 142,026 |
| Unrestricted | 247,916 | 497,786 |
| Total net position | 363,578 | 481,499 |
| Total liabilities, deferred inflows and net position | \$ 12,829,558 | 13,034,640 |

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)
Statements of Revenues, Expenses, and Changes in Net Position
(unaudited)
(Amounts in thousands)

| | Six months ended | |
|---|-------------------------|------------------|
| | June 30, | |
| | 2016 | 2015 |
| Operating revenues – electric sales | \$ 1,483,646 | 1,682,606 |
| Operating expenses: | | |
| Operations – fuel and purchased power | 560,611 | 790,589 |
| Operations and maintenance | 404,926 | 392,552 |
| Operations and maintenance – amortizations | 15,514 | 6,474 |
| Storm restoration | 63,506 | 12,790 |
| General and administrative | 14,301 | 12,069 |
| Depreciation and amortization | 127,472 | 110,116 |
| Pass through taxes under certain long-term operating agreements | 100,470 | 96,365 |
| Payments in lieu of taxes and assessments | 169,033 | 178,628 |
| Total operating expenses | <u>1,455,833</u> | <u>1,599,583</u> |
| Operating income | <u>27,813</u> | <u>83,023</u> |
| Nonoperating revenues and expenses: | | |
| Other income, net: | | |
| Investment income | 5,094 | 2,432 |
| Grant income | 9,179 | 16,292 |
| Carrying charges on regulatory assets | 13,519 | 14,023 |
| Other | 1,699 | 1,858 |
| Total other income, net | <u>29,491</u> | <u>34,605</u> |
| Interest charges and (credits): | | |
| Interest on long-term debt, net | 164,382 | 166,077 |
| Other interest | 14,203 | 20,786 |
| Allowance for borrowed funds used during construction | (3,360) | (3,700) |
| Total interest charges and (credits) | <u>175,225</u> | <u>183,163</u> |
| Change in net position | (117,921) | (65,535) |
| Net position, beginning of year | <u>481,499</u> | <u>433,325</u> |
| Net position, end of period | <u>\$ 363,578</u> | <u>367,790</u> |

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

Statements of Cash Flows

(unaudited)

(Amounts in thousands)

**Six months ended
June 30,**

| | 2016 | 2015 |
|---|-------------------|------------------|
| Cash flows from operating activities: | | |
| Operating revenues received | \$ 1,495,087 | 1,745,879 |
| Paid to suppliers and employees: | | |
| Operations and maintenance | (458,042) | (430,068) |
| Pass through taxes under certain long-term operating agreements | (100,469) | (96,365) |
| Fuel and purchased power | (588,653) | (736,512) |
| Payments in lieu of taxes and assessments | (254,159) | (240,340) |
| Collateral on commodity derivative transactions, net | 38,234 | (22,455) |
| PSEG Long Island pension funding | (11,800) | (12,800) |
| Net provided by operating activities | <u>120,198</u> | <u>207,339</u> |
| Cash flows from investing activities: | | |
| Earnings received on investments | 4,569 | 767 |
| Restricted cash | 2,735 | 67,192 |
| Purchase of investment securities | (10,686) | — |
| Other | 277 | 437 |
| Net cash (used in) provided by investing activities | <u>(3,105)</u> | <u>68,396</u> |
| Cash flows from noncapital financing related activities: | | |
| Grant proceeds | 16,110 | 99,155 |
| Proceeds from credit facility draws and commercial paper program | 170,625 | 450,000 |
| Redemption of credit facility draws and commercial paper program | — | (330,000) |
| Net cash provided by noncapital related activities | <u>186,735</u> | <u>219,155</u> |
| Cash flows from capital and related financing activities: | | |
| Capital and nuclear fuel expenditures | (237,676) | (156,043) |
| Proceeds from insurance recoveries and settlements | 49,580 | — |
| Proceeds from the issuance of long-term debt | 783,288 | 200,000 |
| Debt issuance costs | (4,713) | — |
| Interest paid, net | (153,992) | (146,148) |
| Other interest costs | (16,349) | (21,239) |
| Redemption of long-term debt | (903,351) | (352,180) |
| Net cash used in capital and related financing activities | <u>(483,213)</u> | <u>(475,610)</u> |
| Net (decrease) increase in cash and cash equivalents | <u>(179,385)</u> | <u>19,280</u> |
| Cash and cash equivalents at beginning of year | <u>600,698</u> | <u>782,466</u> |
| Cash and cash equivalents at end of period | <u>\$ 421,313</u> | <u>801,746</u> |
| Reconciliation to net cash provided by operating activities: | | |
| Operating income | \$ 27,813 | 83,023 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 142,986 | 116,590 |
| Nuclear fuel burned | 4,538 | 6,952 |
| Bad debt expense | 11,675 | 10,942 |
| Accretion of asset retirement obligation | 1,765 | 1,874 |
| Other, net | 22,736 | (389) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 50,683 | 33,265 |
| Regulatory assets and liabilities | (102,948) | (41,070) |
| Fuel and material and supplies inventory | 14,004 | 16,128 |
| Counterparty collateral | 38,234 | (22,455) |
| Accounts payable, accrued expenses and other | (91,288) | 2,479 |
| Net cash provided by operating activities | <u>\$ 120,198</u> | <u>207,339</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Six Month Period ended June 30, 2016 Compared to 2015

The change in net position for the six months ended June 30, 2016 was \$52 million less favorable than the six month period of 2015.

Operating revenue decreased \$199 million compared to the six month period of 2015 primarily due to a \$230 million decline in fuel and purchased power revenues, partially offset by an increase in base revenue due to increased base rates effective January 1, 2016, as approved in the Three Year Rate Plan.

Fuel and purchased power expense decreased \$230 million compared to the six month period of 2015 due to a decline in natural gas and oil prices and a reduction in the cost of purchased power. This decrease was partially offset by higher settlement costs on certain hedge positions.

Also contributing to the fuel and purchased power expense variation was a shift in the current year recognition of fixed capacity costs related to long-term purchased power agreements. Effective January 1, 2016, fixed capacity charges are recognized seasonally to appropriately match to the period of higher capacity requirements. As of June 30, 2016, approximately \$50 million of such costs were deferred for future collection over the summer months resulting in lower fuel and purchased power expenses for the six month period.

Operations and maintenance expense increased \$12 million compared to the six month period of 2015 primarily due to the scheduled increase in the 2016 management compensation fee.

Operations and maintenance expense for regulatory asset amortizations increased \$9 million compared to the six month period of 2015 due to the amortization of deferred pension and other related retirement costs effective January 1, 2016, as approved by the Board of Trustees.

Storm restoration expense increased \$51 million compared to the six month period of 2015 due to a higher level of storm activity in 2016. Four of the ten storms incurred in 2016 required mutual aid assistance compared with eight storms incurred in 2015, none of which required mutual aid assistance.

Depreciation and amortization increased \$17 million compared to the six month period of 2015 primarily due to the change to whole life deprecation rates in accordance with an updated depreciation study approved in the Three Year Rate Plan.

Payments in lieu of taxes and assessments decreased \$10 million compared to the six month period of 2015 primarily due to the decrease in assessments resulting from both lower revenues and a lower imposed rate.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
(Unaudited)

Other income decreased \$5 million compared to the six month period of 2015 primarily due to the delayed receipt of the New York State Energy Research and Development Authority (NYSERDA) grant, partially offset by an increase in investment income.

Interest charges decreased \$8 million compared to the six month period of 2015 due to the impact of the 2015 Utility Debt Securitization refinancing.