



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, 2019

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 consolidated 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 three-month period ended March 31, 2019 compared to 2018 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. 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

March 31, 2019 and December 31, 2018

(Amounts in thousands)

Assets and Deferred Outflows of Resources	2019 (unaudited)	2018 (audited)
Current assets:		
Cash and cash equivalents	\$ 330,721	327,800
Restricted cash – working capital requirements	220,907	198,611
Restricted cash	197,380	124,597
Investments	539,508	624,019
Counterparty collateral – posted by the Authority	11,098	7,320
Accounts receivable (less allowance for doubtful accounts of \$27,438 and \$28,185 at March 31, 2019 and December 31, 2018, respectively)	443,593	531,607
Other receivables	87,903	74,625
Fuel inventory	101,389	99,117
Material and supplies inventory	53,326	50,574
Commodity derivatives	12,972	17,282
Regulatory assets to be recovered within one year	202,504	150,517
Prepayments and other current assets	65,296	45,701
Total current assets	2,266,597	2,251,770
Noncurrent assets:		
Restricted cash and cash equivalents	14,300	11,607
Restricted investments	65,626	92,213
Utility plant and property and equipment, net	8,433,925	8,383,338
Nuclear decommissioning trust	133,011	125,219
Other long-term receivables	29,465	31,089
Unrealized charges	106,713	94,464
Financial derivatives	6,412	3,240
Regulatory assets for future recovery	906,919	940,053
Acquisition adjustment, net	850,167	878,011
Total noncurrent assets	10,546,538	10,559,234
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	233,901	241,552
OPEB expense	1,679	1,679
Pension expense	1,594	1,594
Accumulated decrease in fair value of OPEB Account	—	2,488
Total deferred outflows of resources	237,174	247,313
Total assets and deferred outflows of resources	\$ 13,050,309	13,058,317

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

Consolidated Statements of Net Position

March 31, 2019 and December 31, 2018

(Amounts in thousands)

Liabilities, Deferred Inflows of Resources and Net Position	2019 (unaudited)	2018 (audited)
Current liabilities:		
Short-term debt	\$ 381,500	234,500
Current maturities of long-term debt	61,430	61,430
Current maturities of long-term UDSA debt	130,761	130,761
Current portion of capital lease obligation	171,473	168,430
Accounts payable and accrued expenses	300,048	376,177
Regulatory liabilities payable in one year	44,509	61,556
Accrued payments in lieu of taxes	2,815	10,550
Accrued interest	80,498	48,638
Unrealized credits	15,852	10,250
Customer deposits	39,379	39,350
Total current liabilities	1,228,265	1,141,642
Noncurrent liabilities:		
Long-term debt	3,777,162	3,775,406
Long-term UDSA debt	4,446,485	4,457,610
Capital lease obligations	1,657,772	1,702,801
Borrowings	70,974	72,256
OSA - employee retirement benefits	616,276	609,176
Financial derivative instruments	113,089	106,058
Asset retirement obligation	68,419	67,483
Long-term liabilities and unrealized credits	42,242	43,142
Claims and damages	68,537	67,847
Total noncurrent liabilities	10,860,956	10,901,779
Deferred inflows of resources:		
Regulatory credits - grants	497,177	498,322
Accumulated increase in fair value of financial derivatives	6,412	3,240
Accumulated increase in fair value of commodity derivatives	3,940	9,124
OPEB expense	24,721	3,534
Pension expense	1,609	1,609
Accumulated increase in fair value of NMP2 Trust & OPEB Account	11,898	4,217
Total deferred inflows of resources	545,757	520,046
Net position:		
Net investment in capital assets	47,043	77,241
Restricted	184,789	116,384
Unrestricted	183,499	301,225
Total net position	415,331	494,850
Total liabilities, deferred inflows of resources and net position	\$ 13,050,309	13,058,317

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, 2019 and 2018

(unaudited)

(Amounts in thousands)

	2019	2018
Operating revenues – electric sales	\$ 720,468	789,478
Operating expenses:		
Operations – power supply charge	336,372	359,683
Operations – power supply charge – property taxes	53,050	51,321
Operations and maintenance	160,153	147,857
Storm restoration	7,454	61,891
General and administrative	6,907	7,789
Depreciation and amortization	87,285	81,777
Payments in lieu of taxes and assessments	82,332	82,348
Total operating expenses	733,553	792,666
Operating income	(13,085)	(3,188)
Nonoperating revenues and expenses:		
Other income, net:		
Investment income	8,064	1,983
Grant income	8,362	2,068
Carrying charges on regulatory assets	5,874	6,212
Other	1,758	3,659
Total other income, net	24,058	13,922
Interest charges and (credits):		
Interest on long-term debt	93,585	88,385
Other interest	5,151	6,212
Other interest amortizations	(8,244)	(7,312)
Allowance for borrowed funds used during construction	—	(346)
Total interest charges and (credits)	90,492	86,939
Change in net position	(79,519)	(76,205)
Net position, beginning of year	494,850	472,188
Net position, end of period	\$ 415,331	395,983

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)
Consolidated Statements of Cash Flows
Three-month period ended March 31, 2019 and 2018
(unaudited)
(Amounts in thousands)

	2019	2018
Cash flows from operating activities:		
Operating revenues received	\$ 839,651	823,367
Paid to suppliers and employees:		
Operations and maintenance	(162,594)	(176,522)
Operations – power supply charge	(474,808)	(472,112)
Operations – power supply charge – property taxes	(53,050)	(51,321)
Payments in lieu of taxes	(136,243)	(147,209)
Collateral on commodity derivative transactions, net	(1,403)	(8,370)
PSEG Long Island pension funding	(7,000)	(10,000)
Net cash provided by (used in) operating activities	4,553	(42,167)
Cash flows from investing activities:		
Earnings received on investments	8,991	3,126
Restricted cash	(97,772)	(149,461)
Sale of restricted investment securities	26,587	67,914
Sale of investment securities	110,286	55,679
Purchases of investment securities - OPEB account	(1,762)	(6,916)
Net cash provided by (used in) investing activities	46,330	(29,658)
Cash flows from noncapital financing related activities:		
Grant proceeds	17,300	8,650
Proceeds from credit facility draws and commercial paper program	152,000	280,000
Redemption of credit facility draws and commercial paper program	(5,000)	(187,820)
Net cash provided by noncapital financing related activities	164,300	100,830
Cash flows from capital and related financing activities:		
Capital expenditures	(146,582)	(133,586)
Debt issuance costs	(15)	(67)
Other interest costs	(8,344)	(10,142)
Interest paid - Authority	(57,321)	(43,454)
Net cash used in capital and related financing activities	(212,262)	(187,249)
Net increase (decrease) in cash and cash equivalents	2,921	(158,244)
Cash and cash equivalents at beginning of year	327,800	425,472
Cash and cash equivalents at end of period	\$ 330,721	267,228
Reconciliation to net cash provided by (used in) operating activities:		
Operating income	\$ (13,085)	(3,188)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	87,285	81,777
Other post-employment benefit non-cash expense	11,038	12,815
Nuclear fuel burned	2,351	3,296
Shoreham and VBA surcharges	10,122	10,802
Accretion of asset retirement obligation	937	944
Changes in operating assets and liabilities:		
Accounts receivable, net	71,329	(3,429)
Regulatory assets and liabilities	(52,275)	(64,726)
Fuel and material and supplies inventory	(5,024)	858
Accounts payable, accrued expenses and other	(108,125)	(81,316)
Net cash provided by (used in) operating activities	\$ 4,553	(42,167)

LONG ISLAND POWER AUTHORITY OPEB TRUST

Statements of Fiduciary Fund Net Position

March 31, 2019 and December 31, 2018

(Amounts in thousands)

	<u>2019</u> <u>(unaudited)</u>	<u>2018</u> <u>(audited)</u>
Assets		
Cash and cash equivalents	\$ 20,512	18,785
Total assets	<u>20,512</u>	<u>18,785</u>
Liabilities	<u>—</u>	<u>—</u>
Total liabilities	<u>—</u>	<u>—</u>
Deferred inflows of resources	<u>—</u>	<u>—</u>
Total deferred inflows of resources	<u>—</u>	<u>—</u>
Net position	<u>20,512</u>	<u>18,785</u>
Net position - restricted for OPEB	<u>\$ 20,512</u>	<u>18,785</u>

LONG ISLAND POWER AUTHORITY OPEB TRUST
 Statements of Changes in Fiduciary Fund Net Position
 Three-month period ended March 31, 2019 and 2018
 (unaudited)
 (Amounts in thousands)

	<u>2019</u>	<u>2018</u>
Additions to net position attributed to:		
Contributions:		
Employer	\$ —	—
Mark-to-market	1,607	(229)
Capital gain	25	1
Dividend income	95	78
Total additions	<u>1,727</u>	<u>(150)</u>
Deductions from net position attributed to:		
Retirement benefits	—	—
Administrative expenses	—	—
Total deductions	<u>—</u>	<u>—</u>
Change in net position	1,727	(150)
Net position restricted for OPEB, beginning of year	<u>18,785</u>	<u>18,651</u>
Net position restricted for OPEB, end of period	<u>\$ 20,512</u>	<u>18,501</u>

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

Management's Discussion and Analysis (Unaudited)

Three-month period ended March 31, 2019

Three-Month Period ended March 31, 2019 Compared to 2018

Change in Net Position

The change in net position decreased \$3 million compared to the three-month period of 2018.

Operating Revenues

Operating revenue decreased \$69 million compared to the three-month period of 2018, primarily due to a decrease in the Delivery Service Adjustment (DSA) related to storm restoration costs incurred in 2019.

Operating Expenses

Power Supply Charge including property taxes decreased \$22 million when compared to the same three-month period of 2018 primarily due to a decrease in sales volume.

Operations and maintenance expense increased \$12 million compared to the same three-month period of 2018 due to higher costs related to increased tree trimming and pole inspections to improve system resiliency. Also contributing to the increase was higher labor costs resulting from a lower level of storm activity in 2019 which results in higher labor allocations to operating areas.

Storm restoration expense decreased \$54 million when compared to the same three-month period of 2018 due to a lower level of storm activity. PSEG Long Island responded to four major storms through March 2019, none of which required mutual aid assistance compared with six major storm events through March 2018, five of which required mutual aid assistance.

Depreciation and amortization increased \$6 million when compared to the same three-month period of 2018 primarily due to increased utility plant assets placed in service.

Nonoperating Revenues and Expenses

Other income increased \$10 million compared to the same three-month period of 2018 primarily due to higher investment income and the timing of a Renewable Greenhouse Gas Initiative (RGGI) grant from New York State. In 2018, the RGGI grant was recognized in April.

Interest charges increased \$4 million compared to the same three-month period of 2018 due to the issuance of General Revenue Bonds in the last quarter of 2018.

LONG ISLAND POWER AUTHORITY
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Management's Discussion and Analysis (Unaudited)

Three-month period ended March 31, 2019

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 March 31, 2019, and December 31, 2018, 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>	March 31, 2019	Days Cash	December 31, 2018	Days Cash
Operating liquidity				
Unrestricted cash and cash equivalents	\$ 572,576		679,940	
OPEB account cash, cash equivalents & investments	297,653		271,879	
PSEG Long Island working capital requirements	220,907		198,611	
Total operating liquidity	1,091,136	137 days	1,150,430	143 days
Available credit				
General Revenue Notes - Revolving Credit Facility	198,000		345,000	
General Revenue Notes- Commercial Paper	420,500		570,500	
Total available credit	618,500		915,500	
Total cash, cash equivalents, investments & available credit	\$ 1,709,636	214 days	2,065,930	258 days
Restricted cash, cash equivalents and investments				
FEMA Grant Proceeds	79,926		103,820	
UDSA	197,380		124,597	
Total restricted cash, cash equivalents and investments	\$ 277,306		228,417	

LONG ISLAND POWER AUTHORITY
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Management's Discussion and Analysis (Unaudited)

Three-month period ended March 31, 2019

Financing Activities

The Authority's consolidated debt as of March 31, 2019 and December 31, 2018 is comprised of the following:

<i>(amounts in thousands)</i>	March 31, 2019	December 31, 2018
Long-term debt:		
General Revenue Bonds	\$ 3,603,119	3,597,465
Unamortized premiums	235,473	239,371
Less: Current maturities	(61,430)	(61,430)
	<u>3,777,162</u>	<u>3,775,406</u>
UDSA Restructuring Bonds	4,139,593	4,139,593
Unamortized premiums	437,653	448,778
Less: Current maturities	(130,761)	(130,761)
	<u>4,446,485</u>	<u>4,457,610</u>
Total Long-term debt	<u>\$ 8,223,647</u>	<u>8,233,016</u>
Short-term debt:		
General Revenue Notes - Commercial Paper	\$ 379,500	229,500
General Revenue Notes - Revolving Credit Facility	2,000	5,000
Total Short-term debt	<u>\$ 381,500</u>	<u>234,500</u>

LONG ISLAND POWER AUTHORITY
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Management's Discussion and Analysis (Unaudited)

Three-month period ended March 31, 2019

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 \$52 million as of March 31, 2019 compared to December 31, 2018 due primarily to the timing of the recovery mechanism related to certain power supply costs.

<i>(amounts in thousands)</i>	March 31, 2019 (unaudited)	December 31, 2018 (audited)
Regulatory assets to be recovered within one year		
Operations services agreement – employee retirement benefits	\$ 54,006	54,006
Shoreham property tax settlement	46,233	46,233
Power supply charge	51,873	—
Delivery service adjustment	25,674	28,845
Employee benefit plan settlement	15,634	15,634
New York State assessment	4,966	1,681
Debt issuance costs	3,209	3,209
Southampton visual benefit assessment	909	909
Balance	\$ 202,504	150,517
Regulatory assets for future recovery		
Operations services agreement – employee retirement benefits	283,437	297,206
Shoreham property tax settlement	372,748	376,918
Employee benefit plan settlement	89,895	93,803
Power supply charge	47,386	48,551
Delivery service adjustment	69,284	78,529
Debt issuance costs	28,792	29,591
Southampton visual benefit assessment	7,359	7,437
Unfunded actuarially determined reserves	8,018	8,018
Balance	\$ 906,919	940,053
Regulatory liabilities payable within one year		
Revenue decoupling mechanism	\$ 32,102	47,644
Delivery service adjustment	12,210	—
Power supply charge refundable	—	13,378
Distributed energy resources	197	534
Balance	\$ 44,509	61,556