



# 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, 2019

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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 six-month period ended June 30, 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](http://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](http://www.lipower.org).

# LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

## Consolidated Statements of Net Position

June 30, 2019 and December 31, 2018

(Amounts in thousands)

Assets and Deferred Outflows of Resources	2019 (unaudited)	2018 (audited)
<b>Current assets:</b>		
Cash and cash equivalents	\$ 144,554	327,800
Restricted cash – working capital requirements	292,035	198,611
Restricted cash	101,023	124,597
Investments	542,908	624,019
Counterparty collateral – posted by the Authority	68,965	7,320
Accounts receivable (less allowance for doubtful accounts of \$28,595 and \$28,185 at June 30, 2019 and December 31, 2018, respectively)	476,786	531,607
Other receivables	73,354	74,625
Fuel inventory	101,642	99,117
Material and supplies inventory	55,251	50,574
Commodity derivatives	—	17,282
Regulatory assets to be recovered within one year	212,735	150,517
Prepayments and other current assets	112,066	45,701
Total current assets	2,181,319	2,251,770
<b>Noncurrent assets:</b>		
Restricted cash and cash equivalents	18,376	11,607
Restricted investments	26,004	92,213
Utility plant and property and equipment, net	8,500,333	8,383,338
Nuclear decommissioning trust	134,903	125,219
Other long-term receivables	27,200	31,089
Unrealized charges	179,492	94,464
Financial derivatives	2,760	3,240
Regulatory assets for future recovery	873,826	940,053
Acquisition adjustment, net	822,324	878,011
Total noncurrent assets	10,585,218	10,559,234
<b>Deferred outflows of resources:</b>		
Deferred defeasance costs on debt refunding	226,738	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	230,011	247,313
Total assets and deferred outflows of resources	\$ 12,996,548	13,058,317

# LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

## Consolidated Statements of Net Position

June 30, 2019 and December 31, 2018

(Amounts in thousands)

Liabilities, Deferred Inflows of Resources and Net Position	2019 (unaudited)	2018 (audited)
<b>Current liabilities:</b>		
Short-term debt	\$ 418,300	234,500
Current maturities of long-term debt	86,125	61,430
Current maturities of long-term UDSA debt	128,275	130,761
Current portion of capital lease obligation	174,615	168,430
Accounts payable and accrued expenses	347,146	376,177
Regulatory liabilities payable in one year	44,992	61,556
Accrued payments in lieu of taxes	5,105	10,550
Accrued interest	52,508	48,638
Unrealized credits	—	10,250
Customer deposits	39,541	39,350
Total current liabilities	1,296,607	1,141,642
<b>Noncurrent liabilities:</b>		
Long-term debt	3,719,172	3,775,406
Long-term UDSA debt	4,372,828	4,457,610
Capital lease obligations	1,612,155	1,702,801
Borrowings	69,685	72,256
OSA – employee retirement benefits	622,923	609,176
Financial derivative instruments	129,186	106,058
Commodity derivatives	60,988	—
Asset retirement obligation	68,769	67,483
Long-term liabilities and unrealized credits	43,242	43,142
Claims and damages	70,995	67,847
Total noncurrent liabilities	10,769,943	10,901,779
<b>Deferred inflows of resources:</b>		
Regulatory credits - grants	486,602	498,322
Accumulated increase in fair value of financial derivatives	2,760	3,240
Accumulated increase in fair value of commodity derivatives	2,088	9,124
OPEB expense	2,860	3,534
Pension expense	1,609	1,609
Accumulated increase in fair value of NMP2 Trust & OPEB Account	38,848	4,217
Total deferred inflows of resources	534,767	520,046
<b>Net position:</b>		
Net investment in capital	81,339	77,241
Restricted	181,245	116,384
Unrestricted	132,647	301,225
Total net position	395,231	494,850
Total liabilities, deferred inflows of resources and net position	\$ 12,996,548	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

Six-month period ended June 30, 2019 and 2018

(unaudited)

<i>(amounts in thousands)</i>	<b>2019</b>	<b>2018</b>
Operating revenues – electric sales	\$ 1,525,509	1,608,021
<b>Operating expenses:</b>		
Operations – power supply charge	686,154	733,560
Operations – power supply charge – property taxes	106,036	103,014
Operations and maintenance	319,848	308,444
Storm restoration	28,967	63,031
General and administrative	15,393	14,344
Depreciation and amortization	175,804	164,393
Payments in lieu of taxes and assessments	164,419	164,010
Total operating expenses	1,496,621	1,550,796
Operating income	28,888	57,225
<b>Non-operating revenues and expenses:</b>		
Other income, net:		
Investment income	22,253	6,520
Grant income	17,582	21,574
Carrying charges on regulatory assets	11,633	12,315
Other	969	4,289
Total other income, net	52,437	44,698
Interest charges and (credits):		
Interest on long-term debt	186,996	178,601
Other interest	11,017	12,513
Other interest amortizations	(17,069)	(14,739)
Allowance for borrowed funds used during construction	—	(2,124)
Total interest charges and (credits)	180,944	174,251
Change in net position	(99,619)	(72,328)
Net position, beginning of year	494,850	472,188
Net position, end of period	\$ 395,231	399,860

# LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

## Consolidated Statements of Cash Flows Six-month period ended June 30, 2019 and 2018

(unaudited)

<i>(amounts in thousands)</i>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Operating revenues received	\$ 1,640,439	1,617,261
Paid to suppliers and employees:		
Operations and maintenance	(267,668)	(297,032)
Operations – power supply charge	(834,438)	(828,752)
Operations – power supply charge – property taxes	(106,036)	(103,014)
Payments in lieu of taxes	(282,201)	(282,715)
Collateral on commodity derivative transactions, net	(54,497)	(4,905)
PSEG Long Island pension funding	(14,000)	(20,000)
Net cash provided by operating activities	<u>81,599</u>	<u>80,843</u>
<b>Cash flows from investing activities:</b>		
Earnings received on investments	17,538	8,251
Restricted cash	(76,619)	(38,296)
Sale of restricted investment securities	66,209	118,227
Sale of investment securities	117,179	54,717
Purchases of investment securities – OPEB account	(3,559)	(8,203)
Net cash provided by investing activities	<u>120,748</u>	<u>134,696</u>
<b>Cash flows from noncapital financing related activities:</b>		
Grant proceeds	19,233	19,225
Proceeds from credit facility draws and commercial paper program	357,000	380,000
Redemption of credit facility draws and commercial paper program	(173,200)	(287,820)
Net cash provided by noncapital financing related activities	<u>203,033</u>	<u>111,405</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital expenditures	(304,537)	(289,587)
Debt issuance costs	(251)	(71)
Other interest costs	(10,306)	(12,476)
Interest paid – Authority	(75,027)	(60,957)
Interest paid – UDSA	(98,553)	(102,168)
Redemption of long-term debt – LIPA	(34,935)	(34,460)
Redemption of long-term debt – UDSA	(65,017)	(60,812)
Net cash used in capital and related financing activities	<u>(588,626)</u>	<u>(560,531)</u>
Net decrease in cash and cash equivalents	(183,246)	(233,587)
Cash and cash equivalents at beginning of year	<u>327,800</u>	<u>425,472</u>
Cash and cash equivalents at end of period	<u>\$ 144,554</u>	<u>191,885</u>
<b>Reconciliation to net cash provided by (used in) operating activities:</b>		
Operating income	\$28,888	57,225
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	175,804	164,393
Other post-employment benefit non-cash expense	21,472	24,845
Nuclear fuel burned	4,678	5,424
Shoreham and VBA surcharges	19,393	20,787
Accretion of asset retirement obligation	1,286	(638)
Changes in operating assets and liabilities:		
Accounts receivable, net	78,247	(32,294)
Regulatory assets and liabilities	(44,454)	(73,854)
Fuel and material and supplies inventory	(7,202)	3,242
Accounts payable, accrued expenses and other	(196,513)	(88,287)
Net cash provided by operating activities	<u>\$ 81,599</u>	<u>80,843</u>



Statements of Fiduciary Fund Net Position  
June 30, 2019 and December 31, 2018

<i>(amounts in thousands)</i>	<b>2019 (unaudited)</b>	<b>2018 (audited)</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 21,217	18,785
Total assets	<u>21,217</u>	<u>18,785</u>
<b>Liabilities</b>		
Total liabilities	<u>—</u>	<u>—</u>
<b>Deferred inflows of resources</b>		
Total deferred inflows of resources	<u>—</u>	<u>—</u>
Net position	<u>21,217</u>	<u>18,785</u>
Net position – restricted for OPEB	<u>\$ 21,217</u>	<u>18,785</u>

Statements of Changes in Fiduciary Fund Net Position  
Six-month period ended June 30, 2019 and 2018  
(unaudited)

<i>(amounts in thousands)</i>	<b>2019</b>	<b>2018</b>
<b>Additions to net position attributed to:</b>		
Contributions:		
Employer	\$ —	—
Mark-to-market	2,188	(131)
Capital gain	25	1
Dividend income	<u>219</u>	<u>198</u>
Total additions	<u>2,432</u>	<u>68</u>
<b>Deductions from net position attributed to:</b>		
Retirement benefits	—	—
Administrative expenses	<u>—</u>	<u>—</u>
Total deductions	<u>—</u>	<u>—</u>
Change in net position	2,432	68
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>\$ 21,217</u>	<u>18,719</u>

## Management's Discussion and Analysis (Unaudited)

Six-month period ended June 30, 2019

**Six-Month Period ended June 30, 2019 compared to 2018****Change in net position**

The change in net position decreased \$27 million compared to the six-month period of 2018.

**Operating revenues**

Operating revenue decreased \$83 million compared to the six-month period of 2018, primarily due to (i) a decrease in the Delivery Service Adjustment (DSA) related to storm restoration costs incurred in 2019 and (ii) decreases in the Power Supply Charge.

**Operating expenses**

Power Supply Charge, including property taxes, decreased \$44 million when compared to the same six-month period of 2018 primarily due to a decrease in sales volume and lower costs.

Operations and maintenance expense increased \$11 million compared to the same six-month period of 2018 due to increased tree trimming and pole inspections to improve system resiliency. Also contributing to the increase was a lower level of storm activity in 2019 which results in a higher allocation of labor to operating areas.

Storm restoration expense decreased \$34 million when compared to the same six-month period of 2018 due to a lower level of storm activity. PSEG Long Island responded to six major storms through June 2019, one of which required mutual aid assistance compared with ten major storm events through June 2018, six of which required mutual aid assistance.

Depreciation and amortization increased \$11 million when compared to the same six-month period of 2018 primarily due to the accelerated depreciation on conventional meters which are being replaced by smart technology meters.

**Non-operating revenues and expenses**

Other income increased \$8 million compared to the same six-month period of 2018 primarily due to higher investment income driven by a \$5 million realized gain on the sale of investments in the Nine Mile Decommissioning Fund.

Interest charges increased \$7 million compared to the same six-month period of 2018 due to the issuance of \$430 million of General Revenue Bonds in the last quarter of 2018.

# LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

## Management's Discussion and Analysis (Unaudited)

Six-month period ended June 30, 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 June 30, 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>	<b>June 30, 2019</b>	Days Cash	<b>December 31, 2018</b>	Days Cash
<b>Operating liquidity</b>				
Unrestricted cash and cash equivalents	\$ 379,516		679,940	
OPEB account cash, cash equivalents & investments	307,946		271,879	
PSEG Long Island working capital requirements	292,035		198,611	
<b>Total operating liquidity</b>	<b>979,497</b>	<b>123 days</b>	<b>1,150,430</b>	<b>143 days</b>
<b>Available credit</b>				
General Revenue Notes – Commercial Paper	383,700		570,500	
General Revenue Notes – Revolving Credit Facility	198,000		345,000	
<b>Total available credit</b>	<b>581,700</b>		<b>915,500</b>	
<b>Total cash, cash equivalents, investments available credit</b>	<b>\$ 1,561,197</b>	<b>196 days</b>	<b>2,065,930</b>	<b>258 days</b>
<b>Restricted cash, cash equivalents and investments</b>				
FEMA Grant Proceeds	44,380		103,820	
UDSA	101,023		124,597	
<b>Total restricted cash, cash and cash equivalents and investments</b>	<b>\$ 145,403</b>		<b>228,417</b>	

## Management's Discussion and Analysis (Unaudited)

Six-month period ended June 30, 2019

**Financing Activities**

The Authority's consolidated debt as of June 30, 2019 and December 31, 2018 is comprised of the following:

<i>(amounts in thousands)</i>	<b>June 30, 2019</b>	<b>December 31, 2018</b>
<b>Long-term debt:</b>		
General Revenue Bonds	\$ 3,573,723	3,597,465
Unamortized premiums	231,574	239,371
Less: Current maturities	(86,125)	(61,430)
	3,719,172	3,775,406
UDSA Restructuring Bonds	4,074,576	4,139,593
Unamortized premiums	426,527	448,778
Less: Current maturities	(128,275)	(130,761)
	4,372,828	4,457,610
<b>Total Long-term debt</b>	<b>\$ 8,092,000</b>	<b>8,233,016</b>
<b>Short-term debt:</b>		
General Revenue Notes - Commercial	\$ 416,300	229,500
General Revenue Notes - Revolving Credit Facility	2,000	5,000
<b>Total Short-term debt</b>	<b>\$ 418,300</b>	<b>234,500</b>

# LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

## Management's Discussion and Analysis (Unaudited)

Six-month period ended June 30, 2019

### Regulatory Assets and Liabilities

The table below displays the Authority's costs to be recovered from, or returned to, the Authority's customers in a future period (regulatory assets or liabilities). Amounts recoverable within a one-year period increased \$62 million as of June 30, 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>	<b>June 30, 2019 (unaudited)</b>	<b>December 31, 2018 (audited)</b>
<b>Regulatory assets to be recovered within one year</b>		
OSA – employee retirement benefits	\$ 54,006	54,006
Shoreham property tax settlement	46,233	46,233
Power supply charge	71,562	—
Delivery service adjustment	18,392	28,845
Employee benefit plan settlement	15,634	15,634
Debt issuance costs	3,209	3,209
New York State assessment	2,666	1,681
Southampton visual benefit assessment	909	909
Distributed energy resources charges	124	—
<b>Total</b>	<b>\$ 212,735</b>	<b>150,517</b>
<b>Regulatory assets for future recovery</b>		
OSA – employee retirement benefits	269,367	297,206
Shoreham property tax settlement	369,314	376,918
Employee benefit plan settlement	85,986	93,803
Power supply charge	46,804	48,551
Delivery service adjustment	58,981	78,529
Debt issuance cost	28,075	29,591
Southampton visual benefit assessment	7,281	7,437
Unfunded actuarially determined reserves	8,018	8,018
<b>Total</b>	<b>\$ 873,826</b>	<b>940,053</b>
<b>Regulatory liabilities payable within one year</b>		
Revenue decoupling mechanism	36,095	47,644
Power supply charge refundable	—	13,378
Distributed energy resources charges	8,897	534
<b>Total</b>	<b>\$ 44,992</b>	<b>61,556</b>