



LIPA
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, 2021

**2021
1ST QTR
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). 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, constituting a political subdivision, 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 the 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.

LONG ISLAND POWER AUTHORITY

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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 three-month period ended March 31, 2021 compared to 2020 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 LILCO 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

(A Component Unit of the State of New York)

Consolidated Statements of Net Position

March 31, 2021 and December 31, 2020

(Amounts in thousands)

Assets and Deferred Outflows of Resources	2021 (unaudited)	2020 (audited)
Current assets:		
Cash and cash equivalents	\$ 293,064	266,400
Restricted cash – working capital requirements	132,347	78,165
Restricted cash	217,024	128,833
Investments	859,138	936,361
Restricted investments – working capital requirements	129,465	129,112
Counterparty collateral – posted by LIPA	48,648	71,634
Accounts receivable (less allowance for doubtful accounts of \$53,579 and \$43,891 at March 31, 2021 and December 31, 2020, respectively)	494,055	554,834
Other receivables	98,189	58,156
Fuel inventory	105,726	106,829
Material and supplies inventory	71,239	70,950
Regulatory assets to be recovered within one year	233,375	164,796
Prepayments and other current assets	78,997	47,676
Total current assets	2,761,267	2,613,746
Noncurrent assets:		
Restricted cash and cash equivalents	1,739	1,738
Utility plant and property and equipment, net	10,332,335	10,313,576
Nuclear decommissioning trust fund	167,766	164,085
Other long-term receivables	34,508	34,904
Unrealized charges	136,274	172,132
Financial derivative instruments	3,186	1,254
Regulatory assets for future recovery	1,281,230	1,293,044
Acquisition adjustment (net of accumulated amortization)	627,418	655,262
Total noncurrent assets	12,584,456	12,635,995
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	183,855	190,047
OPEB expense	161	161
Pension expense	2,597	2,597
Accumulated decrease in fair value of commodity derivatives	12,602	16,298
Accumulated decrease in fair value of financial derivatives	—	17,151
Total deferred outflows of resources	199,215	226,254
Total assets and deferred outflows of resources	\$ 15,544,938	15,475,995

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Consolidated Statements of Net Position

Three-month period ended March 31, 2021 and 2020

(Amounts in thousands)

Liabilities, Deferred Inflows of Resources and Net Position	2021 (unaudited)	2020 (audited)
Current liabilities:		
Short-term debt	\$ 582,000	417,000
Current maturities of long-term debt	78,610	78,610
Current maturities of UDSA debt	179,419	179,419
Current portion of lease obligations	335,902	334,031
Accounts payable and accrued expenses	423,055	533,633
Regulatory liabilities payable in one year	76,282	98,731
Commodity derivative instruments	6,283	34,461
Accrued payments in lieu of taxes	3,199	11,320
Accrued interest	74,407	56,068
Customer deposits	32,722	34,327
Total current liabilities	1,791,879	1,777,600
Noncurrent liabilities:		
Long-term debt, net	4,947,774	4,694,767
Long-term UDSA debt, net	4,050,156	4,061,650
Lease obligations	2,370,580	2,457,513
Borrowings	49,124	61,786
Operations Services Agreement – employee retirement benefits	929,578	925,098
Financial derivative instruments	133,360	172,893
Commodity derivative instruments	17,381	7,086
Asset retirement obligation	71,693	70,766
Long-term liabilities and unrealized credits	63,680	62,838
Claims and damages	66,082	65,734
Total noncurrent liabilities	12,699,408	12,580,131
Deferred inflows of resources:		
Regulatory credits – grants	466,684	470,312
Accumulated increase in fair value of financial derivatives	1,856	—
Lease revenue	9,816	9,816
OPEB expense	2,627	2,788
Pension expense	63	63
Accumulated increase in fair value of NMP2 Trust and OPEB Account	112,825	97,597
Total deferred inflows of resources	593,871	580,576
Net position:		
Net investment in capital assets	(56,315)	213,073
Restricted	161,636	136,746
Unrestricted	354,459	187,869
Total net position	459,780	537,688
Total liabilities, deferred inflows of resources, and net position \$	15,544,938	15,475,995

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, 2021 and 2020

(Amounts in thousands)

(unaudited)

	2021	2020
Operating revenues – electric sales (net of uncollectible expense) \$	821,926	727,903
Operating expenses:		
Operations – power supply charge	400,954	324,530
Operations – power supply charge – property taxes	55,389	55,209
Operations and maintenance	154,662	162,469
Storm restoration	27,801	4,471
General and administrative	10,398	7,171
Depreciation and amortization	103,695	101,241
Payments in lieu of taxes and assessments	86,063	84,282
Total operating expenses	838,962	739,373
Operating income	(17,036)	(11,470)
Nonoperating revenues and expenses:		
Other income, net:		
Investment income, net	3,734	9,171
Grant income	10,800	10,065
Carrying charges on regulatory assets	5,064	5,508
Other	11,326	4,442
Total other income, net	30,924	29,186
Interest charges and (credits):		
Interest on debt	92,191	94,090
Other interest	12,129	6,687
Other interest amortizations	(12,524)	(10,568)
Total interest charges and (credits), net	91,796	90,209
Change in net position	(77,908)	(72,493)
Net position, beginning of year	537,688	518,868
Net position, end of period	\$ 459,780	446,375

LONG ISLAND POWER AUTHORITY

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Consolidated Statements of Cash Flows

Three-month period ended March 31, 2021 and 2020

(Amounts in thousands)

(unaudited)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Operating revenues received	\$ 885,013	874,770
Paid to suppliers and employees:		
Operations and maintenance	(265,691)	(148,573)
Operations – power supply charge	(425,035)	(342,894)
Operations – power supply charge – property tax related	(52,426)	(55,209)
Payments-in-lieu-of-taxes	(152,689)	(145,214)
Collateral on commodity derivative transactions, net	22,986	(41,164)
PSEG Long Island pension funding	(9,350)	(7,500)
Net cash provided by operating activities	<u>2,808</u>	<u>134,216</u>
Cash flows from investing activities:		
Earnings received on investments	2,066	8,450
Sale of investment securities	77,223	177,905
Sale of restricted investment securities	—	18
Purchase of restricted investment securities – working capital investments	(353)	—
Purchase of investment securities – OPEB Account	(16,602)	(2,269)
Sale of investment securities – OPEB Account	28,643	—
Net cash provided by investing activities	<u>90,977</u>	<u>184,104</u>
Cash flows from noncapital financing related activities:		
Grant proceeds	8,079	6,250
Proceeds from credit facility draws and commercial paper program	490,000	753,000
Redemption of credit facility draws and commercial paper program	(325,000)	(245,000)
Net cash provided by noncapital related activities	<u>173,079</u>	<u>514,250</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(175,203)	(194,898)
Lease payments	(93,735)	(86,959)
Proceeds from the issuance of long-term debt	253,163	—
Debt issuance costs	(498)	—
Other interest costs	(12,936)	(8,354)
Interest paid – LIPA	(68,617)	(65,158)
Net cash used in capital and related financing activities	<u>(97,826)</u>	<u>(355,369)</u>
Net increase in cash and cash equivalents	169,038	477,201
Cash and cash equivalents at beginning of year	<u>475,136</u>	<u>525,698</u>
Cash and cash equivalents at end of period	<u>\$ 644,174</u>	<u>1,002,899</u>
Reconciliation to net cash provided by operating activities:		
Operating loss	\$ (17,036)	(9,358)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	103,695	101,241
Other post – employment benefit non – cash expense	11,737	11,206
Nuclear fuel burned	2,380	2,248
Shoreham and VBA surcharges	10,654	10,068
Accretion of asset retirement obligation	927	851
Changes in operating assets and liabilities:		
Accounts receivable, net	21,142	76,419
Regulatory assets and liabilities	(96,121)	(60,162)
Fuel and material and supplies inventory	814	1,191
Accounts payable, accrued expenses, and other	(35,384)	512
Net cash provided by operating activities	<u>\$ 2,808</u>	<u>134,216</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, 2021 and 2020

Operational Updates

Impacts from the COVID-19 Pandemic

In response to the COVID-19 health crisis, Governor Andrew M. Cuomo instituted the "New York State on Pause" executive order, which directed non-essential businesses in the State to close in-office personnel functions resulting in all non-essential businesses being required to close on March 22, 2020. LIPA has been taking steps to address the ongoing pandemic to ensure the health and safety of its employees and to sustain the T&D System for Service Area customers.

To ensure that customers impacted by the COVID-19 pandemic have access to essential electricity service, LIPA's Board of Trustees (Board) has suspended customer terminations and late payment charges; extended the grace period for low- and moderate-income customers to renew bill discounts; suspended reconnection fees for commercial customers who choose to disconnect their electric service during pauses in business activity; and eased repayment terms for customers entering into deferred payment agreements.

In addition, the economic impact of the pandemic has also resulted in increased arrears balances. LIPA increased its allowance for expected write-offs and LIPA's Board approved a modification to the Delivery Service Adjustment (DSA) to recover write-offs above amounts budgeted in 2021. The DSA related to write-offs totaled approximately \$6 million as of March 31, 2021.

On March 20, 2020, the Federal Emergency Management Agency (FEMA) announced that federal emergency funds will be made available for recovery efforts related to the COVID-19 pandemic. LIPA has been approved for public assistance; however, as no grant application has been finalized or approved LIPA's Consolidated Financial Statements do not include any potential amounts for FEMA reimbursement.

LIPA will continue to monitor developments relating to the COVID-19 pandemic; however, LIPA cannot predict the extent to which COVID-19 may have an effect on its liquidity, financial condition, and results of operations.

Certain Litigation Related to Payments in Lieu of Taxes

By statute, LIPA makes payments in lieu of taxes (PILOTs) for real property it acquired from LILCO. Beginning in calendar year 2015, the LIPA Reform Act capped LIPA's PILOT payments to no more than 2% higher than the prior calendar year.

In 2017, LIPA received notices from Suffolk County claiming to enforce liens against certain of LIPA properties for alleged unpaid real estate taxes. LIPA has paid the PILOT amounts it is authorized to pay by law. Furthermore, Suffolk County lacks legal authority to enforce a tax lien on LIPA's property. LIPA filed a legal action to negate any attempt by Suffolk County to enforce the alleged tax liens. LIPA also filed suit against Suffolk County towns to ensure that they comply with the annual 2% limit on growth in such taxes.

On April 1, 2021, the Supreme Court, Suffolk County issued a Decision and Order that found: (1) LIPA's T&D properties are not exempt from real-property taxation for tax years 2014/15 through 2019/20 by reason of LIPA's failure to timely challenge its unlawful assessment as non-exempt, taxable properties by the Town Assessors during those tax years; and (2) compelling LIPA to pay to Suffolk County the unpaid real property taxes levied against the T&D properties for tax years 2014/15 through 2019/20, with interest and penalties in the amount of approximately \$67 million. LIPA filed its notice of appeal on April 30, 2021. LIPA does not believe this litigation will have a material adverse impact on the business or the affairs of LIPA or its subsidiary, LILCO.

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Management's Discussion and Analysis (Unaudited)

Three-month period ended March 31, 2021 and 2020

Management's Discussion and Analysis (Unaudited)

Financial Condition Overview

Three-Month Period ended March 31, 2021 compared to 2020

Change in net position

Net position decreased \$78 million for the three-month period ended March 31, 2021, compared to the decrease for three-month period ended March 31, 2020 of \$73 million.

Operating revenues

Operating revenue increased \$94 million compared to the three-month period of 2020, primarily due to (i) an increase in the Power Supply Charge and (ii) an increase in the Delivery Service Adjustment (DSA).

Operating expenses

The Power Supply Charge, including property taxes, increased \$77 million when compared to the same three-month period of 2020 primarily due to higher commodity and purchased power costs, driven in part by colder weather and increased gas prices in 2021.

Operations and maintenance expense decreased \$8 million compared to the same three-month period of 2020 due to lower labor costs resulting from (i) attrition resulting from the deployment of smart meters and (ii) customer office vacancies. Also contributing to the decrease was reduced rebate and advertising costs.

Storm restoration expense increased \$23 million when compared to the same three-month period of 2020 due to PSEG Long Island response to two major storms through March 2021, one of which required mutual aid assistance. PSEG Long Island responded to three major storm events through March 2020, however, none required mutual aid assistance.

General and administrative expense increased \$3 million when compared to the same three-month period of 2020 due timing of consultant costs.

Non-operating revenues and expenses

Other income increased \$2 million compared to the same three-month period of 2020 primarily due to recognition of unamortized upfront borrowings received on a basis swap which was terminated in 2021. This increase was partially offset by decreases in valuations on investments.

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Management's Discussion and Analysis (Unaudited)

Three-month period ended March 31, 2021 and 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, 2021 and December 31, 2020, LIPA'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, 2021	Days Cash	December 31, 2020	Days Cash
Operating liquidity				
Unrestricted cash, cash equivalents, and investments	\$ 648,194		\$ 727,395	
OPEB Account cash, cash equivalents, and investments	504,008		475,366	
PSEG Long Island working capital requirements	261,812		207,277	
Total operating liquidity	<u>1,414,014</u>	175	<u>1,410,038</u>	173
Available credit				
General revenue notes – Revolving Credit Facility	198,000		198,000	
General revenue notes – Commercial Paper	420,000		585,000	
Total available credit	<u>618,000</u>		<u>783,000</u>	
Total cash, cash equivalents, investments, and available credit	\$ <u>2,032,014</u>	252	\$ <u>2,193,038</u>	268
Restricted cash, cash equivalents and investments				
FEMA Grant Proceeds	1,739		1,738	
UDSA	217,024		128,833	
Total restricted cash, cash and cash equivalents, and investments	\$ <u>218,763</u>		\$ <u>130,571</u>	

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Management's Discussion and Analysis (Unaudited)

Three-month period ended March 31, 2021 and 2020

Consolidated Debt

LIPA's consolidated debt as of March 31, 2021 and December 31, 2020 is comprised of the following:

<i>(amounts in thousands)</i>	March 31, 2021	December 31, 2020
Long-term debt:		
General revenue bonds/notes	\$ 4,717,714	4,462,713
Unamortized premiums	308,670	310,664
Less: Current maturities	<u>(78,610)</u>	<u>(78,610)</u>
	<u>4,947,774</u>	<u>4,694,767</u>
UDSA restructuring bonds	3,882,775	3,882,775
Unamortized premiums	346,800	358,294
Less: Current maturities	<u>(179,419)</u>	<u>(179,419)</u>
	<u>4,050,156</u>	<u>4,061,650</u>
Total Long-term debt	<u><u>8,997,930</u></u>	<u><u>8,756,417</u></u>
Short-term debt:		
General revenue notes – Commercial Paper	\$ 580,000	415,000
General revenue notes – Revolving Credit Facility	<u>2,000</u>	<u>2,000</u>
Total Short-term debt	<u><u>\$ 582,000</u></u>	<u><u>417,000</u></u>

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Management's Discussion and Analysis (Unaudited)

Three-month period ended March 31, 2021 and 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 to be recovered within one-year period increased \$69 million as of March 31, 2021 compared to December 31, 2020 due primarily to the timing of the recovery mechanism related to the Power Supply Charge.

<i>(amounts in thousands)</i>	2021	2020
Regulatory assets to be recovered within one year:		
OSA – employee retirement benefits	\$ 54,006	54,006
Shoreham property tax settlement	48,197	48,197
Delivery service adjustment	29,912	37,431
Employee benefit plan settlement	15,634	15,634
Power supply charge recoverable	77,255	4,078
Debt issuance costs	3,209	3,209
Southampton visual benefit assessment	1,003	1,003
New York State assessment	4,159	976
Distributed energy resources	—	262
	<u>\$ 233,375</u>	<u>164,796</u>
Regulatory assets for future recovery:		
OSA – employee retirement benefits	423,319	440,590
Shoreham property tax settlement	319,188	324,554
Delivery service adjustment	377,596	357,816
Employee benefit plan settlement	58,627	62,535
Power supply charge recoverable	39,851	40,872
Revenue decoupling mechanism	25,550	29,570
Debt issuance costs	22,635	23,329
Unfunded actuarially determined reserves	8,132	8,132
Southampton visual benefit assessment	6,332	5,646
	<u>\$ 1,281,230</u>	<u>1,293,044</u>
Regulatory liabilities payable within one year:		
Power supply charge refundable	5,573	35,101
Revenue decoupling mechanism	43,354	34,035
Utility 2.0	25,341	28,587
Distributed energy resources	888	—
Delivery service adjustment	1,126	1,008
	<u>\$ 76,282</u>	<u>98,731</u>
Regulatory credits:		
Grants	466,684	470,312
	<u>\$ 466,684</u>	<u>470,312</u>

