



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, 2019

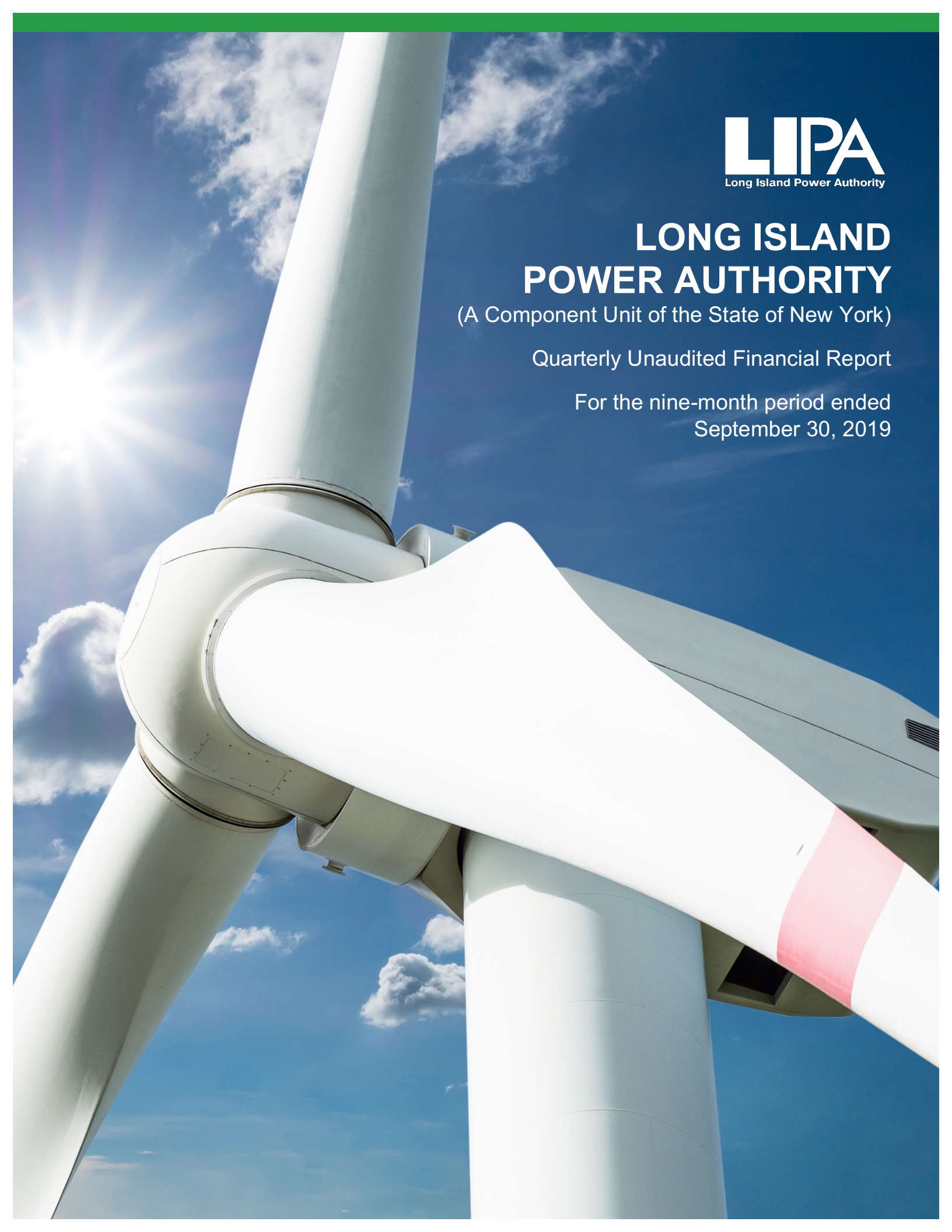




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A banner image at the top of the page shows several wind turbines silhouetted against a vibrant sunset sky with orange, yellow, and pink hues. The turbines are scattered across a dark, rolling landscape.

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.

A scenic photograph of a wind farm at sunset. The sky is a mix of orange, pink, and purple, with the sun low on the horizon. Several wind turbines are visible, their silhouettes and blades catching the light. The foreground shows a grassy field.

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 nine-month period ended September 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.

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 September 30, 2019 and December 31, 2018 (Amounts in thousands)

Assets and Deferred Outflows of Resources	2019 (unaudited)	2018 (audited)
Current assets:		
Cash and cash equivalents	\$ 424,246	327,800
Restricted cash – working capital requirements	356,137	198,611
Restricted cash	188,202	124,597
Investments	763,771	624,019
Counterparty collateral – posted by the Authority	77,227	7,320
Accounts receivable (less allowance for doubtful accounts of \$29,037 and \$28,185 at September 30, 2019 and December 31, 2018, respectively)	644,849	531,607
Other receivables	49,359	74,625
Fuel inventory	106,872	99,117
Material and supplies inventory	57,197	50,574
Commodity derivatives	—	11,929
Regulatory assets to be recovered within one year	171,547	150,517
Prepayments and other current assets	63,875	45,701
Total current assets	2,903,282	2,246,417
Noncurrent assets:		
Restricted cash and cash equivalents	29,142	11,607
Restricted investments	321	92,213
Utility plant and property and equipment, net	8,556,798	8,383,338
Nuclear decommissioning trust	135,406	125,219
Other long-term receivables	23,430	31,089
Unrealized charges	186,511	94,464
Financial derivatives	5,391	3,240
Commodity derivatives	—	5,353
Regulatory assets for future recovery	863,700	940,053
Acquisition adjustment, net	794,480	878,011
Total noncurrent assets	10,595,179	10,564,587
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	219,602	241,552
OPEB expense	1,679	1,679
Pension expense	682	1,594
Accumulated decrease in fair value of OPEB Account	—	2,488
Total deferred outflows of resources	221,963	247,313
Total assets and deferred outflows of resources	\$ 13,720,424	13,058,317

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Consolidated Statements of Net Position

September 30, 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	\$ 402,000	234,500
Current maturities of long-term debt	94,255	61,430
Current maturities of long-term UDSA debt	128,275	130,761
Current portion of capital lease obligations	172,931	168,430
Accounts payable and accrued expenses	346,767	376,177
Regulatory liabilities payable in one year	46,818	61,556
Accrued payments in lieu of taxes	9,854	10,550
Accrued interest	79,191	48,638
Unrealized credits	—	10,250
Commodity derivatives	18,448	—
Customer deposits	38,807	39,350
Total current liabilities	<u>1,337,346</u>	<u>1,141,642</u>
Noncurrent liabilities:		
Long-term debt	4,233,904	3,775,406
Long-term UDSA debt	4,361,564	4,457,610
Capital lease obligations	1,571,888	1,702,801
Borrowings	68,389	72,256
OSA – employee retirement benefits	623,017	609,176
Financial derivative instruments	142,909	106,058
Commodity derivatives	35,534	—
Asset retirement obligation	69,722	67,483
Long-term liabilities and unrealized credits	45,800	43,142
Claims and damages	69,727	67,847
Total noncurrent liabilities	<u>11,222,454</u>	<u>10,901,779</u>
Deferred inflows of resources:		
Regulatory credits - grants	484,668	498,322
Accumulated increase in fair value of financial derivatives	5,391	3,240
Accumulated increase in fair value of commodity derivatives	1,959	9,124
OPEB expense	2,523	3,534
Pension expense	506	1,609
Accumulated increase in fair value of NMP2 Trust & OPEB Account	30,991	4,217
Total deferred inflows of resources	<u>526,038</u>	<u>520,046</u>
Net position:		
Net investment in capital	50,991	77,241
Restricted	265,533	116,384
Unrestricted	318,062	301,225
Total net position	<u>634,586</u>	<u>494,850</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 13,720,424</u>	<u>13,058,317</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, 2019 and 2018

(unaudited)

<i>(amounts in thousands)</i>	2019	2018
Operating revenues – electric sales	\$ 2,793,253	2,832,943
Operating expenses:		
Operations – power supply charge	1,225,235	1,312,154
Operations – power supply charge – property taxes	159,667	156,367
Operations and maintenance	469,896	470,927
Storm restoration	65,120	75,366
General and administrative	21,873	21,381
Depreciation and amortization	267,189	248,059
Payments in lieu of taxes and assessments	254,351	252,229
Total operating expenses	<u>2,463,331</u>	<u>2,535,483</u>
Operating income	<u>329,922</u>	<u>297,460</u>
Non-operating revenues and expenses:		
Other income, net:		
Investment income	37,478	11,204
Grant income	26,789	32,285
Carrying charges on regulatory assets	17,161	18,199
Other	1,108	4,385
Total other income, net	<u>82,536</u>	<u>66,073</u>
Interest charges and (credits):		
Interest on long-term debt	279,385	268,013
Other interest	19,376	19,153
Other interest amortizations	(26,039)	(22,140)
Allowance for borrowed funds used during construction	<u>—</u>	<u>(3,723)</u>
Total interest charges and (credits)	<u>272,722</u>	<u>261,303</u>
Change in net position	139,736	102,230
Net position, beginning of year	<u>494,850</u>	<u>472,188</u>
Net position, end of period	<u><u>\$ 634,586</u></u>	<u><u>574,418</u></u>

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Consolidated Statements of Cash Flows

Nine-month period ended September 30, 2019 and 2018

(unaudited)

<i>(amounts in thousands)</i>	2019	2018
Cash flows from operating activities:		
Operating revenues received	\$ 2,799,239	2,727,794
Paid to suppliers and employees:		
Operations and maintenance	(392,200)	(437,665)
Operations – power supply charge	(1,352,049)	(1,358,571)
Operations – power supply charge – property taxes	(159,667)	(155,367)
Payments in lieu of taxes	(373,515)	(368,977)
Collateral on commodity derivative transactions, net	(66,874)	5,256
PSEG Long Island pension funding	(28,000)	(40,000)
Net cash provided by operating activities	<u>426,934</u>	<u>372,470</u>
Cash flows from investing activities:		
Earnings received on investments	23,513	13,274
Restricted cash	(238,666)	(181,957)
Sale of restricted investment securities	91,892	132,926
Sale of investment securities	—	54,307
Purchases of investment securities	(100,972)	—
Purchases of investment securities – OPEB account	(5,300)	(9,473)
Other	—	453
Net cash (used in) provided by investing activities	<u>(229,533)</u>	<u>9,530</u>
Cash flows from noncapital financing related activities:		
Grant proceeds	25,483	27,882
Proceeds from credit facility draws and commercial paper program	522,000	840,000
Redemption of credit facility draws and commercial paper program	(354,500)	(635,320)
Net cash provided by noncapital financing related activities	<u>192,983</u>	<u>232,562</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(459,682)	(434,300)
Proceeds from the issuance of long term debt	540,481	—
Debt issuance costs	(332)	(71)
Other interest costs	(19,182)	(22,617)
Interest paid – Authority	(135,588)	(110,739)
Interest paid – UDSA	(98,553)	(102,168)
Redemption of long-term debt – LIPA	(56,065)	(58,230)
Redemption of long-term debt – UDSA	(65,017)	(60,812)
Net cash used in capital and related financing activities	<u>(293,938)</u>	<u>(788,937)</u>
Net increase (decrease) in cash and cash equivalents	96,446	(174,375)
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><u>\$ 424,246</u></u>	<u><u>251,097</u></u>
Reconciliation to net cash provided by (used in) operating activities:		
Operating income	\$ 329,922	297,460
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	267,189	248,059
Other post-employment benefit non-cash expense	32,336	36,954
Nuclear fuel burned	7,039	8,291
Suffolk and VBA surcharges	35,451	37,903
Accretion of asset retirement obligation	2,239	272
Changes in operating assets and liabilities:		
Accounts receivable, net	(55,161)	(244,088)
Regulatory assets and liabilities	(25,627)	48,406
Fuel and material and supplies inventory	(14,378)	4,166
Accounts payable, accrued expenses and other	(152,076)	(64,953)
Net cash provided by operating activities	<u><u>\$ 426,934</u></u>	<u><u>372,470</u></u>

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

<i>(amounts in thousands)</i>	2019 (unaudited)	2018 (audited)
Assets		
Cash and cash equivalents	\$ 21,417	18,785
Total assets	21,417	18,785
Deferred outflows of resources	—	—
Total assets and deferred outflows of resources	\$ 21,417	18,785
Liabilities	—	—
Total liabilities	—	—
Deferred inflows of resources	—	—
Total deferred inflows of resources	—	—
Net position – Restricted for OPEB	21,417	18,785
Total liabilities and deferred inflows of resources and net position	\$ 21,417	18,785

Statements of Changes in Fiduciary Fund Net Position
Nine-month period ended September 30, 2019 and 2018

<i>(amounts in thousands)</i>	2019 (unaudited)	2018 (unaudited)
Additions to net position attributed to:		
Contributions:		
Employer	\$ —	—
Mark-to-market	2,267	342
Capital gain	25	1
Dividend income	340	317
Total additions	2,632	660
Deductions from net position attributed to:		
Retirement benefits	—	—
Administrative expenses	—	—
Total deductions	—	—
Change in net position	2,632	660
Net position restricted for OPEB, beginning of year	18,785	18,651
Net position restricted for OPEB, end of period	\$ 21,417	19,311

Management's Discussion and Analysis (unaudited)

Nine-month period ended September 30, 2019

Nine-Month Period ended September 30, 2019 compared to 2018**Change in net position**

The change in net position increased \$38 million compared to the nine-month period of 2018.

Operating revenues

Operating revenue decreased \$40 million compared to the nine-month period of 2018, primarily due to (i) a decrease in the Power Supply Charge and (ii) a decrease in the Delivery Service Adjustment (DSA) related to storm restoration costs incurred in 2019 (iii) offset by an increase to the base delivery revenues.

Operating expenses

Power Supply Charge, including property taxes, decreased \$83 million when compared to the same nine-month period of 2018 primarily due to a decrease in sales volume of \$49 million and lower commodity and purchased power costs of \$34 million.

Storm restoration expense decreased \$10 million when compared to the same nine-month period of 2018 due to a lower level of storm activity. PSEG Long Island responded to ten major storms through September 2019, three of which required mutual aid assistance, compared with fourteen major storm events through September 2018, six of which required mutual aid assistance.

Depreciation and amortization increased \$19 million when compared to the same nine-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 \$16 million compared to the same nine-month period of 2018 primarily due to higher investment income driven primarily due to a \$14 million realized gain in the Nuclear Decommissioning Trust Fund in 2019.

Interest charges increased \$11 million compared to the same nine-month period of 2018 due to the issuance of \$430 million of General Revenue Bonds in the last quarter of 2018, offset by maturities of \$65 million on General Revenue Bonds and maturities of \$65 million on UDSA restructuring bonds.

Management's Discussion and Analysis

Nine-month period ended September 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 September 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>	September 30, 2019 (unaudited)	Days Cash	December 31, 2018 (audited)	Days Cash
Operating liquidity				
Unrestricted cash and cash equivalents	\$ 877,358		679,940	
OPEB account cash, cash equivalents & investments	310,659		271,879	
PSEG Long Island working capital requirements	356,137		198,611	
Total operating liquidity	1,544,154	194 days	1,150,430	143 days
Available credit				
General Revenue Notes – Commercial Paper	400,000		570,500	
General Revenue Notes – Revolving Credit Facility	198,000		345,000	
Total available credit	598,000		915,500	
Total cash, cash equivalents, investments and available credit	\$ 2,142,154	269 days	2,065,930	258 days
Restricted cash, cash equivalents and investments				
FEMA Grant Proceeds	29,463		103,820	
UDSA	188,202		124,597	
Total restricted cash, cash and cash equivalents and investments	\$ 217,665		228,417	

Management's Discussion and Analysis

Nine-month period ended September 30, 2019

Financing Activities

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

<i>(amounts in thousands)</i>		September 30, 2019 (unaudited)	December 31, 2018 (audited)
Long-term debt:			
(1)	General Revenue Bonds	\$ 4,060,326	3,597,465
	Unamortized premiums	267,833	239,371
	Less: Current maturities	(94,255)	(61,430)
		4,233,904	3,775,406
	UDSA Restructuring Bonds	4,074,576	4,139,593
	Unamortized premiums	415,263	448,778
	Less: Current maturities	(128,275)	(130,761)
		4,361,564	4,457,610
Total Long-term debt		\$ 8,595,468	8,233,016
Short-term debt:			
	General Revenue Notes – Commercial	\$ 400,000	229,500
	General Revenue Notes – Revolving Credit Facility	2,000	5,000
Total Short-term debt		\$ 402,000	234,500

(1) In September 2019, LIPA issued \$502 million General Revenue Bonds; offset by principle payments on maturities of \$56 million in 2019; In addition an increase of \$16 million of accretion has been incurred in 2019 relating to LIPA's Capital Appreciation Bonds

Management's Discussion and Analysis

Nine-month period ended September 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 for future recovery decreased \$76 million as of September 30, 2019 compared to December 31, 2018 due primarily to the timing of the recovery mechanism related to the OSA employee retirement benefits.

<i>(amounts in thousands)</i>	September 30, 2019 (unaudited)	December 31, 2018 (audited)
Regulatory assets to be recovered within one year		
OSA – employee retirement benefits	\$ 54,006	54,006
Suffolk property tax settlement	46,233	46,233
Power supply charge	17,638	—
Delivery service adjustment	29,742	28,845
Employee benefit plan settlement	15,634	15,634
Debt issuance costs	3,209	3,209
New York State assessment	4,173	1,681
Southampton visual benefit assessment	909	909
Distributed energy resources charges	3	—
Total	\$ 171,547	150,517
Regulatory assets for future recovery		
OSA – employee retirement benefits	255,297	297,206
Suffolk property tax settlement	359,006	376,918
Employee benefit plan settlement	82,078	93,803
Power supply charge	45,784	48,551
Delivery service adjustment	79,121	78,529
Debt issuance cost	27,335	29,591
Southampton visual benefit assessment	7,061	7,437
Unfunded actuarially determined reserves	8,018	8,018
Total	\$ 863,700	940,053
Regulatory liabilities payable within one year		
Revenue decoupling mechanism	24,062	47,644
Delivery service adjustment	10,756	—
Power supply charge refundable	12,000	13,378
Distributed energy resources charges	—	534
Total	\$ 46,818	61,556