

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

Revenues decreased approximately \$78 million compared to the prior year primarily due to lower fuel and purchased power costs partially offset by higher delivery revenues due to higher sales.

Fuel and purchased power costs decreased approximately \$113 million compared to the prior year due primarily to declining natural gas prices.

Operations and maintenance expense decreased \$58 million due primarily to (i) the end of the transition services agreement, under which the Authority was allowed to use its former service provider's financial and other operating systems, (ii) the delayed start in the 2015 commercial energy and efficiency programs and (iii) lower conservation assessments due to a reduction in the imposed rate to .50% from .84% in 2014.

Operations and maintenance—regulatory asset amortizations are non-cash amortizations related to restructuring costs which were approved by the Authority's Board for collection from customers beginning in 2014 over the remaining life of the Amended and Restated Operations Services Agreement. The increase of \$4 million is due to the mid-2014 implementation of the outage management system and the enterprise resource planning system.

Storm restoration expense increased \$30 million due to an increase in major storm activity year over year.

General and Administrative costs decreased \$3 million due to the Authority's reduced staffing levels resulting in lower salary and benefit related costs and lower professional services costs.

Depreciation and amortization decreased \$6 million as the Authority incorporated the results of a new depreciation study in September 2014. The timing of the implementation required the recognition of an estimate as of September 30, 2014. This estimate was lower than actual by approximately \$3 million. Approximately \$1 million of the decrease is due to the full amortization of the Authority's software systems in 2014.

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

Grant income decreased \$15 million due primarily to the New York State Energy Research and Development Authority (NYSERDA) grant totaling \$12 million compared with \$25 million in the prior year. The Authority expects to receive the balance of this grant in the fourth quarter of 2015.

Interest expense increased \$3 million due primarily to higher debt balances outstanding during 2015.

Long Island Power Authority and Subsidiaries

Consolidated Statement of Revenues, Expenses and Changes in Net Position

(Amounts in thousands)

	Nine Months Ended September	
	2015	2014
	(unaudited)	
	<u>2015</u>	<u>2014</u>
Operating revenues - electric sales	\$ 2,796,392	\$ 2,874,176
Operating expenses:		
Operations - fuel and purchased power	1,209,430	1,322,035
Operations and maintenance	755,338	813,419
Operations and maintenance - regulatory asset amortizations	8,465	4,477
Storm restoration	52,151	21,752
General and administrative	17,047	19,855
Depreciation and amortization	167,265	173,053
Payments in lieu of taxes - revenue based	28,600	28,382
Payments in lieu of taxes - property based	223,671	218,967
Total operating expenses	<u>2,461,967</u>	<u>2,601,940</u>
Operating income	<u>334,425</u>	<u>272,236</u>
Non-Operating Revenues and Expenses		
Other income and deductions, net	27,223	27,294
Grant income	17,117	32,177
	<u>44,340</u>	<u>59,471</u>
Interest charges and (credits)		
Interest on long-term debt, net	267,666	253,406
Other interest	11,111	23,595
Allowance for borrowed funds used during construction	(5,864)	(6,669)
	<u>272,913</u>	<u>270,332</u>
Change in net position	105,852	61,375
Net position		
Total net position, beginning of year	<u>434,592</u>	<u>378,101</u>
Total net position, end of period	<u>\$ 540,444</u>	<u>\$ 439,476</u>

Long Island Power Authority and Subsidiaries

Statements of Net Position

(Amounts in thousands)

Assets	September 30, 2015 (unaudited)	December 31, 2014
Current Assets:		
Cash and cash equivalents	\$ 440,944	\$ 782,466
Restricted cash	723,078	618,384
Counterparty collateral - posted by the Authority	27,083	4,500
Accounts receivable (less allowance for doubtful accounts of \$38,817)	640,672	528,937
Other accounts receivable	80,102	145,796
Fuel inventory	95,431	128,201
Material and supplies inventory	50,181	41,538
Unrealized charges	64,616	56,735
Prepayments and other current assets	30,940	25,803
Regulatory assets to be recovered within one year	149,113	67,656
Total current assets	2,302,160	2,400,016
Noncurrent Assets:		
Utility plant and property and equipment, net	6,757,214	6,727,057
Nonutility Property and Other Investments	108,308	110,799
Other long - term receivables	37,857	28,325
Unrealized Charges	50,980	224,235
Prepayments and noncurrent assets	8,506	14,533
Regulatory Assets:		
Operations Services Agreement - employee retirement benefits	548,022	597,592
Shoreham property tax settlement	450,466	460,419
Employee benefit plan settlement	200,114	216,339
Transition costs - operations services agreement	42,510	45,974
Enterprise resource planning system	42,968	38,710
Debt issuance costs	35,933	39,140
Fuel and purchased power costs	36,547	37,311
Outage management system	22,061	24,297
Transition costs - power supply management	15,647	16,918
Southampton visual benefit assessment	8,428	8,779
Acquisition Adjustment (net of accumulated amortization)	1,958,336	2,041,867
Total noncurrent assets	10,323,897	10,632,295
Deferred Outflows of Resources:		
Deferred loss on debt refunding	143,635	159,162
Accumulated decrease in fair value of financial derivatives	161,442	4,179
	305,077	163,341
Total Assets and Deferred Outflows of Resources	\$ 12,931,134	\$ 13,195,652

Long Island Power Authority and Subsidiaries

Statements of Net Position

(Amounts in thousands)

Liabilities	September 30, 2015	December 31, 2014
	<small>(unaudited)</small>	
Current Liabilities:		
Short-term debt	\$ 300,000	\$ 280,000
Current maturities of long-term debt	187,545	164,505
Current maturities of Utility Debt Securitization Authority (UDSA) debt	45,000	15,000
Current portion of capital lease obligation	186,904	178,997
Accounts payable and accrued expenses	441,224	422,222
Regulatory liability - fuel and purchased power costs	-	40,245
Commodity derivative instruments	45,575	45,097
Accrued payments in lieu of taxes	51,888	45,678
Accrued interest	92,725	44,443
Counterparty collateral - held by the Authority	-	1,150
Customer deposits	38,370	39,266
Total current liabilities	1,389,231	1,276,603
Noncurrent Liabilities:		
Long-term debt	5,207,058	5,532,551
Long-term debt- UDSA debt	1,982,052	2,019,340
Borrowings	88,253	91,779
Operations Services Agreement - employee retirement benefits	597,874	578,437
Capital lease obligation	2,237,709	2,379,250
Asset retirement obligation	69,245	66,414
Long-term liabilities and unrealized credits	98,642	97,291
Commodity derivative instruments	48,929	31,062
Financial derivative instruments	184,445	192,881
Claims and damages reserves	20,080	20,935
Total noncurrent liabilities	10,534,287	11,009,940
Deferred Inflows of Resources:		
Grants received in advance	442,924	441,088
Accumulated increase in fair value of commodity derivatives	14,066	19,296
Accumulated increase in fair value of Nine Mile Point 2 trust	10,182	14,133
	467,172	474,517
Net Position:		
Net invested in capital assets	(228,592)	(346,219)
Restricted	723,078	618,384
Unrestricted	46,000	162,427
Total Net Position	540,444	434,592
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 12,931,134	\$ 13,195,652

Long Island Power Authority and Subsidiaries

Consolidated Statements of Cash Flows

(Amounts in thousands)

**Nine Months
Ended
September**

2015 2014

(unaudited)

Cash flows from operating activities:			
Operating revenues received	\$	2,710,660	2,879,695
Paid to suppliers and employees:			
Operations and maintenance		(787,494)	(1,092,882)
Fuel and purchased power		(1,139,193)	(1,283,953)
Payments in lieu of taxes		(298,700)	(336,516)
Collateral on fuel derivative transactions, net		(23,733)	(19,544)
Contributions to PSEG LI pension fund		(30,000)	(66,900)
		<u>431,540</u>	<u>79,900</u>
Net cash provided by operating activities			
Cash flows from investing activities:			
Earnings received on investments		441	280
Other		2,064	2,911
Restricted cash		(104,694)	22,799
		<u>(102,189)</u>	<u>25,990</u>
Net cash (used in) provided by investing activities			
Cash flows from noncapital financing related activities:			
Grant proceeds		99,262	148,591
Proceeds from credit facility draws and commercial paper program		450,000	612,000
Redemption of credit facility draws and commercial paper program		(430,000)	(237,000)
		<u>119,262</u>	<u>523,591</u>
Net cash provided by noncapital related activities			
Cash flows from capital and related financing activities:			
Capital and nuclear fuel expenditures		(262,788)	(409,767)
Interest paid, net		(212,842)	(155,494)
Proceeds from issuance of bonds		200,000	-
Redemption of long-term debt		(514,505)	(51,330)
		<u>(790,135)</u>	<u>(616,591)</u>
Net cash used in capital and related financing activities			
Net (decrease) increase in cash and cash equivalents		(341,522)	12,890
Cash and cash equivalents at beginning of year		<u>782,466</u>	<u>378,821</u>
Cash and cash equivalents at end of the period	\$	<u><u>440,944</u></u>	<u><u>391,711</u></u>
Reconciliation to net cash provided by operating activities:			
Operating income	\$	334,425	272,236
Adjustments to reconcile operating income to net cash provided used in operating activities:			
Depreciation and amortization		175,730	173,053
Nuclear fuel burned		10,554	8,318
Accretion of asset retirement obligation		2,831	3,502
Other, net		14,515	4,032
Changes in operating assets and liabilities:			
Accounts receivable, net		(121,831)	(56,024)
Regulatory assets		(40,503)	62,736
Fuel and material and supplies inventory		24,127	(23,668)
Counterparty collateral		(23,733)	(207)
Accounts payable, accrued expenses and other		55,425	(364,078)
		<u>334,425</u>	<u>272,236</u>
Net cash provided by operating activities	\$	<u><u>431,540</u></u>	<u><u>79,900</u></u>