



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, 2018

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.

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.

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.

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.

Overview of the Consolidated Financial Statements

The Authority is engaged in business type activities and follows financial reporting for enterprise funds. The Authority's basic unaudited financial statements include three financial statements: the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows. These 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 publishes interim financial results on a quarterly basis with a fiscal year ending December 31. The interim consolidated financial statements and related Management's Discussion and Analysis do not include all the information and notes required under GAAP for annual consolidated financial statements. Therefore, the Management's Discussion and Analysis of the Authority's six-month period ended June 30, 2018 compared to 2017 should be read in conjunction with the annual audited consolidated financial statements, which may be found on the Authority's website at www.lipower.org.

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 Utility Debt Securitization Authority (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 unaudited financial statements.

Also included herein are the Long Island Power Authority OPEB Trust (OPEB Trust) interim unaudited Statements of Fiduciary Fund Net Position and the Statements of Changes in Fiduciary Fund Net Position. The Authority established a legally separate trust to fund the Authority's Other Post Employment 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.

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
(A Component Unit of the State of New York)

Consolidated Statements of Net Position

June 30, 2018 and December 31, 2017

(Amounts in thousands)

Assets and Deferred Outflows of Resources	2018 (unaudited)	2017 (audited)
Current assets:		
Cash and cash equivalents	\$ 191,885	425,472
Restricted cash – working capital requirements	219,611	211,972
Restricted cash – UDSA	112,485	109,167
Investments	354,820	402,758
Counterparty collateral – posted by the Authority	20,544	19,507
Accounts receivable (less allowance for doubtful accounts of \$31,871 and \$31,459 at June 30, 2018 and December 31, 2017, respectively)	495,383	463,447
Other receivables	89,337	91,303
Fuel inventory	94,862	94,380
Material and supplies inventory	48,302	52,026
Unrealized charges	28,745	13,162
Regulatory assets to be recovered within one year	216,017	191,634
Prepayments and other current assets	113,433	39,454
Total current assets	1,985,424	2,114,282
Noncurrent assets:		
Restricted cash and cash equivalents	30,309	2,970
Restricted investments	154,586	272,813
Utility plant and property and equipment, net	8,189,169	8,088,014
Nuclear decommissioning trust	131,229	132,202
Other long-term receivables	30,594	28,424
Unrealized charges	95,531	114,574
Financial derivatives	2,367	2,552
Regulatory assets for future recovery	1,135,780	1,137,514
Acquisition adjustment (net of accumulated amortization)	933,698	989,386
Total noncurrent assets	10,703,263	10,768,449
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	257,485	273,836
Pensions	1,190	1,190
Total deferred outflows of resources	258,675	275,026
Total assets and deferred outflows of resources	\$ 12,947,362	13,157,757

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

Consolidated Statements of Net Position

June 30, 2018 and December 31, 2017

(Amounts in thousands)

Liabilities, Deferred Inflows of Resources and Net Position	2018 (unaudited)	2017 (audited)
Current liabilities:		
Short-term debt	\$ 452,500	360,320
Current maturities of long-term debt	70,355	69,880
Current maturities of UDSA debt	127,008	122,803
Current portion of capital lease obligation	165,768	177,361
Accounts payable and accrued expenses	448,589	440,919
Regulatory liabilities payable in one year	—	14,910
Commodity derivative instruments	418	6,556
Accrued payments in lieu of taxes	5,219	9,570
Accrued interest	45,299	41,254
Customer deposits	39,130	38,667
Total current liabilities	1,354,286	1,282,240
Noncurrent liabilities:		
Long-term debt	3,315,094	3,344,223
Long-term UDSA debt	4,546,150	4,634,508
Capital lease obligations	1,759,202	1,843,515
Borrowings	74,796	77,307
Operations Services Agreement-employee retirement benefits	680,471	670,861
Financial derivative instruments	101,796	128,139
Commodity derivative instruments	10,796	—
Asset retirement obligation	65,648	67,787
Long-term liabilities and unrealized credits	42,170	40,112
Claims and damages	58,713	55,921
Total noncurrent liabilities	10,654,836	10,862,373
Deferred inflows of resources:		
Regulatory credits - grants	500,116	501,404
Accumulated increase in fair value of financial derivatives	2,368	2,552
Accumulated increase in fair value of commodity derivatives	2,120	620
Pensions	1,110	1,110
Accumulated increase in fair value of NMP2 Trust & OPEB Accounts	32,666	35,270
Total deferred inflows of resources	538,380	540,956
Net position:		
Net investment in capital assets	29,130	(3,815)
Restricted	104,172	99,524
Unrestricted	266,558	376,479
Total net position	399,860	472,188
Total liabilities, deferred inflows of resources and net position	\$ 12,947,362	13,157,757

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

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

Six-month period ended June 30, 2018 and 2017

(unaudited)

(Amounts in thousands)

	2018	2017
Operating revenues – electric sales	\$ 1,608,021	1,566,323
Operating expenses:		
Operations – power supply charge	733,560	734,333
Operations – power supply charge – property tax related	103,014	105,625
Operations and maintenance	308,444	314,345
Storm restoration	63,031	44,529
General and administrative	14,344	15,313
Depreciation and amortization	164,393	154,797
Payments in lieu of taxes and assessments	164,010	161,587
Total operating expenses	1,550,796	1,530,529
Operating income	57,225	35,794
Nonoperating revenues and expenses:		
Other income, net:		
Investment income	5,189	2,864
Grant income	21,574	3,724
Carrying charges on regulatory assets	12,315	12,941
Other	5,620	2,134
Total other income, net	44,698	21,663
Interest charges and (credits):		
Interest on long-term debt	178,601	170,946
Other interest	12,602	13,777
Other interest amortizations	(14,828)	(13,291)
Allowance for borrowed funds used during construction	(2,124)	(3,403)
Total interest charges and (credits)	174,251	168,029
Change in net position	(72,328)	(110,572)
Net position, beginning of year	472,188	455,066
Net position, end of period	\$ 399,860	344,494

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)
Consolidated Statements of Cash Flows
Six-month period ended June 30, 2018 and 2017
(unaudited)
(Amounts in thousands)

	2018	2017
Cash flows from operating activities:		
Operating revenues received	\$ 1,617,261	1,625,635
Paid to suppliers and employees:		
Operations and maintenance	(297,032)	(272,603)
Operations – power supply charge	(828,752)	(830,632)
Power supply charge – property tax related	(103,014)	(105,625)
Payments in lieu of taxes	(282,715)	(259,293)
Collateral on commodity derivative transactions, net	(4,905)	(11,489)
PSEG Long Island Pension funding	(20,000)	(17,100)
Net cash provided by operating activities	80,843	128,893
Cash flows from investing activities:		
Earnings received on investments	6,829	10,914
Restricted cash	(38,296)	12,583
Sales of restricted investment securities	118,227	27,517
Purchases of investment securities	—	(67,811)
Sales of investment securities	47,936	—
Net cash provided by (used in) investing activities	134,696	(16,797)
Cash flows from noncapital financing related activities:		
Grant proceeds	19,225	1,919
Proceeds from credit facility draws and commercial paper program	380,000	130,000
Redemption of credit facility draws and commercial paper program	(287,820)	(17,500)
Net cash provided by noncapital related activities	111,405	114,419
Cash flows from capital and related financing activities:		
Capital expenditures	(289,587)	(326,374)
Debt issuance costs	(71)	(259)
Other interest costs	(12,476)	(13,870)
Interest paid	(60,957)	(97,084)
Interest paid – UDSA	(102,168)	(99,616)
Redemption of long-term debt – LIPA	(34,460)	(46,385)
Redemption of long-term debt – UDSA	(60,812)	(32,790)
Net cash used in capital and related financing activities	(560,531)	(616,378)
Net decrease in cash and cash equivalents	(233,587)	(389,863)
Cash and cash equivalents at beginning of year	425,472	562,156
Cash and cash equivalents at end of period	\$ 191,885	172,293
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 57,225	35,794
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	164,393	154,797
Other post-employment benefit non-cash expense	24,845	18,100
Nuclear fuel burned	5,424	6,856
Shoreham and VBA surcharges	3,860	19,888
Accretion of asset retirement obligation	(638)	1,797
Changes in operating assets and liabilities:		
Accounts receivable, net	(32,294)	29,708
Regulatory assets and liabilities	(56,927)	(89,661)
Fuel and material and supplies inventory	3,242	(2,291)
Accounts payable, accrued expenses and other	(88,287)	(46,095)
Net cash provided by operating activities	\$ 80,843	128,893

Long Island Power Authority OPEB Trust
Statements of Fiduciary Fund Net Position
June 30, 2018 and December 31, 2017
(Amounts in thousands)

	2018	2017
	(unaudited)	(audited)
Assets		
Cash and cash equivalents	\$ 18,850	18,651
Total assets	<u>18,850</u>	<u>18,651</u>
Deferred outflows of resources	<u>—</u>	<u>—</u>
Total assets and deferred outflows of resources	<u>18,850</u>	<u>18,651</u>
Liabilities		
Total liabilities	<u>—</u>	<u>—</u>
Deferred inflows of resources	<u>131</u>	<u>—</u>
Net position - restricted for OPEB	<u>18,719</u>	<u>18,651</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 18,850</u>	<u>18,651</u>

Long Island Power Authority OPEB Trust
Statements of Changes in Fiduciary Fund Net Position
Period ended June 30, 2018 and 2017
(Amounts in thousands)

	2018	2017
	(unaudited)	(audited)
Additions to net position attributed to:		
Contributions:		
Employer	\$ —	19,071
Mark-to-market	(131)	—
Capital gain	1	—
Dividend income	198	123
Total additions	<u>68</u>	<u>19,194</u>
Deductions from net position attributed to:		
Retirement benefits	—	543
Administrative expenses	—	—
Total deductions	<u>—</u>	<u>543</u>
Changes in net position	68	18,651
Net position restricted for OPEB, beginning of year	<u>18,651</u>	<u>—</u>
Net position restricted for OPEB, end of period	<u>\$ 18,719</u>	<u>18,651</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Six-Month Period ended June 30, 2018 Compared to 2017

The change in net position for the six-month period ended June 30, 2018 was \$38 million more favorable than the six-month period of 2017.

Operating Revenues

Operating revenue increased \$42 million compared to the six-month period of 2017, consistent with the approved budgeted increase in revenue requirements and the higher Delivery Service Adjustment related to the 2018 storm recovery efforts. These increases were partially offset by a slight decrease in the Power Supply Charge.

Operating Expenses

Power Supply Charge decreased \$3 million when compared to the same six-month period of 2017 primarily due to a decrease in property taxes on the Power Supply Agreement generation units.

Operations and maintenance expense decreased \$6 million compared to the same six-month period of 2017 due to an increased level of storm activity which diverts labor and associated costs from normal operation and maintenance activities.

Storm restoration expense increased \$19 million when compared to the same six-month period of 2017 due to a higher level of storm activity. PSEG Long Island responded to ten major storms through June 2018, six of which required mutual aid assistance compared with seven major storm events through June 2017, two of which required mutual aid assistance.

Depreciation and amortization increased \$10 million when compared to the same six-month period of 2017 primarily due to increased utility plant assets placed in service.

Nonoperating Expenses

Other income increased \$23 million compared to the same six-month period of 2017 primarily due to the timing of a Renewable Greenhouse Gas Initiative (RGGI) grant from New York State. In 2017, a similar grant was recognized in the last quarter.

Interest charges increased \$6 million compared to the same six-month period of 2017 due to the issuance of General Revenue Bonds in late 2017.

Liquidity and Capital Resources

The Authority's policy is to, at all times, maintain cash on hand and available credit equivalent to at least 120 days of operating expenses. As of June 30, 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>	June 30, 2018	Days Cash	December 31, 2017	Days Cash
Operating liquidity				
Unrestricted cash and cash equivalents	\$ 345,236		633,531	
OPEB account cash, cash equivalents & investments	201,473		194,699	
PSEG Long Island working capital requirements	219,611		211,972	
Total operating liquidity	766,320	96 days	1,040,202	91 days
Available credit				
General revenue notes - revolving credit facility	345,000		337,180	
General revenue commercial paper notes	352,500		277,500	
Subordinated revenue commercial paper notes	-		50,000	
Total available credit	697,500		664,680	
Total cash, cash equivalents, investments & available credit	\$ 1,463,820	183 days	1,704,882	166 days
Restricted cash				
FEMA - restricted	\$ 184,895		275,783	
UDSA	112,485		109,167	
Total restricted cash	\$ 297,380		384,950	

Financing Activities

The Authority's consolidated debt at June 30, 2018 and December 31, 2017 is comprised of the following:

<i>(amounts in thousands)</i>	June 30, 2018	December 31, 2017
Long-term debt:		
General revenue bonds	\$ 3,191,701	3,214,214
Unamortized premiums	193,748	199,889
Less: current maturities	(70,355)	(69,880)
	<hr/> 3,315,094	<hr/> 3,344,223
UDSA restructuring bonds	4,201,584	4,262,396
Unamortized premiums	471,574	494,915
Less: current maturities	(127,008)	(122,803)
	<hr/> 4,546,150	<hr/> 4,634,508
Total debt	\$ 7,861,244	7,978,731
Short-term debt:		
General revenue commercial paper notes	\$ 447,500	97,500
Subordinated revenue commercial paper notes	—	250,000
General revenue notes - revolving credit facility	5,000	12,820
	<hr/> \$ 452,500	<hr/> 360,320

Regulatory Assets and Liabilities

The table below displays the Authority's costs to be recovered or returned in a future period (regulatory assets or liabilities). Amounts recoverable within a one-year period increased \$24 million from December 31, 2017 to June 30, 2018 due primarily to the increase in the Power Supply Charge recovery. Fixed capacity costs related to long-term purchase power agreements are recognized seasonally to appropriately match to the period of higher capacity requirements resulting in a higher deferral during the first half of the year.

	(amounts in thousands)	
	June 30, 2018	December 31, 2017
Regulatory assets to be recovered within one year		
Operations services agreement – employee retirement benefits	\$ 67,381	67,381
Shoreham property tax settlement	45,274	45,274
Power supply charge	54,727	4,660
Delivery service adjustment	17,217	29,424
Employee benefit plan settlement	21,634	21,634
Revenue decoupling mechanism	1,334	14,811
New York State assessment	2,853	2,443
Debt issuance costs	3,209	3,209
Southampton visual benefit assessment	948	948
Distributed energy resources	1,440	1,850
Balance	\$ 216,017	191,634
Regulatory assets for future recovery		
Operations services agreement – employee retirement benefits	392,828	422,819
Shoreham property tax settlement	394,272	402,589
Employee benefit plan settlement	140,620	151,437
Power supply charge	50,881	53,211
Delivery service adjustment	110,192	58,712
Debt issuance costs	31,229	32,858
Southampton visual benefit assessment	7,740	7,870
Actuarial determined reserves	8,018	8,018
Balance	\$ 1,135,780	1,137,514
Regulatory liabilities payable within one year		
Power supply charge	—	14,910
Balance	\$ —	14,910