



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

Quarterly Unaudited Financial Report

For the nine-month period ended September 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 nine-month period ended September 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
September 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	\$ 251,097	425,472
Restricted cash – working capital requirements	298,193	211,972
Restricted cash – UDSA	197,115	109,167
Investments	361,946	402,758
Counterparty collateral – posted by the Authority	14,315	19,507
Accounts receivable (less allowance for doubtful accounts of \$28,927 and \$31,459 at September 30, 2018 and December 31, 2017, respectively)	713,579	463,447
Other receivables	82,237	91,303
Fuel inventory	93,820	94,380
Material and supplies inventory	48,420	52,026
Unrealized charges	29,779	13,162
Regulatory assets to be recovered within one year	161,110	191,634
Prepayments and other current assets	59,275	39,454
Total current assets	<u>2,310,886</u>	<u>2,114,282</u>
Noncurrent assets:		
Restricted cash and cash equivalents	10,759	2,970
Restricted investments	139,887	272,813
Utility plant and property and equipment, net	8,247,391	8,088,014
Nuclear decommissioning trust	133,443	132,202
Other long-term receivables	27,792	28,424
Unrealized charges	82,694	114,574
Financial derivatives	6,938	2,552
Regulatory assets for future recovery	1,093,932	1,137,514
Acquisition adjustment (net of accumulated amortization)	905,855	989,386
Total noncurrent assets	<u>10,648,691</u>	<u>10,768,449</u>
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	249,453	273,836
Accumulated decrease in fair value of commodity derivatives	7,726	—
Pensions	984	1,190
Total deferred outflows of resources	<u>258,163</u>	<u>275,026</u>
Total assets and deferred outflows of resources	<u>\$ 13,217,740</u>	<u>13,157,757</u>

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

Consolidated Statements of Net Position

September 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	\$ 565,000	360,320
Current maturities of long-term debt	67,715	69,880
Current maturities of UDSA debt	127,008	122,803
Current portion of capital lease obligations	166,586	177,361
Accounts payable and accrued expenses	423,135	440,919
Regulatory liabilities payable in one year	50,373	14,910
Commodity derivative instruments	—	6,556
Accrued payments in lieu of taxes	9,625	9,570
Accrued interest	78,538	41,254
Customer deposits	38,877	38,667
Total current liabilities	<u>1,526,857</u>	<u>1,282,240</u>
Noncurrent liabilities:		
Long-term debt	3,296,433	3,344,223
Long-term UDSA debt	4,534,752	4,634,508
Capital lease obligations	1,717,337	1,843,515
Borrowings	73,530	77,307
Operations Services Agreement-employee retirement benefits	667,616	670,861
Financial derivative instruments	92,635	128,139
Commodity derivative instruments	6,359	—
Asset retirement obligation	66,559	67,787
Long-term liabilities and unrealized credits	41,382	40,112
Claims and damages	58,713	55,921
Total noncurrent liabilities	<u>10,555,316</u>	<u>10,862,373</u>
Deferred inflows of resources:		
Regulatory credits - grants	499,326	501,404
Accumulated increase in fair value of financial derivatives	6,938	2,552
Accumulated increase in fair value of commodity derivatives	11,643	620
Pensions	1,609	1,110
Accumulated increase in fair value of NMP2 Trust & OPEB Accounts	41,633	35,270
Total deferred inflows of resources	<u>561,149</u>	<u>540,956</u>
Net position:		
Net investment in capital assets	64,867	(3,815)
Restricted	221,565	99,524
Unrestricted	287,986	376,479
Total net position	<u>574,418</u>	<u>472,188</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 13,217,740</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

Nine-month period ended September 30, 2018 and 2017

(unaudited)

(Amounts in thousands)

	2018	2017
Operating revenues – electric sales	\$ 2,832,943	2,736,725
Operating expenses:		
Operations – power supply charge	1,312,154	1,269,131
Operations – power supply charge – property tax related	155,367	158,463
Operations and maintenance	470,927	480,033
Storm restoration	75,366	55,193
General and administrative	21,381	22,787
Depreciation and amortization	248,059	234,174
Payments in lieu of taxes and assessments	252,229	246,850
Total operating expenses	2,535,483	2,466,631
Operating income	297,460	270,094
Nonoperating revenues and expenses:		
Other income, net:		
Investment income	9,200	4,412
Grant income	32,285	22,694
Carrying charges on regulatory assets	18,199	19,153
Other	6,389	4,617
Total other income, net	66,073	50,876
Interest charges and (credits):		
Interest on long-term debt	268,013	256,938
Other interest	19,153	20,225
Other interest amortizations	(22,140)	(19,722)
Allowance for borrowed funds used during construction	(3,723)	(4,479)
Total interest charges and (credits)	261,303	252,962
Change in net position	102,230	68,008
Net position, beginning of year	472,188	455,066
Net position, end of period	\$ 574,418	523,074

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

Consolidated Statements of Cash Flows

Nine-month period ended September 30, 2018 and 2017

(unaudited)

(Amounts in thousands)

	2018	2017
Cash flows from operating activities:		
Operating revenues received	\$ 2,727,500	2,682,678
Paid to suppliers and employees:		
Operations and maintenance	(437,665)	(356,340)
Operations – power supply charge	(1,358,571)	(1,337,487)
Power supply charge – property tax related	(155,367)	(158,463)
Payments in lieu of taxes	(368,977)	(349,799)
Collateral on commodity derivative transactions, net	5,256	(9,948)
PSEG Long Island Pension funding	(40,000)	(35,000)
Net cash provided by operating activities	372,176	435,641
Cash flows from investing activities:		
Earnings received on investments	17,298	19,107
Restricted cash	(181,957)	(59,322)
Sales of restricted investment securities	132,926	74,094
Purchases of investment securities	—	(55,545)
Sales of investment securities	40,810	—
Other	453	—
Net cash provided by (used in) investing activities	9,530	(21,666)
Cash flows from noncapital financing related activities:		
Grant proceeds	27,882	19,219
Proceeds from credit facility draws and commercial paper program	560,000	130,000
Redemption of credit facility draws and commercial paper program	(355,320)	(92,500)
Net cash provided by noncapital related activities	232,562	56,719
Cash flows from capital and related financing activities:		
Capital expenditures	(434,300)	(504,839)
Debt issuance costs	(71)	(259)
Other interest costs	(22,323)	(22,646)
Interest paid	(110,739)	(137,764)
Interest paid – UDSA	(102,168)	(99,616)
Redemption of long-term debt – LIPA	(58,230)	(70,290)
Redemption of long-term debt – UDSA	(60,812)	(32,790)
Net cash used in capital and related financing activities	(788,643)	(868,204)
Net decrease in cash and cash equivalents	(174,375)	(397,510)
Cash and cash equivalents at beginning of year	425,472	562,156
Cash and cash equivalents at end of period	\$ 251,097	164,646
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 297,460	270,094
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	248,059	234,174
Other post-employment benefit non-cash expense	36,954	30,903
Nuclear fuel burned	8,291	10,121
Shoreham and VBA surcharges	5,960	35,208
Accretion of asset retirement obligation	272	2,715
Changes in operating assets and liabilities:		
Accounts receivable, net	(244,088)	(111,769)
Regulatory assets and liabilities	80,349	(33,927)
Fuel and material and supplies inventory	4,166	(5,445)
Accounts payable, accrued expenses and other	(65,247)	3,567
Net cash provided by operating activities	\$ 372,176	435,641

LONG ISLAND POWER AUTHORITY OPEB TRUST

Statements of Fiduciary Fund Net Position
September 30, 2018 and December 31, 2017
(Amounts in thousands)

	<u>2018</u> <u>(unaudited)</u>	<u>2017</u> <u>(audited)</u>
Assets		
Cash and cash equivalents	\$ 18,969	18,651
Total assets	<u>18,969</u>	<u>18,651</u>
Deferred outflows of resources	<u>342</u>	<u>—</u>
Total assets and deferred outflows of resources	<u>19,311</u>	<u>18,651</u>
Liabilities		
Total liabilities	<u>—</u>	<u>—</u>
Deferred inflows of resources	<u>—</u>	<u>—</u>
Net position - restricted for OPEB	<u>19,311</u>	<u>18,651</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 19,311</u>	<u>18,651</u>

LONG ISLAND POWER AUTHORITY OPEB TRUST
 Statements of Changes in Fiduciary Fund Net Position
 Nine-month period ended September 30, 2018 and December 31, 2017
 (Amounts in thousands)

	2018	2017
	(unaudited)	(audited)
Additions to net position attributed to:		
Contributions:		
Employer	\$ —	19,071
Mark-to-market	342	—
Capital gain	1	—
Dividend income	317	123
Total additions	660	19,194
Deductions from net position attributed to:		
Retirement benefits	—	543
Administrative expenses	—	—
Total deductions	—	543
Changes in net position	660	18,651
Net position restricted for OPEB, beginning of year	18,651	—
Net position restricted for OPEB, end of period	\$ 19,311	18,651

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Nine-Month Period ended September 30, 2018 Compared to 2017

The change in net position increased \$34 million compared to the nine-month period of 2017.

Operating Revenues

Operating revenue increased \$96 million compared to the nine-month period of 2017, consistent with the approved budgeted increase in revenue requirements, higher Delivery Service Adjustment related to the 2018 storm recovery efforts and an increase in the Power Supply Charge.

Operating Expenses

Power Supply Charge including property taxes increased \$40 million when compared to the same nine month period of 2017 primarily due to an increase in sales volume.

Operations and maintenance expense decreased \$9 million compared to the same nine-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 \$20 million when compared to the same nine-month period of 2017 due to a higher level of storm activity. PSEG Long Island responded to fourteen major storms through September 2018, six of which required mutual aid assistance compared with nine major storm events through September 2017, three of which required mutual aid assistance.

Depreciation and amortization increased \$14 million when compared to the same nine-month period of 2017 primarily due to increased utility plant assets placed in service.

Nonoperating Expenses

Other income increased \$15 million compared to the same nine-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 \$8 million compared to the same nine-month period of 2017 due to the issuance of General Revenue Bonds in the last quarter of 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 September 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.

Liquidity Position

<i>(\$ in thousands)</i>	September 30, 2018	Days Cash	December 31, 2017	Days Cash
Operating liquidity				
Unrestricted cash and cash equivalents	\$404,857		\$633,531	
OPEB account cash, cash equivalents & investments	208,186		194,699	
PSEG Long Island Working Capital requirements	298,193		211,972	
Total operating liquidity	911,236	114 days	1,040,202	133 days
Available credit				
General Revenue Notes - Revolving Credit Facility	345,000		337,180	
General Revenue Commercial Paper	240,000		277,500	
Subordinated revenue commercial paper notes	-		50,000	
Total available credit	585,000		664,680	
Total cash, cash equivalents, investments & available credit	\$1,496,236	187 days	\$1,704,882	218 days
Restricted cash				
FEMA - restricted	150,646		275,783	
UDSA	197,115		109,167	
Total restricted cash	\$347,761		\$384,950	

Debt

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

<i>(amounts in thousands)</i>	September 30, 2018	December 31, 2017
Long-term debt:		
General revenue bonds	\$ 3,173,467	3,214,214
Unamortized premiums	190,681	199,889
Less: current maturities	(67,715)	(69,880)
	<hr/> 3,296,433	<hr/> 3,344,223
UDSA restructuring bonds	4,201,584	4,262,396
Unamortized premiums	460,176	494,915
Less: current maturities	(127,008)	(122,803)
	<hr/> 4,534,752	<hr/> 4,634,508
Total debt	\$ 7,831,185	7,978,731
Short-term debt:		
General revenue commercial paper notes	\$ 560,000	97,500
Subordinated revenue commercial paper notes	—	250,000
General revenue notes - revolving credit facility	5,000	12,820
	<hr/> \$ 565,000	<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 over a one-year period decreased \$44 million from December 31, 2017 to September 30, 2018 due primarily to the decreases to employee retirement benefits and Shoreham property tax settlement, offset by an increase in the Delivery Service Adjustment recovery.

	September 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	12,013	4,660
Delivery service adjustment	6,289	29,424
Employee benefit plan settlement	21,634	21,634
Revenue decoupling mechanism	—	14,811
New York State assessment	4,160	2,443
Debt issuance costs	3,209	3,209
Southampton visual benefit assessment	948	948
Distributed energy resources	201	1,850
Balance	\$ 161,110	191,634
Regulatory assets for future recovery		
Operations services agreement – employee retirement benefits	370,927	422,819
Shoreham property tax settlement	383,276	402,589
Employee benefit plan settlement	135,212	151,437
Power supply charge	49,716	53,211
Delivery service adjustment	108,871	58,712
Debt issuance costs	30,407	32,858
Southampton visual benefit assessment	7,505	7,870
Actuarial determined reserves	8,018	8,018
Balance	\$ 1,093,932	1,137,514
Regulatory liabilities payable within one year		
Revenue decoupling mechanism	\$ 32,873	—
Power supply charge	17,500	14,910
Balance	\$ 50,373	14,910