

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

Quarterly Unaudited Financial Report

For the three-month period ended March 31, 2018

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**Table of Contents**

	<b>Page</b>
Introduction	1-2
Consolidated Financial Statements (Unaudited):	
Statements of Net Position	3-4
Statements of Revenues, Expenses, and Changes in Net Position	5
Statements of Cash Flows	6
Management's Discussion and Analysis (Unaudited)	7-10

## **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.

In order to assist the Authority in providing electric service to its customers, the Authority entered into operating agreements to provide the Authority with the operating personnel, and a significant portion of the power supply resources, necessary for the Authority to provide electric service in the Service Area.

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'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. Part A addresses the reorganization of the Authority and substantially changed its operating responsibilities. Under the Authority's new business model, PSEG Long Island is the Authority's service provider pursuant to the Amended and Restated Operations Services Agreement (A&R OSA). Under the A&R OSA, the PSEG Long Island management company is the contracting entity with the Authority. PSEG Long Island is a wholly owned subsidiary of Public Service Enterprise Group (PSEG). The A&R OSA provides for the operation, maintenance and related services for the T&D system. PSEG Long Island is paid a management fee and may earn incentives related to specified performance metrics. 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.

The Authority also has a contract with PSEG Energy Resources and Trade LLC (PSEG ER&T) to provide for services related to fuel and power supply management and certain commodity activities. Separately from its contract with PSEG ER&T, the Authority maintains power purchase agreements with third party power generators.

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 and provide 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.

#### *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 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.

The Management's Discussion and Analysis of the Authority's financial performance provides an overview of the Authority's financial information for the three-month period ended March 31, 2018 compared to 2017. The unaudited quarterly financial statements should be read in conjunction with the annual audited financial statements, which may be found on the Authority's website at [www.lipower.org](http://www.lipower.org).

#### **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](http://www.lipower.org).

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

Consolidated Statements of Net Position

March 31, 2018 and December 31, 2017

(Amounts in thousands)

<b>Assets and Deferred Outflows of Resources</b>	<b>2018 (unaudited)</b>	<b>2017 (audited)</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 267,228	425,472
Restricted cash - working capital requirements	269,074	211,972
Restricted cash - UDSA	195,694	109,167
Investments	351,410	402,758
Counterparty collateral – posted by the Authority	22,549	19,507
Accounts receivable (less allowance for doubtful accounts of \$31,915 and \$31,459 at March 31, 2018 and December 31, 2017, respectively)	457,556	463,447
Other receivables	95,876	91,303
Fuel inventory	95,077	94,380
Material and supplies inventory	50,471	52,026
Unrealized charges	29,644	13,162
Regulatory assets to be recovered within one year	197,233	191,634
Prepayments and other current assets	73,456	39,454
Total current assets	<u>2,105,268</u>	<u>2,114,282</u>
<b>Noncurrent assets:</b>		
Restricted cash and cash equivalents	5,832	2,970
Restricted investments	207,869	272,813
Utility plant and property and equipment, net	8,112,072	8,088,014
Nuclear decommissioning trust	129,196	132,202
Other long-term receivables	29,776	28,424
Unrealized charges	103,988	114,574
Financial derivatives	5,881	2,552
Regulatory assets for future recovery	1,164,017	1,137,514
Acquisition adjustment (net of accumulated amortization)	961,542	989,386
Total noncurrent assets	<u>10,720,173</u>	<u>10,768,449</u>
<b>Deferred outflows of resources:</b>		
Deferred defeasance costs on debt refunding	265,565	273,836
Accumulated decrease in fair value of commodity derivatives	5,209	—
Pensions	1,190	1,190
Total deferred outflows of resources	<u>271,964</u>	<u>275,026</u>
Total assets and deferred outflows of resources	<u>\$ 13,097,405</u>	<u>13,157,757</u>

**LONG ISLAND POWER AUTHORITY**  
(A Component Unit of the State of New York)  
Consolidated Statements of Net Position  
March 31, 2018 and December 31, 2017  
(Amounts in thousands)

<b>Liabilities, Deferred Inflows and Net Position</b>	<b>2018 (unaudited)</b>	<b>2017 (audited)</b>
Current liabilities:		
Short-term debt	\$ 452,500	360,320
Current maturities of long-term debt	69,880	69,880
Current maturities of UDSA debt	122,803	122,803
Current portion of capital lease obligation	171,607	177,361
Accounts payable and accrued expenses	392,873	440,919
Regulatory liabilities payable in one year	844	14,910
Commodity derivative instruments	5,524	6,556
Accrued payments in lieu of taxes	3,404	9,570
Accrued interest	80,656	41,254
Customer deposits	39,104	38,667
Total current liabilities	<u>1,339,195</u>	<u>1,282,240</u>
Noncurrent liabilities:		
Long-term debt	3,347,127	3,344,223
Long-term UDSA debt	4,622,837	4,634,508
Capital lease obligations	1,801,562	1,843,515
Borrowings	76,055	77,307
Operations Services Agreement-employee retirement benefit	675,818	670,862
Financial derivative instruments	114,523	128,139
Commodity derivative instruments	9,165	—
Asset retirement obligation	68,730	67,787
Long-term liabilities and unrealized credits	42,432	40,111
Claims and damages	65,312	55,921
Total noncurrent liabilities	<u>10,823,561</u>	<u>10,862,373</u>
Deferred inflows of resources:		
Regulatory credits - grants	500,803	501,404
Accumulated increase in fair value of financial derivatives	5,881	2,552
Accumulated increase in fair value of commodity derivatives	—	620
Pensions	1,110	1,110
Accumulated increase in fair value of NMP2 Trust & OPEB Accounts	30,872	35,270
Total deferred inflows of resources	<u>538,666</u>	<u>540,956</u>
Net position:		
Net investment in capital assets	(106,386)	(3,815)
Restricted	166,096	99,524
Unrestricted	336,273	376,479
Total net position	<u>395,983</u>	<u>472,188</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 13,097,405</u>	<u>13,157,757</u>

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

Consolidated Statements of Revenues, Expenses, and Changes in Net Position

Three-month period ended March 31, 2018 and 2017

(unaudited)

(Amounts in thousands)

	<b>2018</b>	<b>2017</b>
Operating revenues – electric sales	\$ 789,478	744,865
Operating expenses:		
Operations – power supply charge	359,683	340,734
Operations - power supply charge-property tax related	51,321	52,813
Operations and maintenance	147,857	152,903
Storm restoration	61,891	38,380
General and administrative	7,789	6,788
Depreciation and amortization	81,777	76,533
Payments in lieu of taxes and assessments	82,348	81,283
Total operating expenses	792,666	749,434
Operating income	(3,188)	(4,569)
Nonoperating revenues and expenses:		
Other income, net:		
Investment income	1,983	1,623
Grant income	2,068	1,858
Carrying charges on regulatory assets	6,212	6,524
Other	3,659	780
Total other income, net	13,922	10,785
Interest charges and (credits):		
Interest on long-term debt	88,385	86,095
Other interest	6,212	7,073
Other interest amortizations	(7,312)	(6,683)
Allowance for borrowed funds used during construction	(346)	(1,422)
Total interest charges and (credits)	86,939	85,063
Change in net position	(76,205)	(78,847)
Net position, beginning of year	472,188	455,066
Net position, end of period	\$ 395,983	376,219

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

Consolidated Statements of Cash Flows

Three-month period ended March 31, 2018 and 2017

(unaudited)

(Amounts in thousands)

	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Operating revenues received	\$ 823,367	846,600
Paid to suppliers and employees:		
Operations and maintenance	(176,522)	(162,465)
Operations – power supply charge	(472,112)	(453,170)
Power supply charge-property tax related	(51,321)	(52,813)
Payments in lieu of taxes	(147,209)	(131,754)
Collateral on commodity derivative transactions, net	(8,370)	(4,860)
PSEG Long Island pension funding	(10,000)	(8,500)
Net cash (used in) provided by operating activities	(42,167)	33,038
Cash flows from investing activities:		
Earnings received on investments	542	6,102
Restricted cash	(149,461)	(142,406)
Purchase of restricted investment securities	—	56,145
Sales of restricted investment securities	67,914	—
Purchases of investment securities	—	(16,435)
Sales of investment securities	51,346	—
Net cash used in investing activities	(29,659)	(96,594)
Cash flows from noncapital financing related activities:		
Grant proceeds	8,650	—
Proceeds from credit facility draws and commercial paper program	280,000	5,000
Redemption of credit facility draws and commercial paper program	(187,820)	—
Net cash provided by noncapital related activities	100,830	5,000
Cash flows from capital and related financing activities:		
Capital expenditures	(133,586)	(148,420)
Debt issuance costs	(67)	(193)
Other interest costs	(10,142)	(10,526)
Interest paid	(43,453)	(36,244)
Net cash used in capital and related financing activities	(187,248)	(195,383)
Net decrease in cash and cash equivalents	(158,244)	(253,939)
Cash and cash equivalents at beginning of year	425,472	562,156
Cash and cash equivalents at end of period	\$ 267,228	308,217
Reconciliation to net cash (used in) provided by operating activities:		
Operating loss	\$ (3,188)	(4,569)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	81,777	76,533
Other post-employment benefit non-cash expense	12,815	4,189
Nuclear fuel burned	3,296	3,421
Shoreham and VBA surcharges	3,410	10,235
Accretion of asset retirement obligation	944	927
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,429)	91,766
Regulatory assets and liabilities	(57,334)	(122,237)
Fuel and material and supplies inventory	858	(2,485)
Accounts payable, accrued expenses and other	(81,316)	(24,742)
Net cash (used in) provided by operating activities	\$ (42,167)	33,038



## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

### **Three-Month Period ended March 31, 2018 Compared to 2017**

The change in net position for the three-month period ended March 31, 2018 was \$3 million more favorable than the three-month period of 2017.

#### **Operating Revenues**

Operating revenue increased \$45 million compared to the three-month period of 2017, resulting from (i) an increase in the Power Supply Charge; and (ii) an increase in the Delivery Service Adjustment related to storm recovery efforts.

#### **Operating Expenses**

Power supply costs increased \$17 million when compared to the same three-month period of 2017 primarily due to zero emissions credit charges incurred through March 2018.

Operations and maintenance expense decreased \$5 million compared to the same three-month period of 2017 due to the lower labor costs associated with the increased level of storm activity which diverts labor from normal operation and maintenance activities.

Storm restoration expense increased \$24 million when compared to the same three-month period of 2017 due to a higher level of storm activity. PSEG Long Island responded to six storms through March 2018, five of which required mutual aid assistance compared with five storm events through March 2017, two of which required mutual aid assistance.

Depreciation and amortization increased \$5 million when compared to the same three-month period of 2017 primarily due to increased utility plant assets placed in service.

#### **Nonoperating Expenses**

Other income increased \$3 million compared to the same three-month period of 2017 primarily due to receipts of insurance settlements and higher investment income.

Interest charges increased \$2 million compared to the same three-month period of 2017 due to the issuance of general revenue bonds in late 2017.

## Liquidity and Capital Resources

The Authority adopted a policy that it should at all times maintain cash on hand and available credit equivalent to at least 120 days of operating expenses. As of March 31, 2018 and December 31, 2017, the Authority's available sources of liquidity for operating purposes and capital program funding, as displayed below, achieved the policy target.

<i>(amounts in thousands)</i>	<b>March 31, 2018</b>	Days Cash	<b>December 31, 2017</b>	Days Cash
<b>Operating liquidity</b>				
Unrestricted cash and cash equivalents	\$ 419,614		633,531	
OPEB account cash, cash equivalents & investments	199,024		194,699	
PSEG Long Island working capital requirements	269,074		211,972	
<b>Total operating liquidity</b>	<b>887,712</b>	<b>111 days</b>	<b>1,040,202</b>	<b>91 days</b>
<b>Available credit</b>				
General revenue notes - revolving credit facility	65,000		337,180	
General revenue commercial paper notes	632,500		277,500	
Subordinated revenue commercial paper notes	-		50,000	
<b>Total available credit</b>	<b>697,500</b>		<b>664,680</b>	
<b>Total cash, cash equivalents, investments &amp; available credit</b>	<b>\$ 1,585,212</b>	<b>198 days</b>	<b>1,704,882</b>	<b>166 days</b>
<b>Restricted cash</b>				
FEMA - restricted	\$ 213,701		275,783	
UDSA	195,694		109,167	
<b>Total restricted cash</b>	<b>\$ 409,395</b>		<b>384,950</b>	

## Financing Activities

The Authority's consolidated debt at March 31, 2018 and December 31, 2017 is comprised of the following:

<i>(amounts in thousands)</i>	<b>Mach 31, 2018</b>	<b>December 31, 2017</b>
<b>Long-term debt:</b>		
General revenue bonds	\$ 3,220,188	3,214,214
Unamortized premiums	196,819	199,889
Less: current maturities	( 69,880 )	(69,880)
	<b>\$ 3,347,127</b>	<b>3,344,223</b>
<b>UDSA restructuring bonds:</b>		
UDSA restructuring bonds	\$ 4,262,396	4,262,396
Unamortized premiums	483,244	494,915
Less: current maturities	( 122,803 )	(122,803)
	<b>\$ 4,622,837</b>	<b>4,634,508</b>
<b>Short-term debt:</b>		
General revenue commercial paper notes	\$ 167,500	97,500
Subordinated revenue commercial paper notes	-	250,000
General revenue notes - revolving credit facility	285,000	12,820
	<b>\$ 452,500</b>	<b>360,320</b>

## Regulatory Assets and Liabilities

The table below displays the Authority's costs to be recovered from or returned to customers in a future period (regulatory assets or liabilities). Amounts recoverable for future recovery beyond one year increased approximately \$26 million from December 31, 2017 to March 31, 2018 due primarily to the higher storm restoration expense incurred in 2018.

	(amounts in thousands)	
	March 31, 2018	December 31, 2017
<b>Regulatory assets to be recovered within one year</b>		
Operations services agreement – employee retirement benefits \$	67,381	67,381
Shoreham property tax settlement	45,274	45,274
Power supply charge	23,232	4,660
Delivery service adjustment	23,825	29,424
Employee benefit plan settlement	21,634	21,634
Revenue decoupling mechanism	5,390	14,811
New York State assessment	5,009	2,443
Debt issuance costs	3,209	3,209
Southampton visual benefit assessment	948	948
Distributed energy resources	1,331	1,850
<b>Balance</b>	<b>\$ 197,233</b>	<b>191,634</b>
<b>Regulatory assets for future recovery</b>		
Operations services agreement – employee retirement benefits	407,823	422,819
Shoreham property tax settlement	398,077	402,589
Employee benefit plan settlement	146,028	151,437
Power supply charge	52,046	53,211
Delivery service adjustment	112,169	58,712
Debt issuance costs	32,064	32,858
Southampton visual benefit assessment	7,792	7,870
Actuarial determined reserves	8,018	8,018
<b>Balance</b>	<b>\$ 1,164,017</b>	<b>1,137,514</b>
<b>Regulatory liabilities payable within one year</b>		
Delivery service adjustment	\$ 844	—
Power supply charge	—	14,910
<b>Balance</b>	<b>\$ 844</b>	<b>14,910</b>