



Long Island Power Authority

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, 2020

2020
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FINANCIALS

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

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LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Introduction

The Long Island Power Authority (LIPA) is a component unit of New York State (State). LIPA 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 LIPA. As part of the acquisition, LIPA 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. LIPA 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.

LIPA was established as a corporate municipal instrumentality of the State of New York (State), constituting a political subdivision of the State, created by Chapter 517 of the Laws of 1986 (the LIPA Act). As such, it is a component unit of the State and is included in the State's annual financial statements.

LIPA is also subject to the LIPA Reform Act, codified as Chapter 173, Laws of New York (Reform Act), which created the Securitization Law and established the Utility Debt Securitization Authority (UDSA). The Securitization Law's purpose was to provide a legislative foundation for the UDSA's issuance of restructuring bonds to allow LIPA to retire a portion of its outstanding indebtedness, providing savings to LIPA's customers on a net present value basis. The restructuring bonds are repaid by an irrevocable, nonbypassable restructuring charge on all LIPA's customers. The UDSA has a governing body separate from that of LIPA and has no commercial operations. The UDSA is included as a blended component unit of LIPA.

The Securitization Law allowed the UDSA to issue restructuring bonds totaling approximately \$4.5 billion, the proceeds of which refunded LIPA bonds and generated total net present value debt service savings of \$492 million for LIPA's customers.

To assist LIPA in providing electric service to its customers, LIPA entered into operating agreements to provide LIPA with the operating personnel, and a significant portion of the power supply resources, necessary for LIPA to provide electric service in the Service Area.

PSEG Long Island is LIPA'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 LIPA. 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 LIPA's T&D system incurred by PSEG Long Island are passed through to, and paid for, by LIPA.

LIPA 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, LIPA maintains power purchase agreements with third party power generators.

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(A Component Unit of the State of New York)

Overview of the Consolidated Financial Statements

LIPA is engaged in business type activities and follows financial reporting for enterprise funds. LIPA's basic unaudited consolidated financial statements include three financial statements: the Consolidated Statements of Net Position, the Consolidated Statements of Revenues, Expenses and Changes in Net Position and the Consolidated 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). LIPA 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 LIPA's three-month period ended March 31, 2020 compared to 2019 should be read in conjunction with the annual audited consolidated financial statements, which may be found on LIPA's website at www.lipower.org.

LIPA's reporting entity is comprised of itself and (i) its operating subsidiary the Long Island Lighting Company (LILCO), a wholly owned subsidiary of the Long Island Power Authority, doing business as LIPA and Power Supply Long Island; and (ii) the UDSA. All significant transactions between LIPA, LILCO and UDSA have been eliminated.

Contacting the Long Island Power Authority

This financial report is designed to provide LIPA's bondholders, customers, and other interested parties with a general overview of LIPA'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 LIPA at 333 Earle Ovington Blvd., Suite 403, Uniondale, New York 11553, or visit LIPA's website at www.lipower.org.

LONG ISLAND POWER AUTHORITY

Consolidated Statements of Net Position

March 31, 2020 and December 31, 2019

(Amounts in thousands)

Assets and Deferred Outflows of Resources	2020 (unaudited)	2019 (audited)
Current assets:		
Cash and cash equivalents	\$ 568,245	166,436
Restricted cash – working capital requirements	251,157	248,499
Restricted cash	181,759	109,049
Investments	733,040	963,133
Counterparty collateral – posted by LIPA	132,911	116,409
Accounts receivable (less allowance for doubtful accounts of \$28,033 and \$27,821 March 31, 2020 and December 31, 2019, respectively)	381,594	458,475
Other receivables	51,088	56,321
Fuel inventory	118,478	119,507
Material and supplies inventory	57,623	57,785
Regulatory assets to be recovered within one year	209,934	155,171
Prepayments and other current assets	76,516	51,431
Total current assets	2,762,345	2,502,216
Noncurrent assets:		
Restricted cash and cash equivalents	1,738	1,714
Restricted investments	—	18
Utility plant and property and equipment, net	8,857,742	8,773,962
Nuclear decommissioning trust fund	127,573	144,346
Other long-term receivables	23,645	25,276
Unrealized charges	272,559	197,546
Financial derivative instruments	22,400	2,625
Regulatory assets for future recovery	958,383	995,203
Acquisition adjustment (net of accumulated amortization)	738,793	766,637
Total noncurrent assets	11,002,833	10,907,327
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	206,164	212,680
OPEB expense	242	242
Pension expense	1,251	1,251
Accumulated decrease in fair value of commodity derivatives instruments	7,213	8,375
Accumulated decrease in fair value of NMP2 Trust and OPEB Account	20,547	—
Total deferred outflows of resources	235,417	222,548
Total assets and deferred outflows of resources	\$ 14,000,595	13,632,091

LONG ISLAND POWER AUTHORITY

Consolidated Statements of Net Position

March 31, 2020 and December 31, 2019

(Amounts in thousands)

Liabilities, Deferred Inflows of Resources and Net Position	2020 (unaudited)	2019 (audited)
Current liabilities:		
Short-term debt	\$ 800,000	292,000
Current maturities of long-term debt	101,860	101,860
Current maturities of UDSA debt	126,057	126,057
Current portion of capital lease obligations	169,409	171,170
Accounts payable and accrued expenses	338,110	402,937
Regulatory liabilities payable in one year	22,405	34,240
Commodity derivative instruments	63,409	56,287
Accrued payments in lieu of taxes	4,092	8,236
Accrued interest	78,555	55,264
Customer deposits	38,558	38,794
Total current liabilities	1,742,455	1,286,845
Noncurrent liabilities:		
Long-term debt, net	4,208,223	4,207,551
Long-term UDSA debt, net	4,275,370	4,286,774
Capital lease obligations, net	1,537,304	1,581,061
Borrowings	65,772	67,084
Operations Services Agreement-employee retirement benefits	803,356	796,509
Financial derivative instruments	194,107	125,794
Commodity derivative instruments	52,886	35,763
Asset retirement obligation	68,145	67,293
Long-term liabilities and unrealized credits	51,202	49,713
Claims and damages	68,447	68,197
Total noncurrent liabilities	11,324,812	11,285,739
Deferred inflows of resources:		
Regulatory credits-grants	479,864	482,710
Accumulated increase in fair value of financial derivatives	3,753	2,625
OPEB expense	2,830	3,336
Pension expense	506	506
Accumulated increase in fair value of NMP2 Trust and OPEB Account	—	51,462
Total deferred inflows of resources	486,953	540,639
Net position:		
Net investment in capital assets	144,913	204,756
Restricted	146,285	100,967
Unrestricted	155,177	213,145
Total net position	446,375	518,868
Total liabilities, deferred inflows of resources and net position	\$ 14,000,595	13,632,091

LONG ISLAND POWER AUTHORITY

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

Three-month period ended March 31, 2020 and 2019

(Amounts in thousands)

(unaudited)

	2020	2019
Operating revenues – electric sales (net of uncollectible expense)	\$ 727,903	716,062
Operating expenses:		
Operations – power supply charge	324,530	336,372
Operations – power supply charge – property taxes	55,209	53,050
Operations and maintenance	162,469	155,747
Storm restoration	4,471	7,454
General and administrative	5,059	6,907
Depreciation and amortization	101,241	87,285
Payments in lieu of taxes and assessments	84,282	82,332
Total operating expenses	<u>737,261</u>	<u>729,147</u>
Operating loss	<u>(9,358)</u>	<u>(13,085)</u>
Nonoperating revenues and expenses:		
Other income, net:		
Investment income, net	9,171	8,937
Grant income	10,065	8,362
Carrying charges on regulatory assets	5,508	5,874
Other	2,330	885
Total other income, net	<u>27,074</u>	<u>24,058</u>
Interest charges and (credits):		
Interest on debt	94,090	93,585
Other interest	6,687	5,151
Other interest amortizations	(10,568)	(8,244)
Total interest charges and (credits) net	<u>90,209</u>	<u>90,492</u>
Change in net position	<u>(72,493)</u>	<u>(79,519)</u>
Net position, beginning of year	<u>518,868</u>	<u>494,850</u>
Net position, end of period	<u>\$ 446,375</u>	<u>415,331</u>

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Consolidated Statements of Cash Flows

Three-month period ended March 31, 2020 and 2019

(Amounts in thousands)

(unaudited)

	2020	2019
Cash flows from operating activities:		
Operating revenues received	\$ 874,770	839,651
Paid to suppliers and employees:		
Operations and maintenance	(148,573)	(162,594)
Operations – power supply charge	(429,853)	(474,808)
Operations – power supply charge – property tax related	(55,209)	(53,050)
Payments in lieu of taxes	(145,214)	(136,243)
Collateral on commodity derivative transactions, net	(41,164)	(1,403)
PSEG Long Island pension funding	(7,500)	(7,000)
Net cash provided by operating activities	<u>47,257</u>	<u>4,553</u>
Cash flows from investing activities:		
Earnings received on investments	8,450	8,991
Sale of restricted investment securities	18	26,587
Sales of investment securities	177,905	110,286
Purchase of investment securities - OPEB Account	(2,269)	(1,762)
Net cash provided by investing activities	<u>184,104</u>	<u>144,102</u>
Cash flows from noncapital financing related activities:		
Grant proceeds	6,250	17,300
Proceeds from credit facility draws and commercial paper program	753,000	152,000
Redemption of credit facility draws and commercial paper program	(245,000)	(5,000)
Net cash provided by noncapital related activities	<u>514,250</u>	<u>164,300</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(194,898)	(146,582)
Debt issuance costs	—	(15)
Other interest costs	(8,354)	(8,344)
Interest paid – LIPA	(65,158)	(57,321)
Net cash used in capital and related financing activities	<u>(268,410)</u>	<u>(212,262)</u>
Net increase in cash and cash equivalents	<u>477,201</u>	<u>100,693</u>
Cash and cash equivalents at beginning of year	<u>525,698</u>	<u>662,615</u>
Cash and cash equivalents at end of period	<u>\$ 1,002,899</u>	<u>763,308</u>
Reconciliation to net cash provided by operating activities:		
Operating loss	\$ (9,358)	(13,085)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	101,241	87,285
Other post-employment benefit non-cash expense	11,206	11,038
Nuclear fuel burned	2,248	2,351
Shoreham and VBA surcharges	10,068	10,122
Accretion of asset retirement obligation	851	937
Changes in operating assets and liabilities:		
Accounts receivable, net	76,419	71,329
Regulatory assets and liabilities	(60,162)	(52,275)
Fuel and material and supplies inventory	1,191	(5,024)
Accounts payable, accrued expenses and other	(86,447)	(108,125)
Net cash provided by operating activities	<u>\$ 47,257</u>	<u>4,553</u>

Management's Discussion and Analysis (Unaudited)

Three-Month Period ended March 31, 2020 compared to 2019

Change in net position

Net position decreased \$72.5 million for the three-month period March 31, 2020, which is a \$7 million improvement compared to the decrease for three-month period March 31, 2019 of \$79.5 million.

Operating revenues

Operating revenue increased \$12 million compared to the three-month period of 2019, primarily due to (i) an increase to the base delivery revenue and (ii) an increase in the Delivery Service Adjustment (DSA) driven by the debt component (iii) offset by a decrease in the Power Supply Charge.

Operating expenses

Power Supply Charge, including property taxes, decreased \$10 million when compared to the same three-month period of 2019 primarily due to a decrease in sales volume and lower costs.

Storm restoration expense decreased \$3 million when compared to the same three-month period of 2019 due to a lower level of storm activity. PSEG Long Island responded to three major storms through March 2020, none of which required mutual aid assistance, compared with four major storm events through March 2019, none of which required mutual aid assistance.

Depreciation and amortization increased \$14 million when compared to the same three-month period of 2019 primarily due to an updated depreciation analysis and a higher depreciable asset base.

Non-operating revenues and expenses

Other income increased \$3 million compared to the same three-month period of 2019 primarily due to a \$2 million distribution from Nuclear Electric Insurance Limited (NEIL) in first quarter 2020.

Impacts from the Coronavirus and COVID-19 Pandemic

The outbreak of a new strain of coronavirus ("Coronavirus") and the disease caused thereby ("COVID-19"), an upper respiratory tract illness, has been characterized as a pandemic by the World Health Organization, and has resulted in a declaration of a state of emergency by certain states (including New York State on March 7, 2020) and local governments (including by New York City on March 12, 2020), and of a national emergency by the federal government on March 13, 2020.

On March 20, 2020, Governor Cuomo signed the "New York State on PAUSE" Executive Order, which cancelled or postponed non-essential gatherings of any size for any reason, limited any concentration of individuals outside their home to workers providing essential services, and mandating practice of social distancing by individuals and businesses, among others, through at least May 15, 2020. The Governor's Executive Order designated utilities, including power generation, fuel supply and transmission, as "essential businesses" in the State.

The Authority has been taking steps to address the ongoing pandemic of COVID-19, first, to ensure the health and safety of its employees and second, to sustain the T&D System for service area customers. Because of the evolving nature of the outbreak and federal, state and local responses thereto, the Authority cannot predict the extent or duration of the outbreak or what impact it may have on the Authority's financial condition or operations.

LONG ISLAND POWER AUTHORITY

Management's Discussion and Analysis (Unaudited)

Three-month period ended March 31, 2020

Liquidity and Capital Resources

LIPA'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, 2020, and December 31, 2019, LIPA's available sources of liquidity for operating purposes and capital program funding, as displayed below, achieved the policy target.

As people practice social distancing to stem the spread of COVID 19, it has had a significant impact to the U.S. economy. In March 2020, there were dislocations in the money markets that caused short-term debt in those markets to trade at widening credit spreads. Subsequent actions by the Federal Reserve have caused the money markets to largely normalize and have reduced those credit spreads.

To mitigate risk, LIPA drew an additional \$200 million of its revolving credit agreement, the maximum amount available as shown in the table below, during the period when money markets were dislocated. LIPA continues to have sufficient liquidity and plans to refund such amounts assuming the money markets continue to normalize.

	March 31, 2020	Days Cash	December 31, 2019	Days Cash
Operating liquidity				
Unrestricted cash, cash equivalents & investments	\$ 967,213		743,307	
OPEB Account cash, cash equivalents & investments	334,072		386,262	
PSEG Long Island Working Capital requirements	251,157		248,499	
Total operating liquidity	1,552,442	190 days	1,378,068	173 days
Available credit				
General Revenue Notes – Revolving Credit Facility	—		198,000	
General Revenue Notes – Commercial Paper	200,000		510,000	
Total available credit	200,000		708,000	
Total cash, cash equivalents, investments & available credit	\$ 1,752,071	214 days	2,086,068	262 days
Restricted cash, cash equivalents and investments				
FEMA Grant Proceeds	1,738		1,732	
UDSA	181,759		109,049	
Total restricted cash, cash equivalents and investments	\$ 183,497		110,781	

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Management's Discussion and Analysis (Unaudited)

Three-month period ended March 31, 2020

Financing Activities

LIPA's consolidated debt as of March 31, 2020 and December 31, 2019 is comprised of the following:

<i>(amounts in thousands)</i>	March 31, 2020	December 31, 2019
Long-term debt:		
General Revenue Bonds	\$ 4,051,687	4,046,297
Unamortized premiums	258,396	263,114
Less: Current maturities	(101,860)	(101,860)
	4,208,223	4,207,551
UDSA Restructuring Bonds	4,008,832	4,008,832
Unamortized premiums	392,595	403,999
Less: Current maturities	(126,057)	(126,057)
	4,275,370	4,286,774
Total Long-term debt	\$ 8,483,593	8,494,325
Short-term debt:		
General Revenue Notes – Commercial Paper	\$ 600,000	290,000
General Revenue Notes – Revolving Credit Facility	200,000	2,000
Total Short-term debt	\$ 800,000	292,000

LONG ISLAND POWER AUTHORITY

Management's Discussion and Analysis (Unaudited)

Three-month period ended March 31, 2020

Regulatory Assets and Liabilities

The table below displays LIPA's costs to be recovered from, or returned to, LIPA's customers in a future period (regulatory assets or liabilities). Amounts recoverable within one-year period increased \$55 million as of March 31, 2020 compared to December 31, 2019 due primarily to the timing of the recovery mechanism related to the Power supply charge.

<i>(amounts in thousands)</i>	March 31, 2020 (unaudited)	December 31, 2019 (audited)
Regulatory assets to be recovered within one year:		
OSA – employee retirement benefits	\$ 54,006	54,006
Shoreham property tax settlement	47,336	47,336
Delivery service adjustment	19,104	23,607
Employee benefit plan settlement	15,634	15,634
Power supply charge recoverable	63,578	8,957
Revenue decoupling mechanism	890	—
Debt issuance costs	3,209	3,209
New York State assessment	4,506	1,393
Southampton visual benefit assessment	1,029	1,029
Distributed energy resources	642	—
	\$ 209,934	155,171
Regulatory assets for future recovery:		
OSA – employee retirement benefits	385,693	401,663
Shoreham property tax settlement	348,667	353,130
Employee benefit plan settlement	74,261	78,169
Delivery service adjustment	65,418	76,040
Power supply charge recoverable	43,745	44,766
Debt issuance costs	25,833	26,575
Unfunded actuarially determined reserves	8,018	8,018
Southampton visual benefit assessment	6,748	6,842
	\$ 958,383	995,203
Regulatory liabilities payable within one year:		
Utility 2.0	12,456	15,613
Revenue decoupling mechanism	—	12,875
Power supply charge refundable	2,608	—
Delivery service adjustment	7,341	5,737
Distributed energy resources	—	15
	\$ 22,405	34,240
Regulatory credits:		
Grants	482,710	498,322
	\$ 482,710	498,322

