



# LIPA

Long Island Power Authority

## 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, 2020

# 2020 2ND QTR FINANCIALS

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# 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). LILCO is a wholly owned subsidiary of LIPA, doing business as LIPA and Power Supply Long Island. As part of the LILCO 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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## **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 six-month period ended June 30, 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](http://www.lipower.org).

LIPA's reporting entity is comprised of itself and (i) its operating subsidiary LILCO and (ii) the UDSA. All significant transactions between LIPA, LILCO and UDSA have been eliminated.

## **Contacting LIPA**

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](http://www.lipower.org).

# LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

## Consolidated Statements of Net Position

June 30, 2020 and December 31, 2019

(Amounts in thousands)

<b>Assets and Deferred Outflows of Resources</b>	<b>2020</b> (unaudited)	<b>2019</b> (audited)
<b>Current assets:</b>		
Cash and cash equivalents	\$ 150,749	166,436
Restricted cash – working capital requirements	232,735	248,499
Restricted cash	88,620	109,049
Investments	644,338	963,133
Counterparty collateral – posted by LIPA	91,536	116,409
Accounts receivable (less allowance for doubtful accounts of \$31,328 and \$27,821 at June 30, 2020 and December 31, 2019, respectively)	500,201	458,475
Other receivables	46,004	56,321
Fuel inventory	117,124	119,507
Material and supplies inventory	66,370	57,785
Regulatory assets to be recovered within one year	215,010	155,171
Prepayments and other current assets	117,749	51,431
Total current assets	<u>2,270,436</u>	<u>2,502,216</u>
<b>Noncurrent assets:</b>		
Restricted cash and cash equivalents	1,739	1,714
Restricted investments	—	18
Utility plant and property and equipment, net	8,924,817	8,773,962
Nuclear decommissioning trust fund	142,514	144,346
Other long-term receivables	22,642	25,276
Unrealized charges	238,611	197,546
Financial derivative instruments	22,437	2,625
Regulatory assets for future recovery	931,569	995,203
Acquisition adjustment (net of accumulated amortization)	710,949	766,637
Total noncurrent assets	<u>10,995,278</u>	<u>10,907,327</u>
<b>Deferred outflows of resources:</b>		
Deferred defeasance costs on debt refunding	199,883	212,680
OPEB expense	242	242
Pension expense	1,251	1,251
Accumulated decrease in fair value of commodity derivative instruments	4,956	8,375
Total deferred outflows of resources	<u>206,332</u>	<u>222,548</u>
Total assets and deferred outflows of resources	<u>\$ 13,472,046</u>	<u>13,632,091</u>

# LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

## Consolidated Statements of Net Position

June 30, 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	\$ 472,000	292,000
Current maturities of long-term debt	103,300	101,860
Current maturities of UDSA debt	152,269	126,057
Current portion of capital lease obligations	167,648	171,170
Accounts payable and accrued expenses	372,300	402,937
Regulatory liabilities payable in one year	16,549	34,240
Commodity derivative instruments	48,959	56,287
Accrued payments in lieu of taxes	5,992	8,236
Accrued interest	53,024	55,264
Customer deposits	37,495	38,794
Total current liabilities	1,429,536	1,286,845
Noncurrent liabilities:		
Long-term debt, net	4,147,733	4,207,551
Long-term UDSA debt, net	4,175,223	4,286,774
Capital lease obligations, net	1,493,735	1,581,061
Borrowings	64,451	67,084
Operations Services Agreement – employee retirement benefits	809,744	796,509
Financial derivative instruments	193,072	125,794
Commodity derivative instruments	34,030	35,763
Asset retirement obligation	69,006	67,293
Long-term liabilities and unrealized credits	44,540	49,713
Claims and damages	67,922	68,197
Total noncurrent liabilities	11,099,456	11,285,739
Deferred inflows of resources:		
Regulatory credits – grants	476,894	482,710
Accumulated increase in fair value of financial derivatives	1,532	2,625
OPEB expense	2,324	3,336
Pension expense	506	506
Accumulated increase in fair value of NMP2 Trust and OPEB Account	38,305	51,462
Total deferred inflows of resources	519,561	540,639
Net position:		
Net investment in capital assets	90,345	204,756
Restricted	80,621	100,967
Unrestricted	252,527	213,145
Total net position	423,493	518,868
 Total liabilities, deferred inflows of resources and net position	\$ 13,472,046	13,632,091

# 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, 2020 and 2019

(Amounts in thousands)

(unaudited)

	<u>2020</u>	<u>2019</u>
Operating revenues – electric sales (net of uncollectible expense)	\$ 1,576,614	1,516,314
Operating expenses:		
Operations – power supply charge	703,362	686,154
Operations – power supply charge – property taxes	110,419	106,036
Operations and maintenance	319,055	310,653
Storm restoration	18,925	28,967
General and administrative	13,859	15,393
Depreciation and amortization	205,535	175,804
Payments in lieu of taxes and assessments	168,766	164,419
Total operating expenses	<u>1,539,921</u>	<u>1,487,426</u>
Operating income	<u>36,693</u>	<u>28,888</u>
Nonoperating revenues and expenses:		
Other income, net:		
Investment income	14,333	22,253
Grant income	20,214	17,582
Carrying charges on regulatory assets	10,894	11,633
Other	3,485	969
Total other income, net	<u>48,926</u>	<u>52,437</u>
Interest charges and (credits):		
Interest on debt	186,884	186,996
Other interest	15,466	11,017
Other interest amortizations	<u>(21,356)</u>	<u>(17,069)</u>
Total interest charges and (credits) net	<u>180,994</u>	<u>180,944</u>
Change in net position	(95,375)	(99,619)
Net position, beginning of year	<u>518,868</u>	<u>494,850</u>
Net position, end of period	<u>\$ 423,493</u>	<u>395,231</u>

# LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

## Consolidated Statements of Cash Flows

Six-month period ended June 30, 2020 and 2019

(Amounts in thousands)

(unaudited)

	2020	2019
Cash flows from operating activities:		
Operating revenues received	\$ 1,648,494	1,640,439
Paid to suppliers and employees:		
Operations and maintenance	(297,944)	(267,668)
Operations – power supply charge	(825,480)	(834,438)
Operations – power supply charge – property tax related	(110,419)	(106,036)
Payments in lieu of taxes	(288,803)	(282,201)
Collateral on commodity derivative transactions, net	24,873	(54,497)
PSEG Long Island pension funding	(15,000)	(14,000)
Net cash provided by operating activities	135,721	81,599
Cash flows from investing activities:		
Earnings received on investments	13,982	17,538
Sale of restricted investment securities	18	66,209
Sales of investment securities	329,886	117,179
Purchase of investment securities - OPEB Account	(21,680)	(3,559)
Net cash provided by investing activities	322,206	197,367
Cash flows from noncapital financing related activities:		
Grant proceeds	12,500	19,233
Proceeds from credit facility draws and commercial paper program	803,000	357,000
Redemption of credit facility draws and commercial paper program	(623,000)	(173,200)
Net cash provided by noncapital related activities	192,500	203,033
Cash flows from capital and related financing activities:		
Capital expenditures	(388,633)	(304,537)
Debt issuance costs	(197)	(251)
Other interest costs	(15,100)	(10,306)
Interest paid - LIPA	(79,204)	(75,027)
Interest paid – UDSA	(96,987)	(98,553)
Redemption of long-term debt – LIPA	(59,630)	(34,935)
Redemption of long-term debt – UDSA	(62,531)	(65,017)
Net cash used in capital and related financing activities	(702,282)	(588,626)
Net decrease in cash and cash equivalents	(51,855)	(106,627)
Cash and cash equivalents at beginning of year	525,698	662,615
Cash and cash equivalents at end of period	\$ 473,843	555,988
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 36,693	28,888
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	205,535	175,804
Other post-employment benefit non-cash expense	22,486	21,472
Nuclear fuel burned	3,817	4,678
Shoreham and VBA surcharges	20,090	19,393
Accretion of asset retirement obligation	1,713	1,286
Changes in operating assets and liabilities:		
Accounts receivable, net	(28,773)	78,247
Regulatory assets and liabilities	(57,396)	(44,454)
Fuel and material and supplies inventory	(6,202)	(7,202)
Accounts payable, accrued expenses and other	(62,242)	(196,513)
Net cash provided by operating activities	\$ 135,721	81,599



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## Management's Discussion and Analysis (Unaudited)

### Six-Month Period ended June 30, 2020 compared to 2019

#### Change in net position

Net position decreased \$95 million for the six-month period ended June 30, 2020, which is a \$5 million improvement as compared to the decrease for six-month period ended June 30, 2019 of \$100 million.

#### Operating revenues

Operating revenue increased \$60 million compared to the six-month period of 2019, primarily due to (i) an increase to the base delivery revenue and (ii) an increase in the Power Supply Charge, (iii) offset by a decrease in the Delivery Service Adjustment (DSA) driven by the storm component.

#### Operating expenses

The Power Supply Charge, including property taxes, increased \$22 million when compared to the same six-month period of 2019 primarily due to higher costs.

Storm restoration expense decreased \$10 million when compared to the same six-month period of 2019 due to a significant storm in the second quarter of 2019.

Depreciation and amortization increased \$30 million when compared to the same six-month period of 2019 primarily due to an updated depreciation analysis and higher depreciable asset base.

#### Non-operating revenues and expenses

Other income decreased \$4 million compared to the same six-month period of 2019 primarily due to a \$5 million realized gain on the sale of investments in the Nine Mile Decommissioning Trust Fund in the second quarter of 2019.

#### 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. The Governor's Executive Order designated utilities, including power generation, fuel supply and transmission, as "essential businesses" in the State.

LIPA 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, LIPA cannot predict the extent or duration of the outbreak or what impact it may have on LIPA's financial condition or operations.

#### Tropical Storm Isaias

On August 4, 2020, Tropical Storm Isaias reached Long Island with strong sustained winds and gusts over 70 mph according to the National Weather Service, which resulted in power outages to over 420,000 service area customers. Governor Cuomo declared a State Disaster Emergency, effective August 5, 2020, within the territorial boundaries of a number of counties around the State, including LIPA's entire service area.

It is too early to predict the full measure of the storm's impact, the cost of restoration and repairs and loss of revenues, but LIPA does not expect the storm to have a materially adverse impact on its financial conditions or operations.

# 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, 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 June 30, 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.

	June 30, 2020	Days Cash	December 31, 2019	Days Cash
<b>Operating liquidity</b>				
Unrestricted cash, cash equivalents & investments	\$ 397,734		743,307	
OPEB Account cash, cash equivalents & investments	397,353		386,262	
PSEG Long Island Working Capital requirements	232,735		248,499	
Total operating liquidity	1,027,822	126 days	1,378,068	173 days
<b>Available credit</b>				
General Revenue Notes – Revolving Credit Facility	198,000		198,000	
General Revenue Notes – Commercial Paper	330,000		510,000	
Total available credit	528,000		708,000	
Total cash, cash equivalents, investments & available credit	\$ 1,555,822	190 days	2,086,068	262 days
<b>Restricted cash, cash equivalents and investments</b>				
FEMA Grant Proceeds	1,739		1,732	
UDSA	88,620		109,049	
Total restricted cash, cash equivalents and investments	\$ 90,359		110,781	

# 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, 2020

## Financing Activities

LIPA's consolidated debt as of June 30, 2020 and December 31, 2019 is comprised of the following:

<i>(amounts in thousands)</i>	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Long-term debt:		
General Revenue Bonds	\$ 3,997,327	4,046,297
Unamortized premiums	253,706	263,114
Less: Current maturities	(103,300)	(101,860)
	<b>4,147,733</b>	<b>4,207,551</b>
UDSA Restructuring Bonds	3,946,301	4,008,832
Unamortized premiums	381,191	403,999
Less: Current maturities	(152,269)	(126,057)
	<b>4,175,223</b>	<b>4,286,774</b>
<b>Total Long-term debt</b>	<b>\$ 8,322,956</b>	<b>8,494,325</b>
Short-term debt:		
General Revenue Notes - Commercial Paper	\$ 470,000	290,000
General Revenue Notes - Revolving Credit Facility	2,000	2,000
<b>Total Short-term debt</b>	<b>\$ 472,000</b>	<b>292,000</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, 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 \$60 million as of June 30, 2020 compared to December 31, 2019 due primarily to the timing of the recovery mechanism related to the Power Supply Charge.

(amounts in thousands)	June 30, 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	13,627	23,607
Employee benefit plan settlement	15,634	15,634
Power supply charge recoverable	76,511	8,957
Revenue decoupling mechanism	393	—
Debt issuance costs	3,209	3,209
New York State assessment	2,259	1,393
Southampton visual benefit assessment	1,029	1,029
Distributed energy resources	1,006	—
	<u>\$ 215,010</u>	<u>155,171</u>
Regulatory assets for future recovery:		
OSA – employee retirement benefits	369,723	401,663
Shoreham property tax settlement	344,180	353,130
Employee benefit plan settlement	70,352	78,169
Delivery service adjustment	64,849	76,040
Power supply charge recoverable	42,726	44,766
Debt issuance costs	25,097	26,575
Unfunded actuarially determined reserves	8,018	8,018
Southampton visual benefit assessment	6,624	6,842
	<u>\$ 931,569</u>	<u>995,203</u>
Regulatory liabilities payable within one year:		
Utility 2.0	9,298	15,613
Revenue decoupling mechanism	—	12,875
Power supply charge refundable	2,081	—
Delivery service adjustment	5,170	5,737
Distributed energy resources	—	15
	<u>\$ 16,549</u>	<u>34,240</u>
Regulatory credits:		
Grants	476,894	482,710
	<u>\$ 476,894</u>	<u>482,710</u>

