LIPA
Long Island Power Authority

(A Component Unit of the State of New York)

Consolidated Financial Statements and Required Supplementary Information

December 31, 2021 and 2020

(With Independent Auditors' Reports Thereon)

Table of Contents


Montauk, Long Island, New York

KPMG LLP
Suite 200
1305 Walt Whitman Road
Melville, NY 11747-4302

Independent Auditors' Report

Board of Trustees
Long Island Power Authority

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the business-type activities of the Long Island Power Authority (LIPA), a component unit of the State of New York, as of and for the years ended December 31, 2021 and 2020, and the related notes to the consolidated financial statements, which collectively comprise LIPA's consolidated financial statements as listed in the table of contents.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of LIPA, as of December 31, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of LIPA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LIPA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LIPA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LIPA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis on pages 3 through 23 and the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions on page 89 be presented to supplement the consolidated financial statements. Such information is the responsibility of management and, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2022 on our consideration of LIPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LIPA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LIPA's internal control over financial reporting and compliance.

KPMG LLP

Melville, New York
March 30, 2022

(Amounts in thousands, unless otherwise stated)

Introduction

The Long Island Power Authority (LIPA) is a component unit of the State of New York (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. 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 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 governed by a local Board of Trustees (Board) consisting of nine Trustees, five of whom are appointed by the Governor, two by the Temporary President of the State Senate, and two by the Speaker of the State Assembly. The Board supervises, regulates, and sets policy and rates for LIPA. However, in accordance with the LIPA Reform Act, codified as Chapter 173, Laws of New York (Reform Act) in 2013, LIPA is required to submit any proposed rate increase to the NYS Department of Public Service (DPS) for review if it would increase the rates and charges by an amount that would increase LIPA's annual revenues by more than 2.5%; however, LIPA's Board retains final rate-setting power.

The Reform Act also created the Securitization Law, which established LIPA's component unit, the Utility Debt Securitization Authority (UDSA). The Securitization Law's purpose was to provide the legislative foundation for the issuance of restructuring bonds that allowed LIPA to retire approximately $4.5 billion of its outstanding indebtedness, generating net present value debt service savings of $492 million for LIPA's customers. In 2021, LIPA successfully obtained an amendment to the UDSA legislation that permits the issuance of additional securitized bonds for refinancing and allows for borrowing to fund LIPA's T&D system resiliency investments. With these legislative changes the UDSA may issue up to $8.0 billion of securitized bonds (inclusive of the bonds already issued).

LIPA contracts to provide the majority of services necessary to deliver electric service in the Service Area. The primary contract is the Amended and Restated Operations Services Agreement (A&R OSA) with PSEG Long Island LLC (PSEG Long Island).

PSEG Long Island commenced managing LIPA's electric T&D system on January 1, 2014 under the PSEG Long Island brand name. PSEG Long Island manages day-to-day T&D system operating functions as well as certain administrative support functions. PSEG Long Island acts as agent in performing many of its obligations and in return receives (a) reimbursement for pass-through operating expenditures, (b) a fixed management fee, and (c) an incentive fee contingent on meeting certain performance metrics. See Operational Highlights for a discussion on the pending approval of a reformed second Amended and Restated Operations Services Agreement (Second A&R OSA) with PSEG Long Island.

LIPA also has a contract with PSEG Energy Resources and Trade LLC (PSEG ER&T) to provide 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 various third-party power generators.

Overview of the Consolidated Financial Statements

LIPA's 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 annual financial report for LIPA includes management's discussion and analysis and the Consolidated Financial Statements. The Consolidated Financial Statements consist of the Statements of Net Position, the Statements of Revenue, Expenses, and Changes in Net Position, the Statements of Cash Flows, and the Notes to Consolidated Financial Statements (Notes). Following the Consolidated Financial Statements is LIPA's Required Supplemental Information relating to its participation in the New York State and Local Employee's Retirement System.

Management's discussion and analysis provides an overview of LIPA's financial information for the years ended December 31, 2021 and 2020, with comparative information as of and for the year ended December 31, 2019. Management's discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes. The Notes are an integral part of LIPA's Consolidated Financial Statements and provide additional information on certain components of these statements.

During 2020, LIPA adopted GASB Statement No. 87, *Leases* (GASB Statement No. 87). GASB Statement No. 87 establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, LIPA was required to recognize a lease liability and an intangible right-to-use lease asset for certain of its leases that were previously reported as operating leases under the previous accounting standards. As a result of the adoption of GASB Statement No. 87, amounts for the year ended 2019 reflect a retroactive increase of $1.4 billion for the recognition of the right-to-use asset included in Utility plant, property, and equipment with a corresponding increase in Lease obligations.

The Consolidated Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.

The Consolidated Statements of Revenues, Expenses, and Changes in Net Position report all of LIPA's revenues and expenses for the periods shown.

The Consolidated Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income and debt financing, and other cash uses such as payments for debt service and capital additions.

The Notes to Consolidated Financial Statements provide additional detailed information to support the Consolidated Financial Statements.

The Required Supplemental Information includes unaudited information required by GASB to accompany the Consolidated Financial Statements and relates to LIPA's participation in the New York State and Local Employees' Retirement System.

Operational Highlights

Reformed Operations Services Agreement

On Tuesday, August 4, 2020, Tropical Storm Isaias caused approximately $300 million of damages to LIPA's T&D system and interrupted service to more than half of LIPA's customers, making it the third-most damaging storm to impact the system.

LIPA established an Isaias Task Force to undertake a thorough analysis of the root causes underlying the failures of PSEG Long Island's customer communications and outage management system during the storm. As a result of the investigation, LIPA sought organizational and contractual changes as recommended by the Task Force. During 2021, LIPA and PSEG Long Island reached agreement on a reformed contract. Pursuant to the proposed Settlement Agreement, the second A&R OSA would, among other things, increase the amount of PSEG Long Island's annual compensation at risk from $10 million to $40 million; include automatic compensation reductions for failures to meet minimum emergency response, customer satisfaction, and reliability standards, strengthen the dedicated Long Island management team, enhance oversight in long-term planning, project prioritization and budget development, partition Long Island information technology systems, facilitate independent verification and validation and provide a new DPS investigative process to reduce compensation for failures to provide safe, adequate, and reliable service to customers. In addition, PSEG Long Island would be subject to expanded performance requirements set annually by the Board and DPS. The proposed second A&R OSA would eliminate PSEG Long Island's eight-year term extension option; instead, the second A&R OSA will expire on December 31, 2025.

The second A&R OSA was approved by LIPA's Board on December 15, 2021, was approved by the New York State Attorney General on January 6, 2022, and is pending review and approval by the State Comptroller.

New York State Climate Leadership and Community Protection Act (CLCPA)

The CLCPA, signed in 2019, requires the State to reduce economy- wide greenhouse emissions 40% by 2030 and 85% by 2050. In order to develop a path forward for compliance with the CLCPA, in June 2021, LIPA launched its 2022 Integrated Resource Plan (IRP). The IRP, which is scheduled for completion in December 2022, will support LIPA by developing plans to ensure there is access to adequate electric power resources to enable LIPA to continue to serve its customers reliably and affordably.

The IRP will result in a plan that will identify the key activities and investments that LIPA will need to undertake to meet State and local goals. Objectives include supporting and meeting CLCPA goals; retiring fossil-fueled generation; integrating substantial amounts of renewable energy resources; identifying the impacts of beneficial electrification; and increasing the availability of clean energy technologies in disadvantaged communities.

To support transition to the CLCPA, LIPA's 2022 operating budget includes $106 million for utility-scale renewable projects, $93 million for energy efficiency and distributed energy programs, $52 million for residential and commercial solar and distributed energy systems, $5 million for Utility 2.0 programs and $3 million for new utility-owned LED lighting. LIPA's Utility 2.0 plan focuses on programs that improve energy efficiency, utilize new technology, such as smart meters, to address emerging resource and system needs, and encourage beneficial electrification through the adoption of electric vehicles and heat pumps.

Furthermore, to continue LIPA's commitment to the investments necessary to provide reliable electric service to customers, LIPA's 2022 capital budget of $783 million includes $178 million for load growth projects, $252 million for projects that target improved system reliability, $70 million for the second phase on LIPA's storm hardening initiative called "Power-on," $3 million associated with the final phase of the FEMA funded storm hardening, and $82 million in information technology related investments.

Generation Plants Under Contract

Under the Amended and Restated Power Supply Agreement (A&R PSA) with National Grid, LIPA contracts for approximately 3,700 megawatts of capacity (and related energy) from National Grid's legacy fossil generating plants located on Long Island. Under this agreement, which expires in 2028, LIPA is responsible for the property taxes on these generating plants. LIPA has sought reductions to such assessments and associated property tax bills over the past decade.

As a result, LIPA negotiated a settlement with the Town of Brookhaven and the Village of Port Jefferson on the Port Jefferson power plant for the taxes to decrease to approximately half of current levels by 2027. In September 2020, LIPA also reached an agreement with the Huntington Town Board and the Northport-East Northport School District for similar reductions on assessments of the Northport power plant. On March 25 2022, LIPA reached a tentative agreement for similar terms with Nassau County for the E.F. Barrett and the Glenwood Landing power plants. The Nassau County Legislature is expected to vote on the settlement on April 25, 2022. Should the agreement not be approved by the legislature, LIPA expects to move forward to trial, which is scheduled for May 28, 2022.

Also impacting LIPA's contracted generating plants are new Department of Environmental Conservation (DEC) regulations for nitrogen oxide (NOx) air emissions from peaking plants to take effect May 1, 2023, which directed all affected generation owners to submit compliance plans by March 2, 2020. National Grid, as owner of the plants, in consultation with LIPA, identified which units would require retrofits. As a result, LIPA and National Grid plan to retire five peaking units where retrofits are not cost-effective: two units at Glenwood Landing (15 and 55 megawatts); one unit at West Babylon (52 megawatts); and two units at Shoreham (53 and 19 megawatts). The retirements are expected to take effect in May 2025. In the meantime, the units will operate in compliance with the regulations that are applicable between 2023 and 2025. LIPA is reviewing other generating units for retirement prior to the expiration of the A&R PSA in 2028, potentially facilitated by the addition of new offshore wind and storage resources. All remaining National Grid peaking units are, or will be, in compliance with the DEC NOx regulations by the May 2023 deadline.

In November 2021 LIPA entered into a five-year capacity agreement with the New York Power Authority (NYPA) intended to enable NYPA to maintain its Flynn Power Plant, until sufficient new resources become available to allow its retirement.

In April 2021, PSEG Long Island issued a Request for Proposals to solicit bids for development of up to 175 MW of bulk energy storage projects to be located on Long Island under contract to LIPA. The procurement will help LIPA meet its share of the State's energy storage deployment goal established in the CLCPA, which amounts to approximately 187 MW out of the 2025 statewide goal of 1,500 MW. LIPA is currently evaluating the proposals.

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 the ten 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 alleged unpaid real property taxes levied against the T&D properties for tax years 2014/15 through 2019/20 (by stipulation, the judgment includes the 2020/21 tax year). A judgment was entered on October 8, 2021. LIPA filed a notice of appeal from the judgment on October 14, 2021, and the appeal was filed on December 17, 2021. Enforcement of the judgment is stayed pending the determination of LIPA's appeal. LIPA estimates the potential exposure with penalties and interest to be approximately $90 million. As a regulated entity, LIPA obtained regulatory approval from its Board to defer the recovery of these costs from its customers until the conclusion of the appeal process. LIPA does not believe this litigation will have a material adverse impact on the business or the affairs of LIPA or its subsidiary, LILCO.

COVID-19

LIPA has been able to maintain effective communications and carry out its activities without any disruption during the COVID-19 pandemic. PSEG Long Island also has instituted measures to have its workforce work remotely and instituted work practices for field personnel to maintain a safe work environment.

The decline in business activity in LIPA's Service Area resulted in lower commercial customer sales revenues in 2021 and 2020. LIPA's revenue decoupling mechanism (RDM) recoups revenues for this lower consumption as it compares actual revenues with authorized revenues and credits (or collects) any differences to (or from) customers. However, to aid its commercial customers from a high bill impact, the Board elected to limit the RDM rate to a maximum of 5% of delivery service revenues for any customer class with amounts not collected carried forward to subsequent periods. 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.

In addition, on March 20, 2020, the Federal Emergency Management Agency (FEMA) announced that federal emergency funds will be made available for certain incremental costs during the 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 as of December 31, 2021, LIPA's 2021 Consolidated Financial Statements do not include amounts for expected 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.

Financial Condition Overview

LIPA's Consolidated Statements of Net Position as of December 31, 2021, 2020, and 2019 are summarized below.

($ in thousands)

Assets and deferred outflows of resources:		2021	2020	2019
Capital assets	$	10,414,617	10,313,576	10,159,251
Current assets		2,773,753	2,448,950	2,347,045
Regulatory assets		1,436,195	1,623,091	1,343,731
Noncurrent assets		994,447	864,124	944,805
Deferred outflows of resources		173,975	226,254	222,548
Total assets and deferred outflows of resources		**15,792,987**	**15,475,995**	**15,017,380**
Liabilities and deferred inflows of resources:				
Long-term debt, net of current maturities		9,140,815	8,756,417	8,494,325
Current liabilities		1,657,813	1,678,869	1,427,345
Regulatory liabilities		203,635	98,731	34,240
Noncurrent liabilities		3,394,906	3,823,714	4,001,963
Deferred inflows of resources		793,439	580,576	540,639
Total liabilities and deferred inflows of resources		**15,190,608**	**14,938,307**	**14,498,512**
Total net position		**602,379**	**537,688**	**518,868**
Total liabilities, deferred inflows of resources, and net position	$	**15,792,987**	**15,475,995**	**15,017,380**

Assets and Deferred Outflows of Resources

2021 Compared to 2020

Assets and deferred outflows of resources increased by $317 million compared to 2020 due to increases of $101 million in capital assets, $325 million in current assets and $130 million in other noncurrent assets. These increases were partially offset by decreases of $187 million in regulatory assets, and $52 million decrease in deferred outflows of resources.

Capital assets increased $101 million compared to 2020 primarily due to higher investment in reliability capital projects, as well as certain storm hardening projects. These capital additions were partially offset by asset retirements and annual depreciation expense.

Current assets increased $325 million compared to 2020 primarily due to increased investment balances from the unspent proceeds received from the issuance of the Electric System General Revenue Bonds, Series 2021A and Series 2021B, an increase in mark-to-market valuation on commodity derivative instruments maturing within one year, and increased accounts receivable arrears balances resulting from the impacts of the COVID-19 pandemic.

Regulatory assets decreased $187 million primarily due to a decrease of $198 million in the OSA-Employee Retirement Benefits resulting from an updated actuarial study, a decrease of $48 million in unrealized mark-to-market changes on derivative instruments, a decrease of $26 million on the revenue decoupling mechanism, along with scheduled annual recovery or amortizations of regulatory assets totaling $45 million. These decreases were partially offset by an increase of $90 million resulting from recognition of the deferred recovery of costs associated with the estimated potential impact of the Suffolk County property tax litigation, and an increase of $40 million in the DSA resulting primarily from deferred storm restoration costs. For a full discussion of the regulatory assets and liabilities, see Note 5 to LIPA's Consolidated Financial Statements.

Other noncurrent assets increased $130 million due to the recognition of the $172 million FEMA receivable related to mitigation reimbursement due under the Superstorm Sandy Letter of Understanding, $63 million increase in commodity derivative instrument valuations, and an increase of $20 million in the NMP2 decommissioning trust. These increases were partially offset by $111 million of scheduled amortization of the Acquisition Adjustment.

Deferred outflow of resources decreased $52 million primarily due to the accumulated decrease in fair value of the effective financial and commodity derivative instruments.

2020 Compared to 2019

Assets and deferred outflows of resources increased by $459 million compared to 2019 due to increases of $154 million in capital assets, $102 million in current assets, $279 million in regulatory assets, and $4 million increase in deferred outflows of resources. These increases were partially offset by a decrease of $81 million in other noncurrent assets.

Capital assets increased $154 million compared to 2019 primarily due to higher investment in reliability capital projects, as well as certain storm hardening projects. These capital additions were partially offset by asset retirements and annual depreciation expense.

Current assets increased $102 million compared to 2019 primarily due to increased investment balances from the unspent proceeds received from the issuance of the Electric System General Revenue Bonds, Series 2020A and Series 2020B, and increased accounts receivable arrears balances resulting from the impacts of the COVID-19 pandemic.

Regulatory assets increased $279 million primarily due to an increase of $296 million in the DSA resulting from deferred recovery of restoration costs incurred as a result of Tropical Storm Isaias, and an increase of $39 million in the OSA-Employee Retirement Benefits resulting from an updated actuarial study. These increases were partially offset by the scheduled annual recovery or amortizations of regulatory assets totaling $57 million. For a full discussion of the regulatory assets and liabilities, see Note 5 to LIPA's Consolidated Financial Statements.

Other noncurrent assets decreased $81 million primarily due to the $111 million of scheduled amortization of the Acquisition Adjustment, partially offset by an increase of $20 million in the NMP2 decommissioning trust.

Deferred outflow of resources increased $4 million primarily due to the scheduled amortization of previously deferred costs associated with refunding of higher cost debt.

Liabilities and Deferred Inflows of Resources

2021 Compared to 2020

Liabilities and deferred inflows of resources increased $252 million due to increases of $384 million in long-term debt, a $105 million increase in regulatory liabilities and a $213 million increase in deferred inflows of resources. These increases were partially offset by a decrease of $429 million in noncurrent liabilities and $21 million in current liabilities.

Long-term debt, net of current portion, increased $384 million as LIPA issued Electric System General Revenue Bonds Series 2021A, 2021B and 2021C totaling $725 million, plus $97 million premium, to fund capital projects, refinance variable rate debt, and refund higher cost debt. The refunding produced net present value savings to LIPA's customers of $46 million. The remaining increase is attributable to the accretion of LIPA's capital appreciation bonds. These increases were partially offset by the $247 million of current debt maturities classified as current liabilities and the scheduled amortization of premium totaling $82 million.

Current liabilities decreased $21 million primarily due to a decrease of $102 million in accounts payable processed related to Tropical Storm Isaias, the change in the market value of commodity derivative instruments eliminating $34 million liability at December 31, 2021. These decreases were partially offset by an increase of $109 million on counterparty collateral due to changes in the market value of LIPA's commodity derivative instruments and an increase of $4 million in current maturities of long-term debt and lease obligations.

Regulatory liabilities increased $105 million primarily due to a $136 million increase on unrealized mark-to-market gains on commodity derivative instruments, an increase of $3 million in deferrals resulting from the DSA and a $2 million increase for distributed energy resources. These increases were partially offset by a $27 million decrease in the power supply charge refundable, a $8 million decrease in the RDM, and a $2 million decrease in the deferrals related to the Utility 2.0 program. For a full discussion of the regulatory assets and liabilities, see Note 5 to LIPA's Consolidated Financial Statements.

Other noncurrent liabilities decreased $429 million primarily due to a $336 million amortization of lease obligations, a $112 million decrease in the PSEG Long Island's workforce retirement benefit obligations resulting from updated assumptions and increased discount rates assumed in the actuarial valuation, a $42 million decrease in the mark-to-market value of financial and commodity derivative instruments, a $22 million decrease due to the termination of three interest rate basis swap instruments which had remaining upfront premium balances, and $5 million of amortization related to swap instrument premiums. These decreases were partially offset by the recognition of the estimated potential impact of the Suffolk County property tax litigation totaling $90 million.

Deferred inflows of resources increased $213 million primarily due to an increase of $172 million of regulatory credits due to the recognition of the remaining estimated balance of the FEMA Superstorm Sandy mitigation grant, a $52 million increase in mark-to-market valuations on certain investment accounts, and an increase of $5 million on LIPA employee pension and OPEB deferred expenses. These increases were partially offset by the amortization of the regulatory grant credits totaling $16 million.

2020 Compared to 2019

Liabilities and deferred inflows of resources increased $440 million due to increases of $262 million in long-term debt, $251 million in current liabilities, $64 million in regulatory liabilities, and $40 million in deferred inflows of resources. These increases were partially offset by a decrease of $178 million in noncurrent liabilities.

Long-term debt, net of current portion, increased $262 million as LIPA issued $488 million Electric System General Revenue Bonds Series 2020A and 2020B, which together with the $75 million of premium received on the bonds, funded capital projects. In addition, LIPA issued $114 million Electric System General Revenue Bonds Series 2020C to refund approximately $104 million of various bonds for net present value savings of $28 million. The remaining increase is attributable to the accretion of LIPA's capital appreciation bonds. These increases were partially offset by the $258 million of current debt maturities classified as current liabilities and the scheduled amortization of premium totaling $73 million.

Current liabilities increased $251 million primarily due to an increase in outstanding accounts payable amounts of $130 million due to timing of property tax bills and Tropical Storm Isaias billings, an increase of $125 million in short-term debt, and an increase of $18 million in current maturities of long-term debt and lease obligations, offset by a $22 million decrease in the mark-to-market value of the commodity derivative instruments.

Regulatory liabilities increased $64 million primarily due to a $35 million increase in the power supply charge refundable and an increase of $21 million in the RDM, the deferral mechanism designed to reconcile all sources of delivery service revenues variances. In 2020, residential customer sales variances were impacted by a hotter than usual summer and stay-at-home orders resulting from the COVID-19 pandemic, resulting in a RDM refundable to customers. Also impacting the increase was the increase in the deferrals related to the Utility 2.0 program. The Board authorized deferral to a regulatory liability of $13 million of unspent funds related to the Utility 2.0 program. This regulatory credit is to fund future expenditures filed under the Utility 2.0 program. These increases were partially offset by a decrease of $5 million in deferrals resulting from the DSA. For a full discussion of the regulatory assets and liabilities, see Note 5 to LIPA's Consolidated Financial Statements.

Other noncurrent liabilities decreased $178 million primarily due to the annual amortization of lease obligations totaling $334 million, which was partially offset by an increase in the PSEG Long Island's workforce retirement benefit obligations resulting from an updated actuarial valuation totaling $129 million. The remaining increase is due to the timing of various employee benefit accruals.

Deferred inflows of resources increased $40 million primarily due to the $46 million increase in mark-to-market valuations on certain investment accounts and the recognition of $10 million for deferred lease revenue. These increases were partially offset by the amortization of the regulatory grant credits totaling $12 million.

Results of Operations

LIPA's Consolidated Statements of Revenues, Expenses, and Changes in Net position for the years ended December 31, 2021, 2020, and 2019 are summarized as follows:

($ in thousands)

		2021	2020	2019
Electric revenue (net of uncollectible expense)	$	3,930,788	3,900,721	3,516,355
Operating expenses		(3,630,026)	(3,641,086)	(3,237,837)
Interest charges, net		(357,243)	(358,995)	(363,673)
Total expenses		(3,987,269)	(4,000,081)	(3,601,510)
Revenue less operating expenses and interest charges, net		(56,481)	(99,360)	(85,155)
Grant income		39,986	44,871	35,916
Other income		81,186	73,309	73,257
Total other income, net		121,172	118,180	109,173
Change in net position		64,691	18,820	24,018
Net position, beginning of year		537,688	518,868	494,850
Net position, end of year	$	602,379	537,688	518,868

2021 Compared to 2020

Electric operating revenues, net of uncollectible expense, for 2021 totaled $3.93 billion, an increase of $30 million compared to 2020 due to increases in (i) power supply charge (PSC) revenue totaling $210 million; (ii) base delivery revenues of approximately $63 million; and (iii) amortization of $15 million of Utility 2.0 revenue collected in prior periods. These increases were partially offset by a decrease of $248 million in the DSA primarily due to lower storm restoration costs as $306 million of Tropical Storm Isaias cost was deferred in 2020 and the decrease of $8 million of the Distributed Energy Resources (DER) revenue.

2020 Compared to 2019

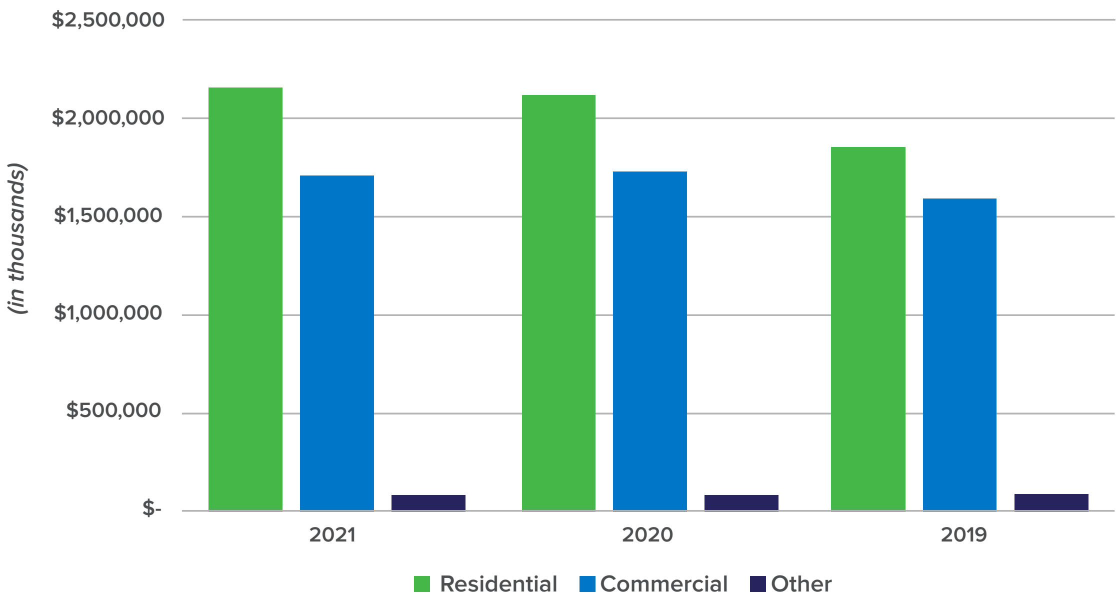
Electric operating revenues, net of uncollectible expense, for 2020 totaled $3.90 billion, an increase of $384 million compared to 2019 due to increases in (i) the DSA of $306 million due primarily to the Tropical Storm Isaias cost recovery deferral; (ii) the base delivery revenues of $75 million; (iii) the PSC of $13 million; (iv) DER revenues of $6 million; and (v) the Utility 2.0 program revenues of $2 million. These increases were partially offset by a decrease in miscellaneous revenue of $7 million driven by the suspension of various fees to assist customers impacted by COVID-19 and the increase of $12 million in the reserve for uncollectible expense.

(Amounts in thousands, unless otherwise stated)

The following table and chart represent revenue for the years ended December 31, 2021, 2020, and 2019 by customer class (residential, commercial, and other):

Revenues from sales of electricity:		**2021**	**2020**	**2019**
Residential	$	2,153,778	2,107,710	1,850,891
Commercial		1,700,386	1,715,532	1,582,981
Other		76,624	77,479	82,483
	$	3,930,788	3,900,721	3,516,355

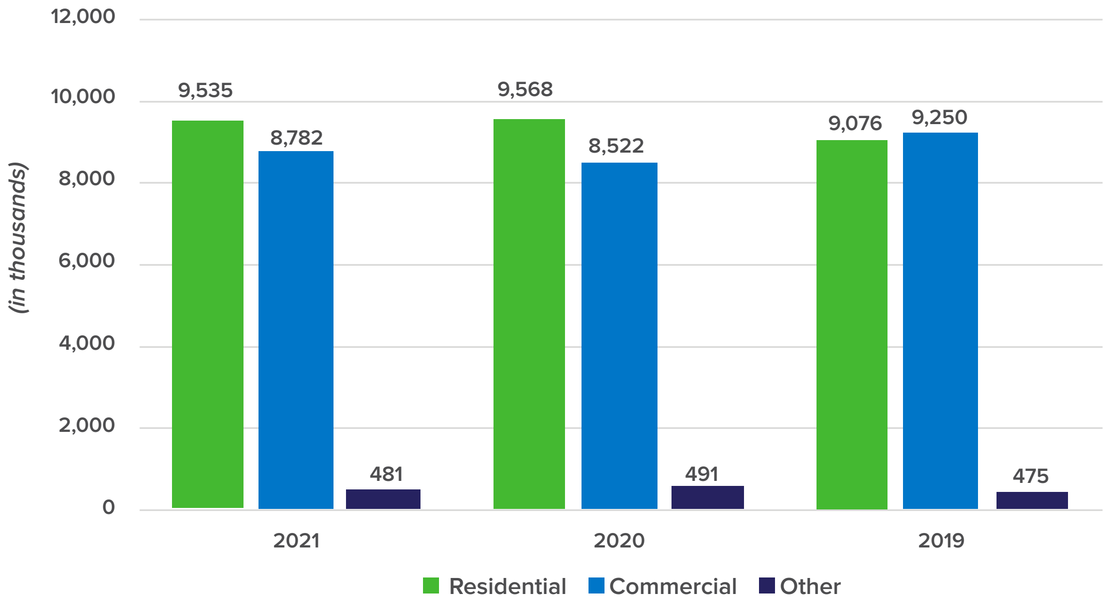
Revenues from Sales of Electricity by Customer Class



(Amounts in thousands, unless otherwise stated)

The following chart shows megawatt hour (MWh) sales for the years ended December 31, 2021, 2020, and 2019 by customer class (residential, commercial, and other). The largest customer in the Service Area (the Long Island Rail Road) accounted for less than 2% of total sales and less than 2% of revenue, which is included in "Other" sales. In addition, the ten largest customers in the Service Area accounted for approximately 7% of total sales and 6% of revenue.

Megawatt Hour Sales



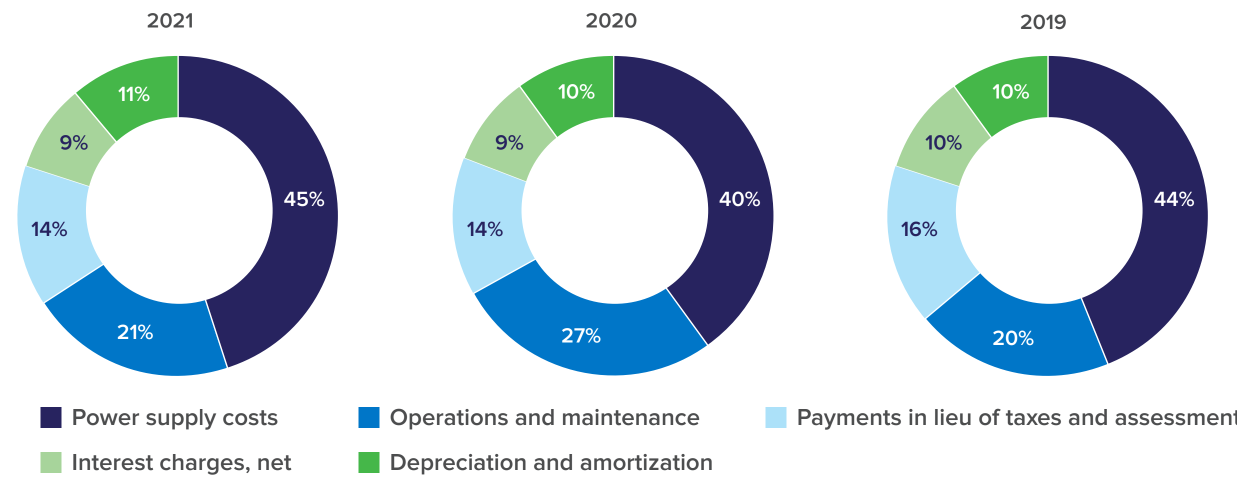
(Amounts in thousands, unless otherwise stated)

Operating and Interest Charges

For the years ended December 31, 2021, 2020, and 2019, LIPA's expenses were comprised of (i) power supply costs; (ii) operations and maintenance expenses; (iii) payments in lieu of taxes, other taxes, and assessments (including property taxes on generating assets under contract); (iv) interest charges, net; and (v) depreciation and amortization, as shown below:

Operating and interest charges:		2021	2020	2019
Power supply costs	$	1,800,933	1,587,356	1,572,325
Operations and maintenance		833,750	1,064,052	739,086
Payments in lieu of taxes, other taxes, and assessments*		569,445	568,701	564,082
Interest charges, net		357,243	358,995	363,673
Depreciation and amortization		425,898	420,977	362,344
Total	$	3,987,269	4,000,081	3,601,510

*Amount excludes approximately $130 million for sales tax revenue collected by LIPA on behalf of local government jurisdictions and remitted to such jurisdictions.



2021 Compared to 2020

For the year ended December 31, 2021, operating and interest charges totaled $3.99 billion, a decrease of $13 million compared to 2020. The decrease is primarily due to lower (i) operating and maintenance costs of $230 million from lower storm restoration costs; and (ii) interest charges of $2 million. These decreases were partially offset by higher (i) power supply costs of $213 million; (ii) depreciation and amortization of $5 million; and (iii) payments in lieu of taxes, other taxes, and assessments of $1 million.

(Amounts in thousands, unless otherwise stated)

2020 Compared to 2019

For the year ended December 31, 2020, operating and interest charges totaled $4.00 billion, an increase of $399 million compared to 2019. The increase is primarily due to higher (i) operating and maintenance costs of $325 million due primarily to restoration costs related to damage to the T&D system from Tropical Storm Isaias which are estimated to total approximately $306 million; (ii) depreciation and amortization of $59 million due to updated depreciation rates; (iii) power supply costs of $15 million; and (iv) payments in lieu of taxes, other taxes, and assessments of $5 million, offset by a decrease in interest charges of $5 million.

Capital Asset and Financing Activities

LIPA's financial policy seeks to generate sufficient cash flow from revenues to maintain the issuance of new debt as a percentage of capital spending at 64% or less as measured on a three-year rolling average. However, to allow LIPA to respond to the impacts of COVID-19 pandemic and Tropical Storm Isaias, LIPA's Board modified its financial policy in 2020 to allow the issuance of new debt as a percentage of capital spending to exceed 64% target on a forward-looking three-year rolling average in 2021 and 2022. As such, LIPA's approved 2022 capital budget anticipates funding 71% of capital expenditures with long-term tax-exempt bonds.

LIPA and UDSA paid scheduled debt maturities totaling $258 million and $228 million in 2021 and 2020, respectively. In 2021, LIPA also called for early redemption $21 million of its taxable Electric System General Revenue Bonds, Series 2014B with cash from operations.

A summary of the financing activity for LIPA and the UDSA for the years ended December 31, 2021 and 2020 is shown below:

		Bonds to fund capital projects	Refinancing/ refunding notes or bonds	Interim funding related to Tropical Storm Isaias
2021				
2021 General Revenue Notes	$	—	—	250,000
2021A General Revenue Bonds		180,755	175,000	—
2021B General Revenue Bonds		175,000	—	—
2021C General Revenue Bonds		—	194,390	—
Total	$	355,755	369,390	250,000
2020				
2020A General Revenue Bonds	$	237,975	—	—
2020B General Revenue Bonds		250,000	—	—
2020C General Revenue Bonds		—	113,975	—
Total	$	487,975	113,975	-

For a full discussion on LIPA's debt activities, see Note 12 to the Consolidated Financial Statements.

Fixed Obligation Coverage Ratios

LIPA utilizes fixed obligation coverage ratios to determine revenue requirements. LIPA's methodology for calculating its fixed obligation coverage ratios excludes certain specified non-cash items from expenses.

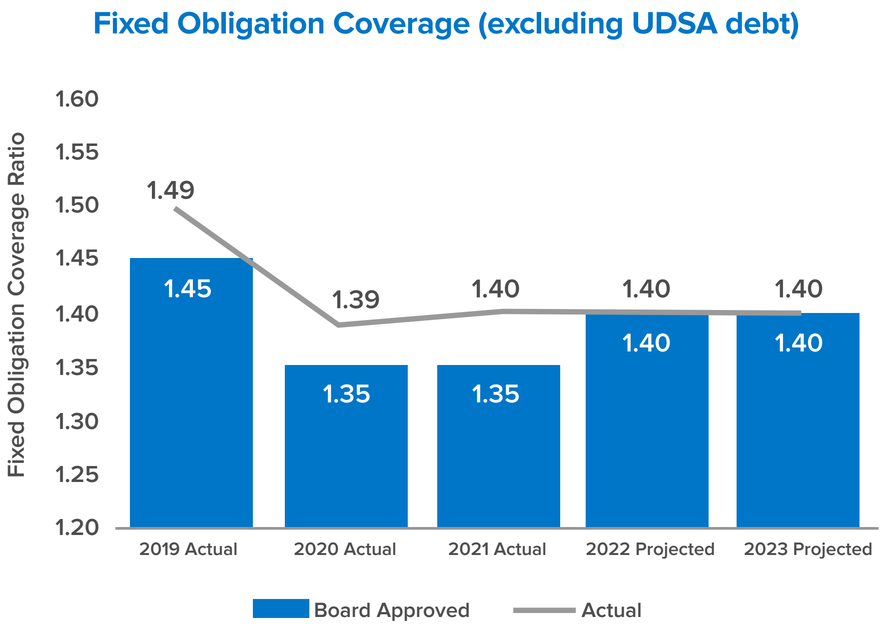
Effective in 2020, LIPA modified its financial policy related to fixed obligation coverage as a result of the impact of GASB Statement No. 87. As this new standard no longer differentiates between capital and operating leases and considers all leases with a term greater than one year to be a financing arrangement, LIPA recognized a financing arrangement asset and a corresponding liability in its Consolidated Statements of Net Position for certain of its existing operating leases.

To supply electricity to its customers, LIPA enters into long-term power supply agreements for power plants and regional transmission cables. Although these power plants and cables are not owned by LIPA, under these new accounting rules, LIPA recognized approximately $1.4 billion of right-to-use assets and corresponding lease obligations in its Consolidated Statements of Net Position as of December 31, 2019. The new accounting guidance does not change payments under these contracts, but increases assets and liabilities, which impacts LIPA's stated fixed obligation coverage ratio.

Prior to the 2020 modification, LIPA's financial policy targeted a 1.45x fixed obligation coverage ratio for 2019 and beyond to provide adequate cash flow to limit borrowing to no more than 64% of capital spending. To maintain the same level of cash flow after adopting this new standard in 2020, LIPA's financial policy was updated to modify its financial target from 1.45x coverage of debt and capital lease payments to 1.35x coverage of debt and lease payments, using the new definition of leases as described above. This new target will generate the same cash flow to cover fixed obligations as the prior lease accounting rules and the prior coverage target.

As shown, LIPA budgeted to achieve fixed obligation coverage targets on LIPA-issued debt of a minimum of 1.35x for 2021 and 2020, under the new leasing standards. For 2021, 2020, and 2019, LIPA exceeded its targets by achieving fixed obligation ratios of 1.40x for 2021 and 1.39x for 2020. Following the old leasing standard in 2019, LIPA achieved a fixed obligation ratio of 1.49x.

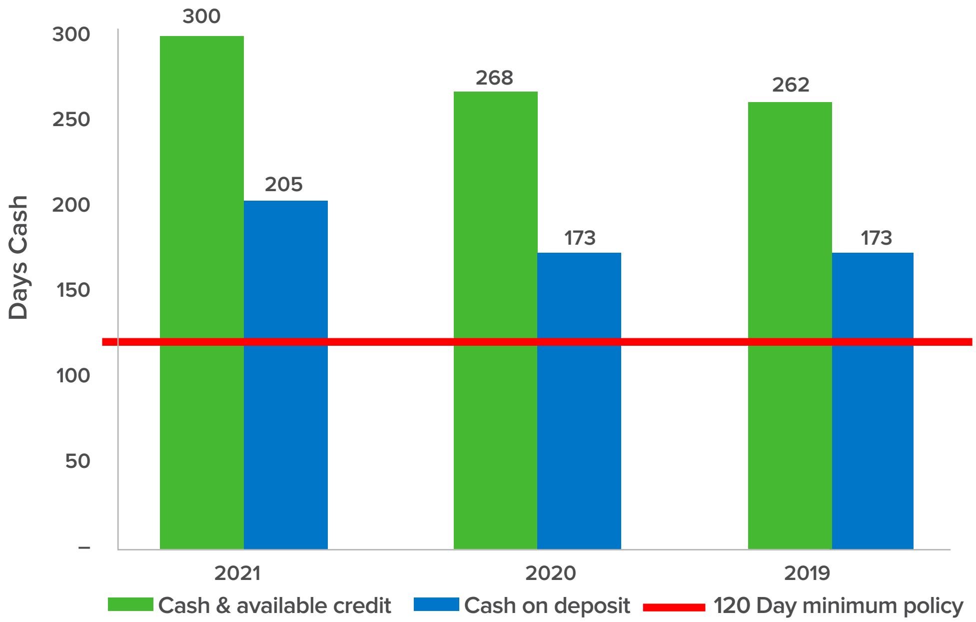
For a full discussion of the fixed obligation coverage ratio calculation, see Note 12(g) to the Consolidated Financial Statements.



Liquidity and Capital Resources

LIPA's Board financial policy includes a requirement, among others, to maintain a minimum month-end balance of at least $100 million in the Operating Fund and $150 million in the Rate Stabilization Fund and overall cash on hand and available credit of at least 120 days of operating expenses. As of December 31, 2021, 2020, and 2019, LIPA's available sources of liquidity for operating purposes and capital program funding achieved the policy target with 300 days, 268 days, 262 days of cash and available credit, respectively. This represents cash, cash equivalents, investments, and available credit totaling approximately $2.40 billion and $2.20 billion as of December 31, 2021 and 2020, respectively.

Days of Cash and Available Credit



(Amounts in thousands, unless otherwise stated)

The table below summarizes LIPA's operating liquidity and available credit capacity:

		2021	2020	2019
Operating liquidity				
Unrestricted cash, cash equivalents, and investments	$	785,271	727,395	743,307
OPEB Account cash, cash equivalents, and investments		581,261	475,366	386,262
PSEG Long Island working capital requirements		276,391	202,700	248,499
Total operating liquidity		1,642,923	1,405,461	1,378,068
Available credit				
General Revenue Notes – Revolving Credit Facility		198,000	198,000	198,000
General Revenue Notes – Commercial Paper		580,000	585,000	510,000
Total available credit		778,000	783,000	708,000
Total cash, cash equivalents, investments, and available credit	$	2,420,923	2,188,461	2,086,068
Restricted cash and cash equivalents				
Clean Energy Compliance Fund	$	8,086	4,577	—
FEMA Grant Proceeds		1,740	1,738	1,732
UDSA		111,694	128,833	109,049
Total restricted cash and cash equivalents	$	121,520	135,148	110,781

Funds included in available cash, cash equivalents, and investments

LIPA's available liquidity balances include accounts dedicated to pre-funding PSEG Long Island's working capital needs totaling approximately $276 million, $203 million, and $248 million, as of December 31, 2021, 2020, and 2019, respectively. This represents approximately 34 days cash as of December 31, 2021. These accounts are owned by LIPA and are available only for LIPA's operating and capital costs. The funds are restricted due to the contractual obligation to pre-fund the accounts from which PSEG Long Island, who acts as agent for LIPA, pays expenses related to operating LIPA's electric system; however, LIPA considers these funds to be part of its working capital as these funds are available to meet its operating and capital needs.

LIPA's available liquidity balance also includes an unrestricted OPEB Account established to pre-fund certain future post-employment retirement obligations of the PSEG Long Island employees. The balance in the unrestricted OPEB Account is intended to fund the PSEG Long Island employee retiree contractual obligation. However, in the event that revenues are insufficient to pay reasonable and necessary operating expenses, or to make payments on bonds or parity obligations, these funds are available; as such, they are considered unrestricted cash, cash equivalents, and investments. As of December 31, 2021, 2020, and 2019, the unrestricted OPEB Account had approximately $581 million, $475 million, and $386 million on deposit, respectively. This represents approximately 72 days cash as of December 31, 2021.

Available credit

LIPA maintains a short-term borrowing program to provide resources to meet interim working capital needs, fund its capital program between long-term debt offerings, and meet any cash flow requirements from severe weather events. Among other factors, LIPA's operating and capital needs vary during the year given the summer peaking and seasonal nature of its sales. As of December 31, 2021, the maximum outstanding total short-term borrowings may not exceed $1.2 billion which was increased from $1.0 billion in 2020, as LIPA's Board authorized a $200 million increase to provide for interim funding associated with costs of storm hardening system improvements that are expected to be reimbursed by FEMA.

The outstanding balance of LIPA's short-term borrowings totaled $422 million and $417 million as of December 31, 2021 and 2020, respectively. The short-term borrowing programs are supported by bank agreements with various expiration dates from 2022 through 2025. Management renewed or replaced the bank agreements as needed prior to their expiration. LIPA believes it will have sufficient liquidity to meet its planned operating, maintenance, and capital programs.

Restricted cash, cash equivalents, and investments

LIPA's restricted cash, cash equivalents, and investments as of December 31, 2021, 2020, and 2019, was $121 million, $135 million, and $111 million, respectively, of which approximately $2 million, was advance funding provided by FEMA for storm restoration and storm hardening capital projects. Restricted cash and cash equivalents also includes amounts related to UDSA debt service payments and required debt service and operating reserves of $112 million, $129 million, and $109 million, as of December 31, 2021, 2020, and 2019, respectively. The remaining balance is related to the amounts collected for the Clean Energy Compliance Fund. Restricted funds are not included in the days cash calculation.

(Amounts in thousands, unless otherwise stated)

Risk Management

LIPA has a dedicated Enterprise Risk Management group to identify operating and other risks within each business unit and assist management in ongoing risk identification, monitoring and mitigation.

LIPA has a Power Supply Risk Management Committee (PRMC) to identify and manage commodity risk and has an Enterprise Risk Management Committee (ERMC) to identify and manage significant risks to the organization, during the conduct of its operations, including interest rate risk. As part of risk management, LIPA established a power supply risk management hedging program to mitigate a portion of the exposure to fluctuations in commodity prices on behalf of its customers. LIPA also hedges its interest rate exposure through certain interest rate derivative instruments that are approved by the ERMC based on the Board policy established for interest rate exchange agreements.

Bond Ratings

LIPA's financial policy sought to increase LIPA's credit ratings to A2 by Moody's Investors Service (Moody's), A by Standard and Poor's Global Ratings (S&P), and A by Fitch Ratings (Fitch). The Board's policy has resulted in four upgrades to LIPA's credit ratings since 2013 and a recent change to a "positive outlook" by Fitch.

Rating Agency	2021	2020	2019
Moody's	A2 (Stable)	A2 (Stable)	A2 (Stable)
S&P	A (Stable)	A (Stable)	A (Stable)
Fitch	A (Positive)	A (Stable)	A (Stable)

The UDSA bonds are rated Aaa (sf) by Moody's and AAA (sf) by S&P and Fitch for the years ended December 31, 2021, 2020, and 2019.

Certain bonds and notes of LIPA are supported by either a bank letter of credit or are insured against default.

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

December 31, 2021 and December 31, 2020

(Amounts in thousands)

Assets and Deferred Outflows of Resources		**2021**	**2020**
Current assets:			
Cash and cash equivalents	$	258,903	266,400
Restricted cash – working capital requirements		156,163	78,165
Restricted cash – UDSA		111,694	128,833
Investments		1,107,629	936,361
Restricted investments – working capital requirements		128,314	129,112
Counterparty collateral – posted by LIPA		—	71,634
Accounts receivable (less allowance for doubtful accounts of $62,184 and $43,891 at December 31, 2021 and December 31, 2020, respectively)		611,991	554,834
Other receivables		60,378	58,156
Fuel inventory		127,595	106,829
Material and supplies inventory		71,561	70,950
Commodity derivative instruments		73,309	—
Regulatory assets to be recovered within one year		214,831	190,045
Prepayments and other current assets		66,216	47,676
Total current assets		2,988,584	2,638,995
Noncurrent assets:			
Restricted cash and cash equivalents		1,740	1,738
Utility plant and property and equipment, net		10,414,617	10,313,576
Nuclear decommissioning trust fund		184,236	164,085
Other long-term receivables		197,190	38,105
Unrealized charges		4,026	3,680
Financial derivative instruments		354	1,254
Commodity derivative instruments		63,014	—
Regulatory assets for future recovery		1,221,364	1,433,046
Acquisition adjustment (net of accumulated amortization)		543,887	655,262
Total noncurrent assets		12,630,428	12,610,746
Deferred outflows of resources:			
Deferred defeasance costs on debt refunding		164,200	190,047
OPEB expense		81	161
Pension expense		3,045	2,597
Accumulated decrease in fair value of commodity derivatives		—	16,298
Accumulated decrease in fair value of financial derivatives		6,649	17,151
Total deferred outflows of resources		173,975	226,254
Total assets and deferred outflows of resources	$	15,792,987	15,475,995

See accompanying Notes to Consolidated Financial Statements.

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Consolidated Statements of Net Position

December 31, 2021 and December 31, 2020

(Amounts in thousands)

Liabilities, Deferred Inflows of Resources and Net Position		**2021**	**2020**
Current liabilities:			
Short-term debt	$	422,000	417,000
Current maturities of long-term debt		69,735	78,610
Current maturities of UDSA debt		177,511	179,419
Current portion of lease obligations		348,638	334,031
Counterparty collateral - held by LIPA		109,035	—
Accounts payable and accrued expenses		431,939	533,633
Regulatory liabilities payable in one year		203,635	98,731
Commodity derivative instruments		—	34,461
Accrued payments in lieu of taxes		11,485	11,320
Accrued interest		57,079	56,068
Customer deposits		30,391	34,327
Total current liabilities		1,861,448	1,777,600
Noncurrent liabilities:			
Long-term debt, net		5,301,796	4,694,767
Long-term UDSA debt, net		3,839,019	4,061,650
Lease obligations		2,121,921	2,457,513
Borrowings		34,739	61,786
Operations Services Agreement – employee retirement benefits		813,362	925,098
Financial derivative instruments		137,554	172,893
Commodity derivative instruments		—	7,086
Asset retirement obligation		90,746	70,766
Long-term liabilities and unrealized credits		41,125	62,838
Claims and damages		155,459	65,734
Total noncurrent liabilities		12,535,721	12,580,131
Deferred inflows of resources:			
Regulatory credits – grants		626,460	470,312
Lease revenue		9,258	9,816
OPEB expense		5,369	2,788
Pension expense		2,900	63
Accumulated increase in fair value of NMP2 Trust and OPEB Account		149,452	97,597
Total deferred inflows of resources		793,439	580,576
Net position:			
Net investment in capital assets		349,036	213,073
Restricted		127,439	136,746
Unrestricted		125,904	187,869
Total net position		602,379	537,688
Total liabilities, deferred inflows of resources, and net position	$	15,792,987	15,475,995

See accompanying Notes to Consolidated Financial Statements.

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Consolidated Statements Revenues, Expenses and Net Position

Years Ended December 31, 2021 and December 31, 2020

(Amounts in thousands)

		2021	2020
Operating revenues – electric sales (net of uncollectible expense)	$	3,930,788	3,900,721
Operating expenses:			
Operations – power supply charge		1,800,933	1,587,356
Operations – power supply charge – property taxes		222,549	225,754
Operations and maintenance		656,852	642,243
Storm restoration		138,731	389,330
General and administrative		38,167	32,479
Depreciation and amortization		425,898	420,977
Payments in lieu of taxes and assessments		346,896	342,947
Total operating expenses		3,630,026	3,641,086
Operating income		300,762	259,635
Nonoperating revenues and expenses:			
Other income, net:			
Investment income, net		35,767	48,555
Grant income		39,986	44,871
Carrying charges on regulatory assets		19,337	20,674
Other		26,082	4,080
Total other income, net		121,172	118,180
Interest charges and (credits):			
Interest on debt		366,534	369,797
Other interest		41,940	33,755
Other interest amortizations		(51,231)	(44,557)
Total interest charges and (credits), net		357,243	358,995
Change in net position		64,691	18,820
Net position, beginning of year		537,688	518,868
Net position, end of year	$	602,379	537,688

See accompanying Notes to Consolidated Financial Statements.

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and December 31, 2020

(Amounts in thousands)

	2021	2020
Cash flows from operating activities:		
Operating revenues received	$ 4,124,284	3,814,475
Paid to suppliers and employees:		
Operations and maintenance	(721,220)	(721,642)
Operations – power supply charge	(1,626,641)	(1,350,174)
Operations – power supply charge – property tax related	(222,549)	(214,531)
Payments-in-lieu-of-taxes	(495,970)	(471,938)
Collateral on commodity derivative transactions, net	180,669	44,775
PSEG Long Island pension funding	(37,400)	(30,000)
Net cash provided by operating activities	1,201,173	1,070,965
Cash flows from investing activities:		
Earnings received on investments	23,763	37,823
Sale of investment securities	—	26,775
Sale of restricted investment securities	—	18
Sale of restricted investment securities – working capital investments	798	—
Purchase of investment securities	(171,268)	—
Purchase of restricted investment securities – working capital investments	—	(129,112)
Purchase of investment securities – OPEB Account	(63,532)	(54,395)
Sale of investment securities – OPEB Account	105,896	89,104
Net cash used in investing activities	(104,343)	(29,787)
Cash flows from noncapital financing related activities:		
Grant proceeds	30,330	27,448
Proceeds from credit facility draws and commercial paper program	1,275,000	1,463,000
Redemption of credit facility draws and commercial paper program	(1,270,000)	(1,338,000)
Proceeds from the issuance of long-term debt	254,187	—
Interest paid – LIPA	(1,250)	—
Net cash provided by noncapital related activities	288,267	152,448
Cash flows from capital and related financing activities:		
Capital expenditures	(729,979)	(780,490)
Lease payments	(388,414)	(419,293)
Proceeds from the issuance of long-term debt	822,216	676,579
Payment to bond escrow agent to refinance bonds	(193,656)	(115,940)
Debt issuance costs	(5,788)	(875)
Other interest costs	(42,142)	(29,995)
Interest paid – LIPA	(151,771)	(153,285)
Redemption of long-term debt – LIPA	(78,610)	(101,860)
Early defeasance of long-term debt – LIPA	(196,201)	—
Interest paid – UDSA	(187,969)	(192,972)
Redemption of long-term debt – UDSA	(179,419)	(126,057)
Net cash used in capital and related financing activities	(1,331,733)	(1,244,188)
Net increase (decrease) in cash and cash equivalents	53,364	(50,562)
Cash and cash equivalents at beginning of year	475,136	525,698
Cash and cash equivalents at end of year	$ 528,500	475,136

See accompanying Notes to Consolidated Financial Statements.

LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and December 31, 2020

(Amounts in thousands)

		2021	2020
Reconciliation to net cash provided by operating activities:			
Operating income	$	300,762	259,635
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		425,898	420,977
Other post – employment benefit non – cash expense		45,825	46,837
Nuclear fuel burned		9,518	8,657
Shoreham and VBA surcharges		52,081	49,647
Accretion of asset retirement obligation		3,925	3,473
Changes in operating assets and liabilities:			
Accounts receivable, net		(221,666)	(107,820)
Regulatory assets and liabilities		214,704	(317,637)
Fuel and material and supplies inventory		(21,377)	(487)
Accounts payable, accrued expenses, and other		391,503	707,683
Net cash provided by operating activities	$	1,201,173	1,070,965

See accompanying Notes to Consolidated Financial Statements.

(1) Nature of Operations

The Long Island Power Authority (LIPA) is the owner of the electric transmission and distribution (T&D) system located in the Counties of Nassau and Suffolk (with certain limited exceptions) and a portion of Queens County known as the Rockaways (Service Area), and is responsible for supplying electricity to customers within the Service Area. LIPA also owns an undivided 18% interest in the Nine Mile Point Unit 2 (NMP2) generating facility, located in upstate New York.

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 subject to the LIPA Reform Act (Reform Act) which was passed and codified as Chapter 173, Laws of New York on June 21, 2013, by the New York State Assembly and Senate. The Reform Act is divided into two parts, Part A and Part B.

Part A of the Reform Act addressed the organization of LIPA and Part B, referred to as the Securitization Law, created the Utility Debt Securitization Authority (UDSA). The Securitization Law provided a legislative foundation for the UDSA to issue restructuring bonds to allow LIPA to retire a portion of its outstanding indebtedness, providing debt service savings to LIPA's customers on a net present value basis. In 2020, LIPA sought a change to permit the UDSA to issue additional securitized bonds for refinancing, storm hardening and resiliency purposes. The legislation authorizing the change was signed into law on August 2, 2021. With these legislative changes, the UDSA may issue up to $8.0 billion of securitized bonds, inclusive of the bonds already issued. There were no additional securitized bonds issued in 2021 as a result of the changes to the UDSA legislation.

The UDSA has a governing body separate from that of LIPA and has no commercial operations. For a further discussion on the UDSA, see Note 4.

LIPA has operating agreements with service providers to provide the majority of services necessary to serve LIPA's customers and has power purchase agreements to meet its power supply needs. Below is a summary of LIPA's primary operating agreements:

Amended and Restated Operations Services Agreement (OSA): Effective January 1, 2014, PSEG Long Island LLC (PSEG Long Island), a wholly owned subsidiary of Public Service Enterprise Group (PSEG), fully dedicated to LIPA's Long Island operations, provides operations, maintenance, and related services for the T&D system under the OSA. The OSA expires December 31, 2025 and includes a provision that if PSEG Long Island achieves certain levels of performance during the first 10 years of the 12-year term, the parties will negotiate an eight-year extension on substantially similar terms and conditions. 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. PSEG Long Island is paid a management fee and may earn incentive compensation related to specified performance metrics. During the years ended December 31, 2021 and 2020, PSEG Long Island was paid a management fee totaling approximately $68 million and $67 million, respectively. For 2020, PSEG Long Island was entitled to an incentive fee totaling approximately $10 million; however, PSEG Long Island elected to apply their compensation towards reimbursing certain customers for their food and medicine spoilage as a result of prolonged outages that occurred during Tropical Storm Isaias. For 2021, PSEG Long Island may earn an incentive fee up to approximately $10 million, which will be determined by June 2022.

On Tuesday, August 4, 2020, Tropical Storm Isaias caused approximately $300 million of damages to LIPA's T&D system and interrupted service to more than half of LIPA's customers, making it the third-most damaging storm to impact the system. LIPA established an Isaias Task Force to undertake a thorough analysis of the root causes underlying the failures of PSEG Long Island's customer communications and outage management system during the storm. As a result of the investigation, LIPA sought organizational and contractual changes as recommended by the Task Force. During 2021, LIPA and PSEG Long Island reached agreement on a reformed contract. Pursuant to the proposed Settlement Agreement, the second A&R OSA would, among other things, increase the amount of PSEG Long Island's annual compensation at risk from $10 million to $40 million; include automatic compensation reductions for failures to meet minimum emergency response, customer satisfaction, and reliability standards, strengthen the dedicated Long Island management team, enhance oversight in long-term planning, project prioritization and budget development, partition Long Island information technology systems, facilitate independent verification and validation; and provide a new New York State Department of Public Service (DPS) investigative process to reduce compensation for failures to provide safe, adequate, and reliable service to customers. In addition, PSEG Long Island would be subject to expanded performance requirements set annually by the Board and DPS. The proposed second A&R OSA would eliminate PSEG Long Island's eight-year term extension option; instead, the second A&R OSA will expire on December 31, 2025.

The second A&R OSA was approved by LIPA's Board on December 15, 2021, approved by the New York State Attorney General on January 6, 2022, and is pending review and approval by the State Comptroller.

Amended and Restated Power Supply Agreement (A&R PSA): The A&R PSA, which became effective on May 28, 2013, is the successor agreement to the original PSA between National Grid and LIPA. The A&R PSA provides for the sale to LIPA by National Grid of all the capacity, energy, and ancillary services from the oil and gas-fired generating plants on Long Island formerly owned by the Long Island Lighting Company (LILCO). Sales are at cost, based on wholesale rates regulated by the Federal Energy Regulatory Commission (FERC), which may be modified in accordance with the terms of the A&R PSA for: (i) agreed upon labor and expense indices applied to the base year; (ii) a return of and return on net capital additions, which require approval by LIPA; and (iii) certain reasonably incurred expenses that are outside of the control of National Grid. The annual capacity charge in 2021 and 2020 was approximately $441 million in both years. The variable charge under both the PSA and A&R PSA is constant at $0.90 per megawatt hour of electric energy generated by the plants.

The A&R PSA has provisions for penalties in the event that annual guarantees for heat rate and unforced capacity are not met. No penalties were assessed in either 2021 or 2020.

In addition, LIPA is party to several power purchase agreements with other third-party generators for approximately 1,800 megawatts of capacity and related products.

Fuel Management Agreement and Power Supply Management Agreement: PSEG Energy Resources and Trade LLC (PSEG ER&T) provides fuel management services for both the National Grid generating facilities under contract by LIPA and the other units in LIPA's energy supply portfolio. Certain other services related to power supply management and commodity activities are also provided by PSEG ER&T. During the years ended December 31, 2021 and 2020, PSEG ER&T was paid a management fee totaling approximately $19 million and $18 million, respectively. The agreements with PSEG ER&T expire December 31, 2025 and are subject to extension.

(2) Summary of Significant Accounting Policies

(a) Reporting Entity

LIPA complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). LIPA's financial statements are prepared in accordance with GASB Codification Section RE10, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements.

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

In 2017, LIPA established a legally separate trust under Section 115 of the Internal Revenue Code known as the Long Island Power Authority OPEB Trust (OPEB Trust) to fund LIPA's Other Post-Employment Benefit Plan (OPEB) which provides health care benefits to LIPA's qualified retired employees. For further discussion, see Note 11 (f).

(b) Estimates

The accompanying financial statements were prepared in conformity with U.S. generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period as well as the reported amounts of assets and liabilities, including disclosure of contingent assets and liabilities, through the date of the financial statements. Actual results could differ from those estimates.

(c) Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation. Unrealized mark-to-market values relating to the ineffective balance of commodity and financial derivative instruments are deferred as unrealized charges or credits in accordance with regulatory accounting. During 2021, such amounts have been reclassed to the regulatory asset and liability section of the Consolidated Statements of Net Position.

(d) Cash, Cash Equivalents, and Investments (including Restricted)

Cash and cash equivalents, and restricted cash and cash equivalents, include all highly liquid financial instruments with a maturity of three months or less when purchased.

Funds held by LIPA are administered in accordance with LIPA's investment policies pursuant to Section 2925 of the New York State Public Authorities Law. These policies comply with the New York State Comptroller's investment guidelines for public authorities. Investments' carrying values are reported at fair market value.

Certain amounts have been restricted for specific purposes. For a further discussion, see Note 11(b).

(e) Counterparty Collateral

LIPA and certain of its counterparties require collateral posting for mark-to-market valuations that exceed established credit limits. As of December 31, 2021, LIPA held approximately $109 million of collateral posted by counterparties, which is recorded as a current liability. As of December 31, 2020, LIPA was required to post $72 million, of collateral to counterparties, which is recorded as a current asset.

(f) Material and Supplies Inventory

The material and supplies inventory supports the operations and maintenance of the T&D system. The inventory is accounted for on a weighted average cost basis of accounting.

LIPA also owns 18% of the material and supplies inventory needed to support the operation of the NMP2 nuclear power station. As of December 31, 2021 and 2020, the value of the NMP2 inventory totaled approximately $13 million.

(g) Other Receivables and Other Long-Term Receivables

The current portion of other receivables is comprised primarily of non-electric billings such as insurance damage claims.

The noncurrent portion of other long-term receivables are comprised primarily of (i) the balance of the Federal Emergency Management Agency (FEMA) public assistance mitigation grant; (ii) the net present value of the reimbursable costs to construct the interconnection facilities related to the Neptune cable, which is to be paid to LIPA over a 20-year period that commenced in 2007; and (iii) a receivable resulting from a telecommunication attachment lease expiring in 2024.

(h) Acquisition Adjustment

The Acquisition Adjustment, an intangible asset, represents the difference between the purchase price paid and the net assets acquired from LILCO. The Acquisition Adjustment is being amortized on a straight-line basis through 2026 totaling approximately $111 million annually.

(i) Lease Obligations

During 2020, LIPA adopted GASB Statement No. 87, *Leases* (GASB Statement No.87). GASB Statement No. 87 establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. LIPA was required to recognize a lease liability and an intangible right-to-use lease asset for certain of its leases that were previously reported as operating leases under the previous accounting standards. As a result of the adoption of GASB Statement No. 87, amounts for the year ended December 31, 2020, reflected an increase of approximately $1.0 billion for the recognition of the right-to-use asset, included in Utility plant, property and equipment, and an increase in Lease obligations on the Consolidated Statements of Net Position.

The lease obligations represent the net present value of various contracts including capacity and/or energy of certain generation and transmission facilities, fleet vehicles, and certain facilities. The capacity and energy contracts are recognized in power supply expense in an amount equal to the contract payment of the leases, as allowed through the rate-making process. The value of the asset and the obligation is reduced each month to properly reflect the remaining net present value of the asset and obligation. The fleet vehicle and facility leases are recognized in operating expense in an amount equal to the contract payment of the agreement consistent with LIPA's rate-making process.

(j) Fuel Inventory

LIPA owns the fuel oil used in the generation of electricity at the facilities under contract. Fuel inventory represents the value of low sulfur residual oil and other liquid fuels that LIPA had on hand at each year-end. Fuel inventory is valued using the weighted average cost method. At the time of consumption, an expense is recorded at the weighted average cost.

(k) Borrowings

Borrowings represent the unamortized balance of cash premiums received at the time of entering into certain financial derivative instruments. LIPA is amortizing such premiums over the life of the instrument in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB Statement No. 53).

(l) Commodity and Financial Derivative Instruments

Commodity and financial derivative instruments represent the amount LIPA estimates it would receive or be required to pay in order to terminate its commodity and financial derivative instruments which approximates fair value.

(m) Long-Term Liabilities and Unrealized Credits

Long-term liabilities and unrealized credits consist primarily of the advance deposits related to construction and any changes resulting from updated asset retirement studies.

(n) Claims and Damages

Losses arising from claims including workers' compensation claims, property damage, property tax litigation and general liability claims are partially self-insured. Reserves for these claims and damages are established if it is probable that a loss has been incurred and the amount can be reasonably estimated.

(o) Revenues

Operating revenues are comprised of cycle billings for electric service rendered to customers based on meter reads and the accrual of revenues for electric service rendered to customers not billed at year-end. LIPA accrues unbilled revenues by estimating unbilled consumption at the customer meter. Unbilled revenues totaled $187 million and $174 million as of December 31, 2021 and 2020, respectively.

LIPA recognizes an estimate for uncollectible accounts for its receivables related to electric service based upon its historical experience with collections; however, during the year ended December 31, 2021 and 2020, the economic impact of the COVID-19 pandemic was also considered in forward-looking projections related to uncollectible rates and resulted in increases to the allowance for uncollectible accounts. LIPA records bad debts for its estimated uncollectible accounts related to electric service as a reduction to related operating revenues in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position.

(p) Depreciation and Amortization

The provisions for depreciation for utility plant result from the application of straight-line rates determined by age life studies of assets in service. The rates are applied to groups of depreciable properties. The average composite depreciation rates were 3.14% and 3.34% for 2021 and 2020, respectively. Property and equipment are being depreciated over its estimated useful life using the straight-line method.

Separately, leasehold improvements are being amortized over the lesser of the life of the assets or the term of the lease, using the straight-line method. Right-to-use lease assets are being amortized over the term of the lease using the effective interest rate method to be consistent with the amortization of the related obligation.

(Amounts in thousands, unless otherwise stated)

The following estimated useful lives are used for utility property:

Category	Useful life
Generation – nuclear	46 – 54 years
Transmission and distribution	40 – 75 years
Common	5 – 55 years
Nuclear fuel in process and in reactor	6 years
Generation assets under capital lease	10 – 25 years

(q) Asset Retirement Obligations (ARO)

GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB Statement No. 83), which states that if a legal obligation for future asset retirement exists for tangible capital assets, a liability is required to be recognized. LIPA, as an 18% owner of NMP2, has a legal obligation imposed by the U.S. Nuclear Regulatory Commission to decommission the plant. LIPA funds its share of the decommissioning costs of the nuclear power plant based on an actuarial study. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and method of settlement.

GASB Statement No. 83 also provides an exception to the initial and subsequent measurement of the ARO if the governmental agency owns a minority share (less than 50%) in an undivided interest arrangement with joint ownership of a tangible capital asset when the majority owner reports under the Financial Accounting Standards Board (FASB). The exception allows governments to report their minority share of an ARO liability using the measurements provided by the FASB reporting entity without adjustment.

As NMP2's majority shareholder is a FASB reporting entity, LIPA estimated its ARO in accordance with FASB Accounting Standards Codification (ASC) 410, Asset Retirement and Environmental Obligations (FASB ASC 410). LIPA recorded its 18% share of accretion expense and change due to updates from Exelon's annual review and analysis of the NMP2 ARO. The 2021 analysis resulted in increasing LIPA's share of the NMP2 ARO liability by $16 million. The change due to updates was attributable to a forecasted increase in borrowing cost, labor rates, and a change in the Department of Energy (DOE) spent fuel acceptance date assumption from 2030 to 2035. This increase had no impact on LIPA's operating results as amounts were reclassed from deferred prior year downward adjustments. The NMP2 plant has a remaining license term to 2046. The ARO is continually reviewed for adequacy and any necessary changes are updated annually.

LIPA also has a legal obligation to remove certain of its contracted undersea cables in its transmission agreements. Removal of undersea cables pose many potential environmental issues and removal of such cables are rarely completed. Since the timing and extent of any potential asset retirement is unknown, the fair value of any obligations associated with such removal cannot be reasonably estimated.

(Amounts in thousands, unless otherwise stated)

A summary of LIPA's ARO activity for the years ended December 31, 2021 and 2020 is included below:

		2021	2020
Asset retirement obligation:			
Balance at January 1	$	70,766	67,293
Change due to updates		16,055	—
Accretion expense		3,925	3,473
Balance at December 31	$	90,746	70,766

(r) Long-Lived Assets

Long-lived assets and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that there is a significant unexpected decline in the service utility of a capital asset. There were no impairment charges recognized in 2021 or 2020.

(s) Payments-in-Lieu-of-Taxes

LIPA makes payments-in-lieu-of-taxes (PILOTs), including gross income, property, and Metropolitan Transportation Authority. In addition, LIPA has entered into various PILOT arrangements for property it owns, upon which generation plants have been built.

(t) Income Taxes

LIPA is a political subdivision of the State and, therefore, is exempt from Federal, state, and local income taxes.

(u) Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB Statement No. 72), establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, this information might not be available.

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as described below:

Level 1 – measurements that use quoted or published prices (unadjusted) for identical assets or liabilities in active markets that LIPA has the ability to access at the measurement date.

Level 2 – measurements other than quoted or published prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – measurements that use unobservable inputs for an asset or liability. In some valuations, the inputs used may fall into different levels of hierarchy. In these cases, the financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For a further discussion on the fair value hierarchy levels of LIPA's derivatives and investments, see Notes 8 and 11.

(v) Recent Accounting Pronouncements Not Yet Adopted

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2021.

GASB Statement No. 92, *Omnibus 2020*, seeks to improve the consistency of authoritative literature by addressing practice issues identified during implementation of certain GASB Statement.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, addresses that the London Interbank Offered Rate (LIBOR) is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of LIBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, was issued in response to the ongoing COVID-19 pandemic. GASB Statement No.95 intends to provide relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective date of certain other GASB Statements.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, defines a subscription-based technology arrangement as a contract that conveys control of the right to use a vendor's software, alone or in combination with tangible capital assets requiring governments to recognize a right-to-use subscription asset and a corresponding subscription liability. The requirements of this Statement are effective for periods beginning after June 15, 2022.

LIPA is currently evaluating the impact of statements effective for future periods on the accompanying consolidated financial statements.

(3) Rate Matters

LIPA is empowered by the LIPA Act to set rates for electric service in its Service Area without being required to obtain the approval of the DPS or any other State regulatory body. The LIPA Act requires that any bond resolution of LIPA contain a covenant that it will at all times maintain rates, fees, or charges sufficient to pay the costs of: operation and maintenance of facilities owned or operated by LIPA; PILOTs; renewals, replacements, and capital additions; and the principal of, and interest on, any obligations issued pursuant to such resolution as the same become due and payable. In addition, LIPA must establish or maintain reserves or other funds or accounts required or established by or pursuant to the terms of such resolution.

In 2013, the LIPA Reform Act established a rate review process that required LIPA and PSEG Long Island submit for review to DPS a three-year rate proposal for rates and charges that took effect on January 1, 2016. Subsequent to the rate proposal period, LIPA and PSEG Long Island are required to submit a proposed rate increase for DPS review if it would increase the rates and charges by an amount that would increase LIPA's annual revenues by more than 2.5%. LIPA's Board retains final rate-setting power. LIPA's annual base rate increase has not exceeded the 2.5% threshold since the three-year rate plan expired at the end of 2018; therefore, no such rate proposal has been submitted to the DPS, although LIPA provides DPS with its budgets and rate adjustments.

LIPA has a cost reconciliation mechanism, referred to as the Delivery Service Adjustment (DSA), to reconcile certain specified budgeted costs to actual costs in each year. The DSA provides cost recovery or refunding for certain items that vary due to external factors, including: debt service (variances in interest rates and capital expenditures), storm restoration expenditures (variances from the budget for storm restoration expenses), non-storm emergency costs, bad debt expense, and service provider pension and OPEBs. For debt service, any differences between the actual payments and the amount included in the approved budget and approved delivery rates are charged or refunded to customers in the following year, including an allowance for fixed obligation coverage at the factor specified in the Board's financial policy. For storm restoration expenditures, if actual storm restoration costs to be recovered from customers are lower than the budgeted costs, such balances will be managed as a regulatory storm reserve to offset future storm expenditures. If actual storm restoration costs are higher than the budgeted costs, one-third of that balance will be recovered in the subsequent recovery period and the remaining two-thirds will be eligible for recovery during a future recovery period and remain as a regulatory asset.

Eligible non-storm emergency costs are incremental costs authorized by the Board (net of anticipated grant reimbursements) for emergencies other than storms. Eligible bad debt costs are variances of accrued uncollectible expense from the amount in a Board-approved budget during periods affected by a government ordered or Board authorized moratorium on service disconnections and for up to two years following the end of such moratorium. Eligible pension and OPEB expenses are variances from the amount in a Board-approved budget, related to the service provider's operations, excluding variances in pension and OPEB expenses allocated to capital, storms, or Utility 2.0 (as such variances are already eligible for recovery in other riders).

The DSA is calculated through the end of September each year, which allows for the bill impact to be known in advance of the annual budget approval. Any adjustments are reviewed by DPS and implemented on January 1st for recovery (or refund) over the following 12 months.

(Amounts in thousands, unless otherwise stated)

LIPA also has a Revenue Decoupling Mechanism (RDM). All six of the investor-owned New York State electric utilities also have RDMs within their tariffs for delivery service. Mechanically, RDMs function by comparing actual delivery service revenues with authorized delivery service revenues and crediting (or collecting) any differences to (or from) customers in future periods. RDMs are intended to cover all sources of variances in delivery service revenues including, among other things, variances attributable to the implementation of energy efficiency or net metering above or below forecasted levels, variances caused by warmer or cooler than normal weather, and variances that result from unforeseen changes in economic conditions.

In addition to the items discussed above, LIPA's tariff also includes: (i) a Power Supply Charge to allow for adjustments to customers' bills to reflect changes in the cost of fuel, purchased power, and related costs; (ii) a PILOTs recovery rider to allow rate adjustments to accommodate changes in revenue-based PILOTs; (iii) a rider providing for the recovery of costs associated with the Shoreham Property Tax Settlement; (iv) a rider to recover the costs of LIPA's distributed energy resources and energy efficiency programs; (v) a rider providing for the collection of the New York State assessment imposed by the New York State Legislature; and (vi) undergrounding surcharges for customers located in participating municipalities.

(4) Component Unit – Utility Debt Securitization Authority

The Reform Act created the Securitization Law, which established the UDSA to permit the issuance of restructuring bonds to allow LIPA to retire a portion of its outstanding indebtedness in order to provide debt service savings to LIPA's customers as measured on a net present value basis. The Securitization Law allowed for a total issuance of up to $4.5 billion of UDSA restructuring bonds. In 2017, all such authorization was exhausted. However, in 2020, LIPA sought a change to permit the UDSA to issue additional securitized bonds for refinancing, storm hardening and resiliency purposes. The legislation authorizing the change was signed into law on August 2, 2021, and allows UDSA to issue up to $8.0 billion of securitized bonds (inclusive of the bonds already issued). There were no additional securitized bonds issued in 2021 as a result of the changes to the UDSA legislation.

Each issuance of restructuring bonds is separately secured by distinct collateral pursuant to a new financing order. Each such financing order authorizes restructuring bonds to be repaid pursuant to that financing order by an irrevocable contract right to impose, bill, and collect a non-bypassable consumption-based Restructuring Charge from all existing and future retail customers taking electric transmission or distribution service within the Service Area from LIPA or any of its successors or assignees.

LIPA's Board adopted Financing Orders which allowed the UDSA to issue restructuring bonds. All such financing orders are substantively the same, and each financing order permits the UDSA to issue restructuring bonds in an aggregate amount not to exceed the amount authorized by the Securitization Law. The issuance of the 2017 Restructuring Bonds utilized the available capacity of restructuring bonds permitted to be issued by the Securitization Law. Below is a summary of each financing order and amounts issued:

Financing Order	Date Issued	Initial Amount Issued	Net Present Value Savings	Restructuring Charge Rate Effective Date
Financing Order No. 1	December 18, 2013	$ 2,022,324	131,609	March 1, 2014
Financing Order No. 2	October 27, 2015	1,002,115	127,978	January 1, 2016
Financing Order No. 3	April 7, 2016	636,770	115,238	April 7, 2016
Financing Order No. 4	September 8, 2016	469,320	71,647	September 8, 2016
Financing Order No. 5	November 21, 2017	369,465	45,387	January 1, 2018
		$ 4,499,994	491,859	

To pass through the benefits of securitization to customers, LIPA modified its rate structure to create restructuring offset charges, which are in an amount equal to and opposite the Restructuring Charges; the net result is that the customer bill is less than it would have been absent the sale of restructuring bonds. The restructuring offset charges are adjusted coincident with changes to the Restructuring Charges to maintain that equality.

As discussed in Note 2, UDSA is a component unit of LIPA and all of the activities and balances of the UDSA are blended into and reported as part of LIPA. See Note 17 for consolidating condensed financial information.

(Amounts in thousands, unless otherwise stated)

(5) Regulatory Accounting

LIPA's Board has approved various regulatory mechanisms that result in timing differences between the recognition of revenues and expenses for rate-making purposes and treatment under U.S. generally accepted accounting principles for non-regulated entities. These actions result in regulatory assets and liabilities, which are summarized in the table below:

		2021	2020
Regulatory assets to be recovered within one year:			
OSA – employee retirement benefits	$	54,006	54,006
Shoreham property tax settlement		49,237	48,197
Delivery service adjustment		76,838	37,431
Unrealized commodity derivative losses		—	25,249
Employee benefit plan settlement		15,634	15,634
Power supply charge recoverable		13,476	4,078
Debt issuance costs		3,209	3,209
Southampton visual benefit assessment		1,049	1,003
New York State assessment		1,382	976
Distributed energy resources		—	262
	$	214,831	190,045
Regulatory assets for future recovery:			
OSA – employee retirement benefits		242,697	440,590
Shoreham property tax settlement		291,835	324,554
Delivery service adjustment		358,208	357,816
Unrealized financial derivative losses		117,689	140,002
Property tax litigation		90,134	—
Employee benefit plan settlement		46,901	62,535
Power supply charge recoverable		36,708	40,872
Revenue decoupling mechanism		3,669	29,570
Debt issuance costs		19,930	23,329
Unfunded actuarially determined reserves		8,132	8,132
Southampton visual benefit assessment		5,461	5,646
	$	1,221,364	1,433,046
Regulatory liabilities payable within one year:			
Unrealized commodity derivative gains		136,323	—
Power supply charge refundable		8,085	35,101
Revenue decoupling mechanism		26,047	34,035
Utility 2.0		26,955	28,587
Distributed energy resources		2,441	—
Delivery service adjustment		3,784	1,008
	$	203,635	98,731
Regulatory credits:			
Grants		626,460	470,312
	$	626,460	470,312

(a) OSA – Employee Retirement Benefits

LIPA is responsible for reimbursing PSEG Long Island for retirement benefit costs associated with the PSEG Long Island workforce. The PSEG Long Island workforce includes both electric-serving employees hired under the expired Management Services Agreement (MSA) with National Grid (referred to as transitioned employees) and PSEG Long Island employees hired since the beginning of the OSA on January 1, 2014. The retirement benefit plans are owned, sponsored by, and the legal obligation of PSEG Long Island. However, in most cases, PSEG Long Island employee compensation costs are a contractual cost of LIPA under the OSA, including the cost for these retirement benefits (and any required pre-funding of such benefits).

Retirement benefit obligations are future cash outlays that will be incurred as the PSEG Long Island employees receive retirement benefits and therefore are estimates of such costs. Differences between amounts collected from customers and amounts owed to PSEG Long Island for these benefits may arise from changes in asset values, plan amendments, interest rates, and actuarial assumptions, among other factors, which will be reflected in the balance of the regulatory asset. The OSA – Employee Retirement Benefits regulatory asset represents costs and liabilities which have been incurred, but not yet collected in electric rates. This amount will be different from LIPA's liability to PSEG Long Island due to differences between funding and recovery levels.

LIPA contributes to a PSEG Long Island sponsored pension trust on an ongoing basis to pre-fund pension obligations. Additionally, LIPA sets aside funds in an OPEB Account based upon periodic actuarial studies to ensure that sufficient funds are available to meet future healthcare and other post-employment benefit obligations of the PSEG Long Island workforce.

(b) Shoreham Property Tax Settlement (Settlement)

In January 2000, LIPA reached an agreement with Suffolk County, the Town of Brookhaven, the Shoreham-Wading River Central School District, the Wading River Fire District and the Shoreham-Wading River Library District (which was succeeded by the North Shore Library District) (collectively, the Suffolk Taxing Jurisdictions) and Nassau County regarding the over assessment of the Shoreham Nuclear Power Station. Under the terms of the agreement, LIPA issued $457.5 million of rebates and credits to customers over a five-year period. In order to fund such rebates and credits, LIPA used proceeds from its Capital Appreciation Bonds: Series 1998A Electric System General Revenue Bonds totaling $146 million and Series 2000A Electric System General Revenue Bonds totaling $325 million.

As provided under the Settlement, beginning in June 2003, Suffolk County electric customers' bills include a surcharge (the Suffolk Surcharge) to be collected over the succeeding approximate 25-year period to repay the debt service and issuance costs on the bonds issued by LIPA to fund the Settlement as well as the cost of pre-funding certain rebates and credits.

As rates are established at a level sufficient to recover all such costs identified above, LIPA recorded a regulatory asset. The balance remaining represents rebates and credits issued to LIPA's customers, costs of administering the program, plus annual debt service costs on the bonds identified above, less surcharges collected since 2003.

(c) Employee Benefit Plan Settlement

The MSA between LIPA and National Grid provided, among other things, that upon termination of the MSA, when a third-party succeeded National Grid as the service provider, the successor would assume the rights and obligations of National Grid regarding certain employee benefit plan liabilities. The OSA with PSEG Long Island, however, did not require PSEG Long Island to assume the employee benefit plan assets and liabilities related to the MSA, which were co-mingled with those of other National Grid employees.

LIPA and National Grid and its affiliates signed an Employee Benefit Plan Settlement in 2013 resolving the parties' respective employee benefit plan funding obligations for National Grid's electric-serving employees. LIPA's Board approved recovery of such costs from customers over a 10-year period, the remaining term of the OSA, as virtually all former employees of National Grid covered by these plans have been transitioned to PSEG Long Island and continue to serve our customers.

As of December 31, 2021 and 2020, the employee benefit plan settlement balance totaled $62 million and $78 million, respectively.

(d) Delivery Service Adjustment

The DSA reconciles certain specified budgeted costs to actual costs in each year. The DSA provides cost recovery or refunding for certain items that vary due to external factors, including: debt service (variances in interest rates and capital expenditures), storm restoration expenditures (variances from the budget for storm restoration expenses), non-storm emergency costs, bad debt expense, and service provider pension and OPEBs. For debt service, any differences between the actual payments and the amount included in the approved budget and approved delivery rates are charged or refunded to customers in the following year, including an allowance for fixed obligation coverage at the factor specified in the Board's financial policy. For storm restoration expenditures, if actual storm restoration costs to be recovered from customers are lower than the budgeted costs, such balances will be managed as a regulatory storm reserve to offset future storm expenditures. If actual storm restoration costs are higher than the budgeted costs, one-third of that balance will be recovered in the subsequent recovery period and the remaining two-thirds will be eligible for recovery during a future recovery period and remain as a regulatory asset.

The remaining DSA recoverable balance is primarily the result of the storm recovery rider component. As discussed in Note 3, Rate Matters, storm restoration costs above the annual budgeted amount are amortized for recovery, one-third of which is factored in the subsequent year's DSA collection and the remaining balance is carried forward for recovery in future years. Also included in the December 31, 2021 DSA balance is the deferral of the remaining anticipated FEMA reimbursable portion of Tropical Storm Isaias costs. As of December 31, 2021 a significant portion of the FEMA grant application has not been finalized and approved, and as such, amounts due from customers cannot be reasonably determined. LIPA obtained from its Board a regulatory action to defer such costs for future recovery beyond the normal collection timeframe in the DSA.

The carryover as of December 31, 2021, and 2020 totaled approximately $358 million.

(e) Unrealized Derivative Instrument Gains and Losses

Unrealized mark-to-market values relating to the ineffective balance of commodity and financial derivative instruments are recorded as regulatory assets or liabilities.

(f) Property Tax Litigation

The LIPA Reform Act capped LIPA's property tax PILOT payments to no more than 2% higher than the prior calendar year beginning in calendar year 2015.

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, LIPA believes 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 the ten Suffolk County towns to ensure that they comply with the annual 2% limit on growth in such property tax PILOTs.

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 alleged unpaid real property taxes levied against the T&D properties for tax years 2014/15 through 2019/20 (by stipulation, the judgment includes the 2020/21 tax year). LIPA filed an appeal on December 17, 2021. Enforcement of the judgment is stayed pending the determination of LIPA's appeal. LIPA estimates the potential exposure with penalties and interest to be approximately $90 million as of December 31, 2021. As a regulated entity, LIPA obtained regulatory approval from its Board to defer the recovery of these costs, from its customers until the conclusion of the appeal process.

(g) Revenue Decoupling Mechanism

The RDM ensures that only LIPA's budgeted and Board-approved revenues for delivery service are collected from customers. The RDM compares actual revenues with authorized revenues and credits (or collects) any differences to (or from) customers. It is intended to cover all sources of variances in delivery service revenues including, among other things, variances attributable to the implementation of energy efficiency or net metering above or below forecasted levels, variances caused by warmer or cooler than normal weather, and variances that result from unforeseen changes in economic conditions.

The RDM is applied to delivery rates on a percentage basis and is reset at the beginning of each year to include the prior year surplus or shortfall between actual and authorized revenues for delivery service. In years when a multi-year rate plan is in effect, the RDM also utilizes such realized prior year surplus or shortfall to update delivery rates for the current year so as to minimize future variances between actual and authorized revenues. In no event may LIPA recover an amount that exceeds authorized delivery revenues.

In response to the COVID-19 pandemic, LIPA's Board approved several relief measures for customers, including changes to the RDM. Due to the COVID-19 pandemic, many small business customers had to suspend operations, resulting in LIPA experiencing lost revenues in its commercial class of customers. To mitigate these customers from having significant bill impacts, LIPA's Board modified the RDM rate to a maximum of 5% of delivery service revenues for any customer class, with the excess to be recovered from the same customer class in the subsequent period. Prior to this modification, the full amount of the 2020 revenue variance would have been recovered from these classes in 2021. As a result of this change, approximately $4 million and $30 million, respectively, will be collected from the customers in the commercial classes in 2022 and 2021, respectively.

Due to the continuing "stay-at-home" work initiatives and a warmer than normal summer, LIPA's revenues from residential customers exceeded the budget resulting in a refund of approximately $50 million to its residential customer class in 2022 with an additional carry forward related to periods after the rate reset totaling approximately $2 million.

(h) Debt Issuance Costs

LIPA established a regulatory asset for debt issuance costs incurred prior to 2018. The regulatory asset will be amortized as a component of LIPA's revenue requirement on a systematic basis over the life of the debt to which they relate.

(i) Power Supply Costs Recoverable or Refundable

LIPA's tariff includes a Power Supply Charge with a monthly reconciliation of power supply costs. For the year ended December 31, 2021, actual power supply costs were higher than amounts recovered in the Power Supply Charge, resulting in the recognition of a regulatory asset totaling $9 million, which will be collected from customers in 2022. For the year ended December 31, 2020, actual power supply costs were below amounts recovered in the Power Supply Charge, resulting in the recognition of a regulatory liability totaling $35 million, which were returned to customers in 2021.

Also recoverable through the Power Supply Charge are deferred transition costs associated with the transfer of the power supply management contract to PSEG ER&T. Collection of these costs totaling $19 million are being recovered over an eleven-year period, as approved by LIPA's Board, that began January 1, 2015, and expiring December 31, 2025. As of December 31, 2021 and 2020, the remaining balance of such costs totaled $7 million and $8 million, respectively.

Amounts incurred related to various energy projects, the amortization of which are charged to power supply costs over the period of benefit (i.e., the life of the power purchase agreement) are also recoverable as a component of the Power Supply Charge. As of December 31, 2021 and 2020, the balance was $21 million and $23 million, respectively.

Unfunded actuarially determined potential costs relating to generation are a deferred component of the Power Supply Charge and total approximately $13 million. Such amounts will not be reflected in the Power Supply Charge until settlement costs are paid.

(j) Southampton Visual Benefit Assessment

LIPA has recorded the incremental costs to bury a portion of a transmission cable routed through the Town of Southampton as a regulatory asset, which is being recovered from certain customers of the Town in a visual benefit district over a period of 20 years that began in 2009.

(k) Regulatory Credits – Grants

LIPA has received grants for storm restoration and storm hardening. LIPA's Board authorized the deferral of grant income as a regulatory credit. This regulatory credit will be amortized over the same time period as the depreciation expense on the associated capital assets for storm hardening.

(l) Distributed Energy Resources

The Distributed Energy Resources (DER) charge recovers costs of LIPA's energy efficiency and distributed energy resource programs. The costs of such programs are authorized by LIPA's Board annually in its approved budget and billed to customers through the DER charge based on energy usage.

(m) Unfunded Actuarially Determined Reserves

Unfunded actuarially determined reserves are amounts recorded for non-cash reserves that are deferred until settlement costs are paid, at which time they are recovered in rates. Such estimates were calculated by an actuary based on experience and are updated every three years. The next study is scheduled for 2023.

(n) Utility 2.0

LIPA's annual Utility 2.0 plan funds new technologies, pilot programs, smart meters, and distributed energy projects. Utility 2.0 actual project costs are reconciled to funding levels set in rates on an annual basis.

(6) Deferred Outflows and Deferred Inflows of Resources

Certain assets and liabilities are reported as deferred outflows of resources (expenses or expenditures) and deferred inflows of resources (revenues) as follows:

(a) Deferred Defeasance Costs on Debt Refunding

Deferred defeasance costs on refunded debt represent the difference between the reacquisition price and the carrying amount of the refunded debt. These deferred costs are amortized as a component of interest expense over the shorter of the life of the old or new debt.

(b) Changes in Fair Value of Derivative Instruments

The accumulated changes in the mark-to-market valuation of a hedging derivative instrument deemed effective are reported as deferred inflows or deferred outflows of resources on the Consolidated Statements of Net Position.

As LIPA follows GASB Section RE10, Regulated Operations, any changes in ineffective investment derivative instruments are reported as regulatory assets or liabilities, as LIPA's Board has authorized the deferral of these unrealized gains or losses until realized, which corresponds to the period when they are recovered in rates.

(c) Changes in Fair Market Value of NMP2 Decommissioning Trust and OPEB Account

LIPA maintains a Trust for the decommissioning of NMP2. Separately, LIPA maintains an OPEB Account to set aside funds to meet future PSEG Long Island retirement benefit costs. These funds are reported at their fair market value and any unrealized gains or losses are recognized as a component of deferred inflows or deferred outflows of resources in accordance with LIPA's ratemaking process.

(d) Pension and OPEB

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, LIPA reports as deferred inflows or deferred outflows of resources the differences between expected and actual experience, projected and actual investment earnings on pension plan investments, contributions and the proportionate share of contributions, and changes in LIPA's contributions to the pension system subsequent to the measurement date. In accordance with GASB Statement No. 75, A*ccounting and Financial Reporting for Post- employment Benefits Other Than Pensions*, LIPA reports the changes in LIPA's net OPEB liability that have not been included in OPEB expense as deferred inflows or deferred outflows of resources. Amounts included would result from changes of assumptions, the net difference between projected and actual earnings on the OPEB Trust, and LIPA's contributions subsequent to the measurement date.

(e) Lease Revenue

LIPA receives contractually determined revenue related to leasing agreements with certain telecommunication providers for various attachments to the T&D system. These agreements, held by LIPA's previous service provider, were assigned to LIPA in 2020 and expire in May 2024. The agreement provides a fixed monthly rental payment which escalates 3% on June 1 of each year. The agreement does not provide for any variable payments. Additionally, there were no additional payments received other than the rental payments. The total amount of lease revenue and interest revenue in 2021 and 2020 was $3 million and $0.5 million, respectively. As of December 31, 2021 and 2020, the lease asset receivable and the corresponding deferred inflow of resources was approximately $9 million and $10 million, respectively.

(7) Federal Emergency Management Agency (FEMA) Grants

LIPA is eligible to receive public assistance grants through FEMA following major disaster declarations, which provides reimbursement of costs associated with emergency protective measures, and the repair and restoration of damaged facilities. Disaster assistance is subject to eligibility rules applicable to the applicant, facility, work, and cost.

(a) Superstorm Sandy

In 2012, Superstorm Sandy caused significant damage to LIPA's Service Area resulting in the declaration of a federal major disaster area and making LIPA eligible for FEMA grants. LIPA and FEMA signed a Letter of Undertaking (LOU) that provides for a Public Assistance (PA) grant authorized under Section 428 of the Stafford Act (428 Grant Agreement) for a total eligible reimbursement of $1.29 billion (90% of $1.43 billion contained in the LOU). LIPA also signed a Community Development Block Grant (CDBG) to compensate for the non-federal match of certain other declared weather events.

To date, LIPA has received funding resulting from Superstorm Sandy costs totaling approximately $1.11 billion. A portion of the FEMA 428 Grant Agreement included funding for future storm hardening and mitigation efforts. LIPA maintains a restricted segregated account for any unused portion of the grant proceeds. As of December 31, 2021 and 2020, this segregated grant account totaled approximately $2 million. The remaining amounts owed to LIPA under the LOU are expected to be received after the projects are completed and are recorded as a long-term receivable.

(b) Tropical Storm Isaias

On August 4, 2020, LIPA's Service Area suffered significant damage as a result of Tropical Storm Isaias. The resulting damage to the electrical system caused significant customer outages, making it the third-most damaging storm to affect LIPA's T&D System. LIPA filed for recovery of response and storm restoration costs of approximately $300 million associated with Tropical Storm Isaias.

Tropical Storm Isaias was declared a federal major disaster on October 2, 2020 and LIPA is seeking reimbursement from FEMA for the eligible reimbursable costs. LIPA deferred Tropical Storm Isaias costs in its DSA recovery mechanism and in accordance with this mechanism, deferred amounts are recovered over a rolling three years. However, as LIPA cannot reasonably estimate amounts recoverable in the DSA, its Board approved a regulatory action to defer Tropical Storm Isaias restoration costs expected to be reimbursed from FEMA for recovery until the grant application process is complete. As of December 31, 2021, LIPA received approximately $0.45 million in grant proceeds. As a significant portion of the grant continues through the application process, the balance of expected FEMA reimbursement remains deferred as a component of the DSA.

(c) COVID-19

In response to the COVID-19 pandemic, on March 20, 2020, FEMA announced that federal emergency funds will be made available for recovery efforts related to the COVID-19 pandemic. The funding is for incremental costs related to safety protocols implemented to protect employees, customers, and the public. LIPA has been approved for public assistance; however, as no grant application has been finalized or approved prior to December 31, 2021, no grant income was recognized.

(8) Derivative Instruments

LIPA uses derivative instruments in its normal course of business to limit some of the volatility associated with interest rate changes and market price fluctuations in the purchase of fuel oil, natural gas, and electricity. LIPA does not use derivative instruments for trading or speculative purposes. These contracts are evaluated pursuant to GASB Statement No. 53 to determine whether they meet the definition of derivative instruments and whether they effectively hedge the expected cash flows associated with interest rate and commodity price risk exposures. The fair values of LIPA's derivatives are reported on the Consolidated Statements of Net Position as either Commodity Derivative Instruments or Financial Derivative Instruments.

LIPA applies hedge accounting for derivative instruments that are deemed effective under GASB Statement No. 53. Under hedge accounting, changes in the fair value of such hedging derivative instruments are a component of deferred inflows or deferred outflows of resources on the Consolidated Statements of Net Position until the contract is settled, or hedge accounting is terminated. Derivative instruments that do not meet the definition of a hedging derivative instrument are economic hedges, intended to mitigate exposure to fluctuations in interest rates or commodity prices, and are referred to as investment derivative instruments. Changes in the fair value of investment derivative instruments are deferred until settled or terminated in accordance with LIPA's ratemaking process and recorded as regulatory assets or liabilities.

All settlement payments or receipts for hedging and interest rate derivative instruments are recorded as either power supply expense for commodity derivative instruments or interest expense for interest rate derivative instruments on the Statements of Revenues, Expenses, and Changes in Net Position in the period settled.

LIPA's interest rate and commodity derivative contracts are valued in accordance with GASB Statement No. 72, which establishes a fair value hierarchy: Level 1, Level 2, and Level 3 (as discussed in Note 2 (u)). Interest rate derivative contracts are based on the present value of cash flows using the income approach and the interest rate derivative contracts are classified as Level 2, as their valuation relies primarily on observable inputs.

LIPA's commodity derivative contracts are transacted both over-the-counter and through clearing exchanges and the valuations are based upon price quotes from exchanges. The impacts of credit and non-performance risk by either LIPA or its counterparty were not material to the financial statements.

In accordance with GASB Statement No. 72, LIPA determines the level of fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety. The following table presents LIPA's derivative instruments measured and recorded at fair value on the Consolidated Statements of Net Position on a recurring basis and their level within the fair value hierarchy.

(Amounts in thousands, unless otherwise stated)

		2021			2020		
		Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative assets:							
Financial derivatives	$	—	(6,649)	—	—	(17,151)	—
Commodity derivatives		—	—	—	—	—	—
Derivative liabilities:							
Financial derivatives		—	(165,290)	—	—	(216,274)	—
Commodity derivatives		136,323	—	—	(41,547)	—	—
	$	136,323	(171,939)	—	(41,547)	(233,425)	—

LIPA's derivative instruments are as follows:

Derivative instrument description		Fair value December 31, 2021	Net change in fair value	Fair value December 31, 2020	Type of hedge	Financial statement classification for changes in fair value
Hedging derivative instruments:						
Financial derivatives:						
Total return swap	$	354	21	333		
Total return swap		—	(921)	921		
Forward-starting swap		(5,043)	7,625	(12,668)		
Forward-starting swap		(1,960)	3,777	(5,737)		
Total	$	(6,649)	10,502	(17,151)	Cash flow	Deferred outflows
Commodity derivatives:						
Natural gas basis swaps		—	16,298	(16,298)		
Total	$	—	16,298	(16,298)	Cash flow	Deferred outflows
Investment derivative instruments:						
Financial derivatives:						
Synthetic fixed-A	$	(165,290)	44,452	(209,742)	N/A	
Basis swap-A		—	3,266	(3,266)	N/A	
Basis swap-B		—	1,633	(1,633)	N/A	
Basis swap-C		—	1,633	(1,633)	N/A	
Total	$	(165,290)	50,984	(216,274)		Regulatory assets
Commodity derivatives:						
Power – financial basis		(12,858)	(10,487)	(2,371)	N/A	
Purchased power swaps		84,900	99,011	(14,111)	N/A	
Natural gas swaps		73,381	82,148	(8,767)	N/A	
Natural gas basis swaps		(9,134)	(9,134)	—	N/A	
Natural gas/power options		34	34	—	N/A	
Total	$	136,323	161,572	(25,249)		Regulatory assets/liabilities

The terms of LIPA's commodity derivative instruments as of December 31, 2021 are summarized in the table below:

Derivative Instrument	Notional Amount (in thousands)	Units	Beginning Period	Ending Period	LIPA Pays [(1)] Per Unit	LIPA Receives
Natural Gas Swaps	85,678	Dthms	1/1/22	12/1/24	$ 2.35 to $ 2.74	Natural Gas at Henry Hub
Natural Gas Basis Swaps	70,808	Dthms	1/1/22	3/1/24	$ (0.61) to $ 4.20	Gas Basis between Henry Hub and Transco Z6, NY
Purchased Power Swaps [(2)]	6,353	Mwhs	1/1/22	12/1/24	$ 20.85 to $ 34.35	Power at PJM West
Purchased Power Basis	7,578	Mwhs	1/1/22	12/1/24	$ (8.65) to $ 1.95	Power Basis between PJM West to JCPL
Purchased Power Options [(3)]	131	Mwhs	1/1/22	2/1/22	$ 65.00 to $ 65.00	Power at PJM West

(1) In some cases LIPA receives instead of pays as noted below.

(2) The purchased power swaps include two short-swaps resulting from the exercise of purchased put options. The volume of these swaps is included in the notional amount. The trade price of these swaps (which equals the strike price of the exercised option) is $65/MWh. This trade price is not included in the price range as it is the price received and not paid by LIPA.

(3) The price range shown is the strike price range. The power options are all put purchases; therefore, the price range indicates the amount LIPA receives per unit if exercised.

The terms of LIPA's commodity derivative instruments as of December 31, 2020 are summarized in the table below:

Derivative Instrument	Notional Amount (in thousands)	Units	Beginning Period	Ending Period	LIPA Pays Per Unit	LIPA Receives
Natural Gas Swaps	121,675	Dthms	1/1/21	12/1/23	$ 2.35 to $ 2.88	Natural Gas at Henry Hub
Natural Gas Basis Swaps	60,725	Dthms	1/1/21	3/1/23	$ (0.42) to $ 3.60	Gas Basis between Henry Hub and Transco Z6, NY
Purchased Power Swaps	8,829	Mwhs	1/1/21	12/1/23	$ 19.30 to $ 39.75	Power at PJM West
Purchased Power Basis	4,183	Mwhs	1/1/21	12/1/22	$ (5.45) to $ 3.10	Power Basis between PJM West to JCPL

The terms of LIPA's interest rate derivative instruments as of December 31, 2021 are summarized in the table below:

Financial derivative	Effective date	Termination date	LIPA pays	LIPA receives	Original notional	Upfront cash payment
Synthetic fixed-A	6/1/03	12/1/29	5.120 %	69.47% of 1-month LIBOR	$ 587,225	$ 106,400
Total return swap	5/1/20	6/29/23	69.4% 1-month LIBOR+.36%	MMD +1.10% [a]	200,000	—
Forward-starting swap	9/1/22	9/1/42	1.8571%	70.00% of 1-month LIBOR	251,510	—
Forward-starting swap	9/1/22	9/1/29	1.3150%	70.00% of 1-month LIBOR	164,860	—
						$ 106,400

(Amounts in thousands, unless otherwise stated)

The terms of LIPA's interest rate derivative instruments as of December 31, 2020 are summarized in the table below:

Financial derivative	Effective date	Termination date	LIPA pays	LIPA receives	Original notional	Upfront cash payment
Synthetic fixed-A	6/1/2003	12/1/2029	5.120 %	69.47% of 1-month LIBOR	$ 587,225	$ 106,400
Basis swap-A	7/1/2004	8/15/2033	SIFMA	70.50% of 1-month LIBOR	502,090	17,500
Basis swap-B	7/1/2004	8/15/2033	SIFMA	70.50% of 1-month LIBOR	251,045	8,750
Basis swap-C	7/1/2004	8/15/2033	SIFMA	70.50% of 1-month LIBOR	251,045	8,750
Total return swap	6/29/2020	6/29/2023	69.4% 1-month LIBOR+.36%	MMD +1.10% [a]	200,000	—
Total return swap	9/15/2016	9/1/2021	69.4% 1-month LIBOR+.30%	MMD +1.05% [a]	175,000	—
Forward-starting swap	9/1/2022	9/1/2042	1.8571%	70.00% of 1-month LIBOR	251,510	—
Forward-starting swap	9/1/2022	9/1/2029	1.3150%	70.00% of 1-month LIBOR	164,860	—
						$ 141,400

[a] Based on lowest long-term rating of LIPA

Immediately following direct placement of LIPA's Electric System General Revenue Bonds, Series 2015A Municipal Market Data (MMD) Floating Rate Notes (FRNs) totaling $200 million and Series 2016A MMD FRNs totaling $175 million, LIPA entered into five-year basis agreements (total return swap) whereby the counterparty agreed to pay LIPA an amount equal to the floating MMD FRN coupon plus 110 basis points, and LIPA agreed to pay the counterparty 69.4% of 1-month London Interbank Offered Rate (LIBOR) plus 36 basis points. In 2020, the basis agreement related to the 2015A FRNs was amended to extend the agreement to June 29, 2023. The additional spread LIPA pays was reduced, and the calculation of the amount payable upon termination was revised. At the five-year expiration or the early termination of the agreements, the counterparty pays LIPA an amount equal to 0% of the first $0.25 of gain (per $100 notional principal amount of the FRN) and 90% of any thereafter in the market value of the MMD FRN and LIPA pays the counterparty 100% of any decrease in the market value of the MMD FRN, provided however, that if LIPA exercises its right to call or remarket the MMD FRN, the value of either agreement will be zero and neither party will have a payment obligation.

The total return swap agreement related to the 2016A FRNs expired on September 30, 2021, and the Electric System General Revenue Bonds, Series 2016A MMD FRNS totaling $175 million were called on October 1, 2021 and refinanced with the Electric System General Revenue Bonds Series 2021A.

LIPA also has two forward-starting interest rate swap transactions. The swaps become effective on September 1, 2022, and were executed in anticipation of issuing bonds to refund LIPA's Electric System General Revenue Bonds, Series 2012A and 2012B, which are callable in 2022. LIPA agreed to pay each counterparty the fixed interest rates in the table above in exchange for receiving 70% of 1-month LIBOR. LIPA has the ability to terminate each swap at no cost beginning on September 1, 2027, and monthly thereafter.

In addition, during 2021, LIPA terminated all three of its previously outstanding basis swaps.

LIPA is exposed to the following risks related to derivative instruments as defined by GASB Statement No 53:

(a) Termination Risk

Termination risk is the risk that a derivative could be terminated by a counterparty prior to its scheduled maturity due to a contractual event with LIPA owing a termination payment. As long as LIPA fulfills its obligations under the contracts, the counterparties do not have the right to terminate these agreements. LIPA believes that termination risk is low because the counterparties may terminate the agreements only upon the occurrence of specific events such as payment defaults, other defaults which remain uncured for 30 days after notice, bankruptcy or insolvency of LIPA (or similar events), or a downgrade of LIPA's and its insurers', if any, credit rating below investment grade. If, at the time of termination, the mark-to-market valuation of the derivative was a liability of LIPA, LIPA could be required to pay that amount to the counterparty. Termination risk associated with all of LIPA's derivatives is limited to the fair market value.

(b) Basis Risk

LIPA is exposed to basis risk on certain of its interest rate swaps because the variable-rate payments received by LIPA, and those paid either pursuant to the terms of the swap or on the associated variable rate debt, may differ. The terms of the interest rate swap transactions are summarized in the table above.

LIPA is exposed to basis risk on a portion of its commodity swaps when the commodity swap payment received is based upon a reference price in a market (e.g., natural gas priced at Henry Hub) that differs from the market in which the hedged item is expected to be bought (natural gas priced at New York City gate). If the correlation between these market prices should change substantially, LIPA may incur costs as a result of the hedging derivative instrument's inability to offset the price of the related commodity.

(c) Collateral Posting

Under certain conditions, LIPA may be required to post collateral related to its interest rate derivative instruments. Under the terms of its interest rate derivative agreements, collateral may be required if LIPA's credit ratings, and in the case of insured swaps, the credit ratings of any related interest rate derivative insurer, fall below minimum levels as provided in each agreement, and LIPA fails to provide alternative credit enhancements. Collateral for its financial derivatives, if required, would approximate fair value. LIPA has never been required to post collateral for its interest rate derivative instruments.

LIPA has collateral requirements with commodity derivative counterparties in the Credit Support Annexes (CSA) of International Swap Deal Agreements (ISDA). Collateral is required to be posted with the counterparty when the negative fair value of the commodity derivative instrument exceeds the unsecured line of credit established with each counterparty as listed in the counterparty table below. In the event of collateral being posted, the value will equal the difference between the fair value and the amount of the unsecured line of credit. For exchange broker cleared derivative transactions, there is an initial margin requirement on day one of a trade that is calibrated to cover the expected cost of closing out the position in the event of a default. Collateral postings between the exchange clearing broker and LIPA each day thereafter are based on the fair value of the derivative instrument.

(Amounts in thousands, unless otherwise stated)

(d) Credit Risk

Credit risk is the risk that the counterparty (or its guarantor) will default on its obligations under the agreement. LIPA has sought to limit counterparty risk by contracting only with highly rated counterparties or requiring guarantees of the counterparty's obligations. LIPA also makes use of exchange cleared transactions for a portion of its commodity derivatives. The exchange uses a central clearing counterparty structure along with risk-based margin requirements that limits credit risk exposure.

Below is a table with the credit ratings issued by Moody's Investors Service (Moody's) and Standard and Poor's Global Ratings (S&P) and unsecured line of credit limits of LIPA's counterparties as of December 31, 2021.

Counterparty	As of December 31, 2021 Moody's	S&P	Counterparty's unsecured line of credit ($M)
Interest Rate Derivative Instruments:			
Citibank, N.A. New York	Aa3	A+	$ —
UBS AG, Stamford Branch	Aa3	A+	—
Wells Fargo Bank, N.A.	Aa2	A+	—
Commodity Derivative Instruments:			
BP Energy Company *	A3	A-	$ 15.0
Citigroup Energy, Inc.*	A3	BBB+	10.0
Consolidated Edison Energy, Inc. *	Baa2	BBB+	4.0
Exelon Generation Company, LLC	Baa2	BBB-	5.0
J. Aron & Company *	A2	BBB+	40.0
JPMorgan Chase Bank, N.A.	Aa2	A+	35.0
Macquarie Energy LLC *	A2	A+	10.0
Merrill Lynch Commodities, Inc. *	A2	A-	20.0
Mitsui Bussan Commodities Ltd. *	A3	A	12.5
Morgan Stanley Capital Group Inc. *	A1	BBB+	10.0
Next Era Power Marketing *	Baa1	BBB+	10.0
Pacific Summit Energy LLC *	Baa1	BBB+	10.0
Societe Generale	A1	A	25.0
The Bank of Nova Scotia	Aa2	A+	25.0

* *Rating reflects the rating of the parent company guarantor*

(Amounts in thousands, unless otherwise stated)

(9) Utility Plant and Property and Equipment

Additions to and replacements of utility plant are capitalized at original cost, which includes material, labor, and indirect costs associated with an addition or replacement. The cost of renewals and betterments relating to units of property is added to utility plant. The cost of property replaced, retired, or otherwise disposed of is deducted from utility plant and, generally, together with dismantling costs less any salvage, are charged to accumulated depreciation. The cost of repairs and minor renewals are charged to operations and maintenance expense. Group properties, such as poles, meters, and wire, are accounted for on an average unit cost basis by year of installation.

The following schedule summarizes LIPA's utility plant and property and equipment as of December 31, 2021:

	Beginning balances	Additions	Transfers/ Disposals	Ending balances
Utility plant	$ 9,122,598	863,298	(103,376)	9,882,520
Office equipment, furniture, and leasehold improvements	6,323	1,898	—	8,221
Accumulated depreciation	(2,340,303)	(300,608)	168,363	(2,472,548)
Total utility plant – net	6,788,618	564,588	64,987	7,418,193
Right-to-use asset under lease:				
Utility plant	3,311,412	21,408	(15,611)	3,317,209
Other	128,416	—	(2,289)	126,127
Accumulated depreciation	(648,284)	(342,357)	17,864	(972,777)
Total right-to-use-asset – net	2,791,544	(320,949)	(36)	2,470,559
Construction work in progress	716,083	642,818	(863,060)	495,841
Retirement work in progress	17,331	76,099	(63,406)	30,024
	733,414	718,917	(926,466)	525,865
Totals	$ 10,313,576	962,556	(861,515)	10,414,617

(Amounts in thousands, unless otherwise stated)

The following schedule summarizes LIPA's utility plant and property and equipment as of December 31, 2020:

		Beginning balances	Additions	Transfers/ Disposals	Ending balances
Utility plant	$	8,480,568	726,444	(84,414)	9,122,598
Office equipment, furniture, and leasehold improvements		3,572	2,751	—	6,323
Accumulated depreciation		(2,184,994)	(293,275)	137,966	(2,340,303)
Total utility plant – net		6,299,146	435,920	53,552	6,788,618
Right-to-use asset under lease:					
Utility plant		3,355,684	—	(44,272)	3,311,412
Other		128,538	—	(122)	128,416
Accumulated depreciation		(346,701)	(345,911)	44,328	(648,284)
Total right-to-use-asset – net		3,137,521	(345,911)	(66)	2,791,544
Construction work in progress		712,503	708,206	(704,626)	716,083
Retirement work in progress		10,081	60,803	(53,553)	17,331
		722,584	769,009	(758,179)	733,414
Totals	$	10,159,251	859,018	(704,693)	10,313,576

(10) Nine Mile Point Nuclear Power Station, Unit 2

LIPA owns an undivided 18% interest in NMP2 in Oswego County, New York. Constellation Energy Nuclear Group (CENG) owns the other 82%. NMP2 has a rated net capacity of approximately 1,300 megawatts. LIPA is entitled to 18% of the unit's capacity and energy and is obligated to pay 18% of its operating and maintenance costs, nuclear fuel costs, and costs of capital additions. LIPA's net capital investment in NMP2, excluding nuclear fuel, was approximately $511 million and $526 million as of December 31, 2021 and 2020, respectively.

CENG was a joint venture of Exelon Corporation and EDF, a large electric-power company headquartered in France through August 6, 2021. Exelon and EDF entered into a Settlement Agreement under which Exelon acquired EDF's interest in the joint venture. Exelon Generation operates NMP2.

On December 16, 2021, the New York Public Service Commission approved a plan by Exelon to separate its regulated-utilities and competitive-energy businesses into two separate, publicly traded companies. This was the last regulatory approval required by Exelon to execute the plan. Exelon completed the separation on February 1, 2022. The resulting competitive-energy company is known as Constellation Energy Generation; it owns 82% of NMP2 and LIPA continues to own its 18% share.

(a) Nuclear Plant Decommissioning

The operating license for NMP2 expires on October 31, 2046.

As of December 31, 2021, and 2020, LIPA's share of the estimated costs for decommissioning of the unit and restoration of the site is approximately $87 million and $67 million, respectively, and is included in the Consolidated Statements of Net Position as a component of the Asset Retirement Obligation. LIPA maintains a nuclear decommissioning trust fund (NDTF) for its share of the decommissioning costs. As of December 31, 2021, and 2020, the NDTF had approximately $184 million and $164 million, respectively. LIPA believes that deposits to the fund, which are based on actuarial estimates, and the assumed investment returns of these funds during the term of the operating license, will be sufficient to meet its obligations.

(b) Liability for Nuclear Accidents

The Federal Price-Anderson Act (Act) currently requires owners of nuclear power plants to obtain $450 million in private insurance coverage for off-site liability coverage for each reactor site (not each reactor). Exelon maintains this coverage for the Nine Mile Point site, and LIPA reimburses Exelon for its proportionate share of the cost. The Act further stipulates that in the event off-site damages exceed the amount of private insurance coverage, each reactor licensee is retroactively liable for a prorated share of the excess. This liability is limited to $138 million per reactor, payable at no more than approximately $20 million per reactor per incident per year. LIPA's maximum liability under this provision is approximately $25 million, payable at approximately $4 million per incident per year.

(11) Cash, Cash Equivalents, and Investments

The majority of LIPA's cash, cash equivalents, and investments are either managed by an external investment manager or invested in mutual funds. LIPA's investment of funds is administered in accordance with the applicable provisions of State law, the Bond Resolution, certain banking agreements and LIPA's investment policy.

(a) Unrestricted cash, cash equivalents, and investments

As of December 31, 2021, and 2020, LIPA had unrestricted cash, cash equivalents, and investments totaling approximately $1.37 billion and $1.20 billion, respectively. The unrestricted funds primarily consist of the: Operating Fund, Construction Fund, Rate Stabilization Fund, and OPEB Account.

In the event that LIPA determines there are insufficient revenues to pay reasonable and necessary operating expenses or to make payments on bonds or parity obligations, if any, after notifying the Finance and Audit Committee of LIPA's Board, LIPA may release funds from the OPEB Account for such purposes. As such, the OPEB Account is unrestricted.

Deposits made to LIPA's unrestricted OPEB Account are to fund LIPA's contractual obligations to employees of PSEG Long Island for certain post-employment benefits. LIPA has invested such funds, pursuant to LIPA's investment policy, in domestic and international stock mutual funds (65%), as well as inflation protected and bond market institutional mutual funds (35%). As of December 31, 2021, and 2020, the OPEB Account balance totaled approximately $581 million and $475 million, respectively. The following tables summarize LIPA's unrestricted cash, cash equivalents and investments as of December 31, 2021 and 2020. The credit ratings listed are from Moody's, S&P, and Fitch, and the rating shown is the lowest rated obligation within each investment type.

(Amounts in thousands, unless otherwise stated)

Deposit/investment type	Credit Rating (if applicable)	Percent of portfolio		2021 Fair value	Cash and cash equivalents	Investments
Operating Fund, Construction Fund, Rate Stabilization Fund, and Other operating accounts:						
Cash and collateralized deposits		10	% $	74,957	74,957	—
Discount notes and bonds:						
Commercial paper	P-1/A-1/F1	27		214,995	—	214,995
Corporate	Baa1/BBB+/A-	23		182,349	—	182,349
Federal agencies	Aaa/AA+	5		38,488	—	38,488
Foreign government bonds	Aaa/AAA/AAA	2		14,886	—	14,886
Municipal bonds	A1/A/A	1		7,699	—	7,699
Treasury notes	Aaa/AA+	9		67,951	—	67,951
Money-market mutual funds		23		183,946	183,946	—
Subtotal		100	%	785,271	258,903	526,368
OPEB Account:						
Mutual funds - equities		66	%	383,889	—	383,889
Mutual funds - fixed income		34		197,372	—	197,372
Subtotal		100	%	581,261	—	581,261
Total			$	1,366,532	258,903	1,107,629

Deposit/investment type	Credit Rating (if applicable)	Percent of portfolio		2020 Fair value	Cash and cash equivalents	Investments
Operating Fund, Construction Fund, Rate Stabilization Fund, and Other operating accounts:						
Cash and collateralized deposits		2	% $	11,222	11,222	—
Discount notes and bonds:						
Certificates of deposit	P-1/A-1/F1+	—		1,169	—	1,169
Commercial paper	P-1/A-1/F1	30		222,601	—	222,601
Corporate	Baa1/BBB+/A-	14		103,610	—	103,610
Federal agencies	Aaa/AA+	9		63,249	—	63,249
Foreign government bonds	Aaa/AAA/AAA	1		10,849	—	10,849
Municipal bonds	A1/A/A	2		13,109	2,002	11,107
Treasury notes	Aaa/AA+	7		48,410	—	48,410
Money-market mutual funds		35		253,176	253,176	—
Subtotal		100	%	727,395	266,400	460,995
OPEB Account:						
Mutual funds - equities		68	%	321,643	—	321,643
Mutual funds - fixed income		32		153,723	—	153,723
Subtotal		100	%	475,366	—	475,366
Total			$	1,202,761	266,400	936,361

(b) Restricted cash, cash equivalents and investments

LIPA's restricted cash, cash equivalents, and investments consist of: the Working Capital Requirements Account, the FEMA Grant Fund, the Clean Energy Compliance Fund, and the UDSA Collection and Reserve Accounts.

Restricted Cash for Working Capital Requirements

In accordance with the OSA, LIPA is required to advance fund an account with three months of anticipated T&D operating and capital costs for PSEG Long Island to utilize as LIPA's agent in the management of LIPA's T&D system. Also, pre-funded by LIPA are amounts held by PSEG Long Island to pay taxes, storm restoration costs, and amounts required to fund the Clean Energy Compliance Fund. The accounts totaled $284 million and $207 million as of December 31, 2021 and 2020, respectively, and were invested in accordance with LIPA's investment policy. Due to the contractual obligation of LIPA to pre-fund such accounts, the funds are classified as restricted. Such accounts, except for the Clean Energy Compliance Fund which totaled $8 million and $4 million, respectively, are considered by LIPA to be a component of its working capital, as funds are used strictly for LIPA operating needs.

Grant Proceeds

LIPA received in advance approximately $502 million from FEMA which was restricted for storm hardening work on certain LIPA assets. LIPA funds are expended by PSEG Long Island for approved projects, and LIPA reimbursed itself for these approved projects expenditures. LIPA segregated FEMA funds for specific use as required by the FEMA 428 grant agreement.

UDSA

Restructuring charge collections are held by the Bond Trustee (Trustee) in Collection Accounts to satisfy debt service on the Restructuring Bonds. The Collection Accounts consist of four subaccounts: General Subaccount, Excess Funds Subaccount, Reserve Subaccount, and Upfront Financing Costs Subaccount. The Collection Accounts (other than the Upfront Financing Costs Subaccount) secure the Restructuring Bonds.

Restricted cash held by the Trustee, as of December 31, 2021 and 2020 includes $55 million and $71 million, respectively, in the General Subaccounts, and $57 million and $58 million, respectively in the Reserve Subaccounts.

The UDSA has separate investment guidelines that are specifically designed to address its legal and contractual requirements. These guidelines mandate that such investments be matched to meet bond principal and interest payments.

The following tables summarize LIPA's restricted cash, cash equivalents and investments as of December 31, 2021 and 2020. The credit ratings listed are from Moody's, S&P, and Fitch and the ratings shown are the lowest rated obligation within each investment type.

(Amounts in thousands, unless otherwise stated)

Deposit/investment type	Credit rating (if applicable)	Percent of portfolio		2021 Fair value	Cash and cash equivalents	Investments
Restricted Accounts for Working Capital, Clean Energy Compliance Fund, and Grants:						
Cash and collateralized deposits		54	% $	154,854	154,854	—
Discount notes and bonds:						
Commercial paper	P-1/A/1/F1	8		22,275	—	22,275
Corporate	A3/BBB+/A-	22		63,201	—	63,201
Federal agencies	Aaa/AA+	1		4,033	—	4,033
Foreign government bonds	Aaa/AAA/AAA	4		11,820	—	11,820
Municipal bonds	A	1		2,236	—	2,236
Treasury bills and notes	Aaa/P-1/AA+/A-1+	9		24,749	—	24,749
Money-market mutual funds		1		3,049	3,049	—
Total		100	% $	286,217	157,903	128,314
UDSA:						
Money-market mutual funds		100	% $	111,694	111,694	—

Deposit/investment type	Credit rating (if applicable)	Percent of portfolio		2020 Fair value	Cash and cash equivalents	Investments
Restricted Accounts for Working Capital, Clean Energy Compliance Fund, and Grants:						
Cash and collateralized deposits		37	% $	77,707	77,707	—
Discount notes and bonds:						
Commercial paper	P-1/A/1/F1	20		42,478	—	42,478
Corporate	A3/BBB+/A-	14		28,205	—	28,205
Federal agencies	Aaa/AA+	3		7,187	—	7,187
Foreign government bonds	Aaa/AAA/AAA	6		11,526	—	11,526
Municipal bonds	A	—		256	—	256
Treasury bills and notes	Aaa/P-1/AA+/A-1+	19		39,460	—	39,460
Money-market mutual funds		1		2,196	2,196	—
Total		100	% $	209,015	79,903	129,112
UDSA:						
Money-market mutual funds		100	% $	128,833	128,833	—

(c) Risks

LIPA's investment policy places a limit on investments by sector and issuer and addresses various risks, as described below. LIPA's Board may also specifically authorize, as it deems appropriate, other investments that are consistent with LIPA's investment objective. LIPA regularly reviews and revises its investment policy.

Credit Risk: The risk that an issuer of a security will not fulfill its obligation to the investor. LIPA mitigates this risk by limiting investments to those carrying either the highest short-term rating or: (i) the two highest long-term ratings for supranationals and collateralized investment agreements; (ii) the three highest long-term ratings for corporates, municipals, and certificates of deposit; (iii) the highest long-term rating for asset backed securities. Money-market funds must have the highest fund rating by all nationally recognized statistical rating organizations that rate the fund. Counterparties of repurchase agreements must be rated in the highest short-term rating category, and floating-rate notes should reflect the appropriate sector rating requirements.

Concentration of Credit Risk: The risk of loss attributed to the magnitude of an entity's investment in a sector single issuer. LIPA's investment policy has established limits such that no more than 5%, across all sectors of the investment portfolio, may be invested in the securities of any one non-governmental issuer, and no more than 40% may be invested in the securities of any one Federal Agency. Additionally, issuer limitations exist across other sectors of the portfolio as follows: (i) 10% for supranationals; (ii) 20% for repurchase agreements; and (iii) 25% for money-market funds.

Custodial Credit Risk: For deposits and investments, the risk that in the event of failure of a financial institution or counterparty, LIPA will not be able to recover its deposits, investments, or collateral securities that are in possession of another party. LIPA minimizes this risk by: (i) collateralizing its demand deposits and time deposits; (ii) utilizing financial institutions that are low risk, highly rated by rating agencies; and (iii) having investments held by designated custodians in the name of LIPA.

As of December 31, 2021, and 2020, approximately $230 million and $88 million, respectively, in deposits were uninsured. LIPA has, through a pledge, assignment, and custodial agreement with its bank, collateralized 102% of the collective funds on deposit. LIPA has highly rated money-market funds of approximately $299 million and $384 million which were uninsured at December 31, 2021 and 2020, respectively.

Interest Rate Risk: The risk of a decline in the value of an investment resulting from interest rate fluctuations. Interest rate risk is commonly associated with investments in fixed-income products. LIPA's investment portfolio is structured to ensure sufficient liquidity is available, and as such, LIPA's investment policy has established maximum maturities by sector. The portfolio may not exceed a 5.5 year average life with certain exceptions as follows: (i) Federal Agency securities have a maximum maturity of 10 years; (ii) certificates of deposit may not exceed 3 years; (iii) banker's acceptances and commercial paper may not exceed 180 and 270 days, respectively; and (iv) repurchase agreements have a maximum maturity of 90 days. Additionally, there are no maturity limitations for investments in money-market or mutual funds.

In order to meet the OPEB Account objectives of funding future retirement benefit obligations while balancing long-term risk and return and providing reasonable diversification, the OPEB Account allocates its assets in domestic and international equity mutual funds and fixed-income mutual funds. The equity funds replicate broad-based, low-cost market index strategies. The fixed-income mutual funds replicate the Barclays U S Treasury Inflation Protected Securities Index or the Barclay's Capital U S Float Adjusted Aggregate Bond Market Index.

LIPA's OPEB Account investment policy has established fund targets as follows: (i) domestic equity mutual funds at 40%; (ii) international equity mutual funds at 25%; (iii) fixed-income investment mutual funds at 20%; and (iv) fixed-income investments—inflation protected securities mutual funds at 15%, with quarterly rebalancing when an asset class falls outside of a 5% range of its asset weighting.

(Amounts in thousands, unless otherwise stated)

(d) Nuclear Decommissioning Trust Fund (NDTF)

LIPA maintains a separate investment policy applicable to the long-term investments in the NDTF, which are held to meet LIPA's obligation with respect to the eventual decommissioning of LIPA's 18% interest in the NMP2 nuclear facility. LIPA's policy is to periodically conduct an actuarial study to determine the appropriate level of funding for the NDTF and to maintain an appropriate investment policy so that the value in the trust in 2046 (the year in which decommissioning activities are scheduled to begin), will be sufficient to meet decommissioning obligations.

To meet LIPA's objectives of funding future nuclear decommissioning obligations , while balancing long-term risk and return and providing reasonable diversification, the NDTF is invested in domestic and international equity mutual funds and fixed-income mutual funds. The equity funds replicate broad-based, low-cost market index strategies. The fixed-income mutual funds replicate the Barclays U S Treasury Inflation Protected Securities Index or the Barclay's Capital U S Float Adjusted Aggregate Bond Market Index.

LIPA's NDTF investment policy has established fund targets as follows: (i) domestic equity mutual funds at 35%; (ii) international equity mutual funds at 20%; (iii) fixed-income investments mutual funds at 25%; and (iv) fixed-income investments—inflation protected securities mutual funds at 20%, with quarterly rebalancing when an asset class falls outside of a 5% range of its asset weighting.

The NDTF had the following investments as of December 31:

Mutual Fund Investment type	Percent of portfolio		2021 Fair value
Domestic equity	37	% $	68,777
International equity	19		34,812
Fixed-income investments	24		44,013
Fixed-income investments-inflation protected securities	20		36,634
Total	100	% $	184,236

Mutual Fund Investment type	Percent of portfolio		2020 Fair value
Domestic equity	39	% $	63,951
International equity	21		33,709
Fixed-income investments	22		36,207
Fixed-income investments-inflation protected securities	18		30,218
Total	100	% $	164,085

(Amounts in thousands, unless otherwise stated)

(e) Fair Value of Investments

The following table presents LIPA's unrestricted and restricted investments and NDTF, measured and recorded at fair value on the Consolidated Statements of Net Position and their level within the fair value hierarchy (as previously defined in Note 2 (u)):

Investment type	2021 Fair Value	Level 1	Level 2	Level 3
Unrestricted and restricted investments:				
Discount notes:				
Commercial paper	$ 237,270	—	237,270	—
Corporate	245,550	—	245,550	—
Federal agencies	42,521	—	42,521	—
Foreign government bonds	26,706	—	26,706	—
Municipal bonds	9,935	—	9,935	—
Treasury bills and notes	92,699	92,699	—	—
Money-market mutual funds	581,262	581,262	—	—
Total	$ 1,235,943	673,961	561,982	—
NDTF Mutual Funds	184,236	184,236	—	—
Total	$ 184,236	184,236	—	—

Investment type	2020 Fair Value	Level 1	Level 2	Level 3
Unrestricted and restricted investments:				
Discount notes:				
Certificates of deposit	$ 1,169	—	1,169	—
Commercial paper	265,079	—	265,079	—
Corporate	131,815	—	131,815	—
Federal agencies	70,436	—	70,436	—
Foreign government bonds	22,375	—	22,375	—
Municipal bonds	11,363	—	11,363	—
Treasury bills and notes	87,870	87,870	—	—
Money-market mutual funds	475,366	475,366	—	—
Total	$ 1,065,473	563,236	502,237	—
NDTF Mutual Funds	164,085	164,085	—	—
Total	$ 164,085	164,085	—	—

(Amounts in thousands, unless otherwise stated)

(f) OPEB Trust

LIPA created a legally separate Section 115 Trust (OPEB Trust) to fund its eligible employee and retiree OPEB obligation. Based on the funding analysis of an actuarial study, LIPA, in 2017, transferred approximately $19 million from the OPEB Account to the OPEB Trust. Additionally, LIPA funded approximately $0.69 million and $0.62 million in 2021 and 2020, respectively, to the OPEB Trust. As of December 31, 2021 and 2020, the OPEB Trust totaled approximately $30 million and $26 million, respectively, which was approximately 130.1% for 2021 and 113.8% for 2020 of its net OPEB liability.

The OPEB Trust is restricted to funding LIPA's employee and retiree OPEB obligations.

(12) Long-Term and Short-Term Debt

(a) Electric System General Revenue Bonds and Subordinated Revenue Bonds

LIPA financed the cost of acquiring the T&D system from LILCO with Electric System General Revenue Bonds. Ongoing capital improvements are funded through the issuance of debt, except where grants or excess cash flow provide the ability to cash fund such expenditures. LIPA and LILCO, which is now a subsidiary of LIPA, entered into a Financing Agreement, whereby LILCO transferred to LIPA all of its right, title, and interest in and to the revenues generated from the operation of the T&D system, including the right to collect and receive the same.

All of LIPA's bonds are secured by a Trust Estate as pledged under LIPA's Bond Resolution (the Resolution). The Trust Estate consists principally of the revenues generated by the operation of the T&D system and has been pledged to LIPA. Below is a summary of LIPA's bond transactions completed during the years ended December 31:

2021

Revenue Obligations:	2021 General Revenue Notes	Par Amount:	$	250,000
Purpose:	Fund costs related to Tropical Storm Isaias and pay issuance costs	Date Closed:		January 28, 2021
Revenue Obligations:	2021A General Revenue Bonds	Par Amount:	$	355,755
Purpose:	Refinance debt, fund system improvements and pay issuance costs	Date Closed:		September 30, 2021
Revenue Obligations:	2021B General Revenue Bonds	Par Amount:	$	175,000
Purpose:	Fund system improvements and pay issuance costs	Date Closed:		September 30, 2021
Revenue Obligations:	2021C General Revenue Bonds	Par Amount:	$	194,390
Purpose:	Refund debt and pay issuance costs	Date Closed:		September 30, 2021
		NPV savings	$	45,857

2020

Revenue Obligations:	2020A General Revenue Bonds	Par Amount:	$	237,975
Purpose:	Fund system improvements and pay issuance costs	Date Closed:		August 20, 2020
Revenue Obligations:	2020B General Revenue Bonds	Par Amount:	$	250,000
Purpose:	Fund system improvements and pay issuance costs	Date Closed:		August 20, 2020
Revenue Obligations:	2020C General Revenue Bonds	Par Amount:	$	113,975
Purpose:	Retire higher cost debt and pay issuance costs	Date Closed:		August 20, 2020
		NPV savings	$	28,185

(Amounts in thousands, unless otherwise stated)

(b) Component Unit Bonds – UDSA

LIPA's Board adopted Financing Orders authorizing the issuance of Restructuring Bonds by the UDSA to allow LIPA to retire a portion of its outstanding indebtedness and to provide savings to LIPA's customers as measured on a net present value basis. The Restructuring Bonds are not obligations of LIPA. There were no additional UDSA bond transactions completed in 2021 and 2020.

LIPA's long-term debt as of December 31, 2021 consisted of the following:

	Beginning balance	Accretion/ additions	Maturities	Repaid/ Refundings	Ending balance	Years of Maturity	Interest Rate (%)	
General revenue bonds/notes:								
Series 1998A	$ 82,961	4,397	12,970	—	74,388	2022-2028	5.30	(a)
Series 2000A	265,117	14,699	35,900	—	243,916	2022-2029	5.90-5.95	(a)
Series 2003C	36,645	—	—	—	36,645	2028-2029	5.25	
Series 2010B	194,715	—	15,785	16,325	162,605	2024-2041	5.45-5.85	(c)
Series 2011A	685	—	685	—	—	—	—	(b)
Series 2012A	166,970	—	—	125,975	40,995	2036-2042	5.00	(b)
Series 2012B	179,035	—	3,285	—	175,750	2022-2029	5.00	(b)
Series 2014A	413,070	—	—	—	413,070	2034-2044	4.00-5.00	(b)
Series 2014B	94,010	—	6,085	20,770	67,155	2024-2026	3.88-4.13	(b)
Series 2014C FRN	150,000	—	—	—	150,000	2030-2033	0.82	(b)(d)
Series 2015B	110,370	—		2,515	107,855	2023-2045	3.00-5.00	
Series 2015C FRN	149,000	—	—	—	149,000	2030-2033	0.82	(b)(d)
Series 2016B	368,260	—		5,520	362,740	2022-2046	5.00	
Series 2017	345,000	—	1,400	6,720	336,880	2023-2047	5.00	
Series 2018	430,000	—	—	2,000	428,000	2023-2039	3.38-5.00	
Series 2019A	215,675	—	2,500	2,500	210,675	2023-2039	3.00-5.00	
Series 2019B	284,250	—	—	—	284,250	2032-2049	1.65	
Series 2020A	237,975	—	—	2,500	235,475	2023-2040	4.00-5.00	
Series 2020B	250,000	—	—	—	250,000	2040-2050	0.85	
Series 2020C	113,975	—	—	22,360	91,615	2023	0.76	(b)
Series 2021	—	250,000	—	—	250,000	2025	1.00	
Series 2021A	—	355,755	—	—	355,755	2022-2042	1.50-5.00	
Series 2021B	—	175,000	—	—	175,000	2042-2051	1.50	
Series 2021C	—	194,390	—	—	194,390	2023	0.36	
Direct placement notes:								
Series 2015A1 FRN	51,000	—	—	—	51,000	2033	2.23	(b)(d)
Series 2015A2 FRN	149,000	—	—	—	149,000	2029	2.02	(b)(d)
Series 2016A FRN	175,000	—	—	175,000	—	—	—	(b)(d)
Subtotal	4,462,713	994,241	78,610	382,185	4,996,159			
UDSA restructuring bonds:								
Series 2013T	186,200	—	71,559	—	114,641	2022-2023	3.44	
Series 2013TE	1,374,390	—	—	—	1,374,390	2023-2039	5.00	
Series 2015	1,002,115	—	13,020	—	989,095	2022-2035	3.00-5.00	
Series 2016A	636,770	—	—	—	636,770	2023-2033	5.00	
Series 2016B	317,270	—	72,595	—	244,675	2022-2033	4.00-5.00	
Series 2017	366,030	—	22,245	—	343,785	2022-2039	5.00	
Subtotal	3,882,775	—	179,419	—	3,703,356			
	8,345,488	994,241	258,029	382,185	8,699,515			
Plus: Net premium	668,958	101,258	71,747	9,923	688,546			
Less: Current maturities	(258,029)				(247,246)			
Total Long-term debt	$ 8,756,417				9,140,815			

(a) Capital Appreciation Bonds
(b) Certain bonds of this series are subject to interest rate exchange agreements
(c) Taxable Build America Bonds subject to federal subsidy, rate shown is pre-subsidy level
(d) Variable rate (rate presented as of the December 31, 2021)

(Amounts in thousands, unless otherwise stated)

LIPA's long-term debt as of December 31, 2020 consisted of the following:

		Beginning balance	Accretion/ additions	Maturities	Repaid/ Refunding	Ending balance	Years of Maturity	Interest Rate (%)	
General revenue bonds/notes:									
Series 1998A	$	91,095	4,836	12,970	—	82,961	2021-2028	5.30	(a)
Series 2000A		284,661	15,871	35,415	—	265,117	2021-2029	5.88-5.95	(a)
Series 2003C		36,645	—	—	—	36,645	2029	5.25	
Series 2010B		210,000	—	15,285	—	194,715	2021-2041	5.10-5.85	(c)
Series 2011A		18,315	—	8,930	8,700	685	2021	5.00	(b)
Series 2012A		250,000	—	—	83,030	166,970	2037-2042	5.00	(b)
Series 2012B		179,035	—	—	—	179,035	2021-2029	5.00	(b)
Series 2014A		413,070	—	—	—	413,070	2034-2044	4.00-5.00	(b)
Series 2014B		113,485	—	19,475	—	94,010	2021-2026	3.41-4.13	(b)
Series 2014C FRN		150,000	—	—	—	150,000	2030-2033	0.86	(b)(d)
Series 2015B		115,050	—	2,285	2,395	110,370	2022-2045	3.00-5.00	
Series 2015C FRN		149,000	—	—	—	149,000	2030-2033	0.86	(b)(d)
Series 2016B		378,515	—	5,000	5,255	368,260	2022-2046	5.00	
Series 2017		350,000	—	—	5,000	345,000	2021-2047	5.00	
Series 2018		430,000	—	—	—	430,000	2022-2039	2.25-5.00	
Series 2019A		218,175	—	2,500	—	215,675	2021-2039	3.00-5.00	
Series 2019B		284,250	—	—	—	284,250	2049	1.65	
Series 2020A		—	237,975	—	—	237,975	2022-2040	4.00-5.00	
Series 2020B		—	250,000	—	—	250,000	2050	0.85	
Series 2020C		—	113,975	—	—	113,975	2022-2023	0.66-0.76	(b)
Direct placement notes:									
Series 2015A1 FRN		51,000	—	—	—	51,000	2033	2.01	(b)(d)
Series 2015A2 FRN		149,000	—	—	—	149,000	2029	1.85	(b)(d)
Series 2016A FRN		175,000	—	—	—	175,000	2033	2.02	(b)(d)
Subtotal		4,046,296	622,657	101,860	104,380	4,462,713			
UDSA restructuring bonds:									
Series 2013T		292,592	—	106,392	—	186,200	2021-2023	2.94-3.44	
Series 2013TE		1,374,390	—	—	—	1,374,390	2023-2039	5.00	
Series 2015		1,002,115	—	—	—	1,002,115	2021-2035	3.00-5.00	
Series 2016A		636,770	—	—	—	636,770	2023-2033	5.00	
Series 2016B		333,500	—	16,230	—	317,270	2021-2033	4.00-5.00	
Series 2017		369,465	—	3,435	—	366,030	2021-2039	5.00	
Subtotal		4,008,832	—	126,057	—	3,882,775			
		8,055,128	622,657	227,917	104,380	8,345,488			
Plus: Net premium		667,114	74,602	66,253	6,505	668,958			
Less: Current maturities		(227,917)				(258,029)			
Total Long-term debt	$	8,494,325				8,756,417			

(a) Capital Appreciation Bonds
(b) Certain bonds of this series are subject to interest rate exchange agreements
(c) Taxable Build America Bonds subject to federal subsidy, rate shown is pre-subsidy level
(d) Variable rate (rate presented as of the December 31, 2020)

(Amounts in thousands, unless otherwise stated)

The debt service requirements for LIPA's consolidated bonds (excluding short-term debt such as general revenue notes and revolving credit facility but including the UDSA Restructuring Bonds) as of December 31, 2021 are as follows:

Due		Principal*	Interest	Net swap payments (receipts)	Total
2022	$	247,246	341,433	26,424	615,103
2023		613,475	332,481	26,424	972,380
2024		363,975	318,606	26,427	709,008
2025		630,290	302,889	26,424	959,603
2026		390,125	284,647	26,425	701,197
2027–2031		2,196,795	1,165,690	51,275	3,413,760
2032–2036		1,965,045	701,507	(1,301)	2,665,251
2037–2041		1,447,000	295,199	—	1,742,199
2042–2046		634,945	77,835	—	712,780
2047–2051		288,365	9,955	—	298,320
Total	$	8,777,261	3,830,242	182,098	12,789,601

* Future interest on capital appreciation bonds are included in principal maturities.

Future debt service on the variable-rate bonds and the floating-rate portion of floating-to-fixed rate swaps is calculated using the relevant indices, including applicable spreads, as of December 31, 2021. Such rates, as shown in the long-term debt summary table, are assumed constant through maturity. For bonds subject to floating-to-fixed rate swap agreements, the "net swap payments" represent the fixed rate swap payment net of the assumed variable rate swap receipts for each agreement.

Terms by which interest rates change for variable rate debt are as follows:

The 2014C FRN Bonds bear interest at 70% of one-month LIBOR, plus the per annum spread of 75 basis points. The rate is determined on the second London Banking Day prior to the first business day of each month.

The 2015A-1 FRN Bonds bear interest at the sum of the prevailing 18-year AAA MMD general obligation index and the applicable spread of 90 basis points. The MMD FRN rate resets on the first business day of each month.

The 2015A-2 FRN Bonds bear interest at the sum of the prevailing 14-year AAA MMD general obligation index and the applicable spread of 90 basis points. The MMD FRN rate resets on the first business day of each month.

The 2015C FRN Bonds bear interest at 70% of one-month LIBOR, plus the per annum spread of 75 basis points. The rate is determined on the second London Banking Day prior to the first business day of each month.

During 2021, the 2016A FRN Bonds were refunded with proceeds from Series 2021A. During 2020, the 2016A FRN Bonds were bearing interest at the sum of the prevailing 17-year AAA MMD general obligation index and the applicable spread of 95 basis points. The MMD FRN rate had a reset on the first business day of each month.

(Amounts in thousands, unless otherwise stated)

(c) Callable Bonds

LIPA has approximately $4.2 billion of Electric Revenue Bonds callable through 2031. The UDSA has approximately $2.9 billion of Restructuring Bonds that become callable from 2023 through 2027.

(d) Interest Rate Swap Agreements

LIPA has entered into several interest rate swap agreements with various counterparties to modify the interest rate on outstanding debt. For further discussion, see Note 8.

(e) Short-Term Debt

LIPA's short-term borrowing program provides resources to meet interim working capital needs, cash flow requirements due to the seasonality of sales, and cash flow requirements from unforeseen circumstances such as severe weather events. The Board has authorized a maximum authorization of $1.2 billion in short-term borrowings. Certain amounts outstanding under this program are expected to be reimbursed by FEMA.

The dates in the table below reflect the expiration dates as of December 31, 2021. LIPA negotiated the renewal or the replacement of certain facilities with expiration dates in 2022. LIPA received statutory approval related to those facilities in March 2022.

LIPA's short-term debt as of December 31, 2021 consisted of the following instruments:

		Maximum Authorized Par Amount	Beginning Balance	Additions	Payments	Ending Balance	Supporting Letter of Credit Expiration Date
General revenue notes:							
Series 2019A	Revolving Credit Agreemen $	200,000	2,000	—	—	2,000	3/15/2022
Series 2015 CP 1AB	Commercial Paper	200,000	60,000	405,000	415,000	50,000	6/30/2025
Series 2015 CP 2AB	Commercial Paper	150,000	85,000	150,000	185,000	50,000	6/30/2025
Series 2015 CP 3AB	Commercial Paper	100,000	100,000	—	100,000	—	5/05/2023
Series 2015 CP 4AB	Commercial Paper	200,000	170,000	260,000	280,000	150,000	3/08/2024
Series 2015 CP 5AB	Commercial Paper	100,000	—	225,000	140,000	85,000	3/11/2022
Series 2015 CP 6AB	Commercial Paper	250,000	—	235,000	150,000	85,000	3/14/2024
	Total short-term debt	$ 1,200,000	417,000	1,275,000	1,270,000	422,000	

(Amounts in thousands, unless otherwise stated)

LIPA's short-term debt as of December 31, 2020 consisted of the following instruments:

		Maximum Authorized Par Amount	Beginning Balance	Additions	Payments	Ending Balance	Supporting Letter of Credit Expiration Date
General revenue notes:							
Series 2019A	Revolving Credit Agreemen $	200,000	2,000	198,000	198,000	2,000	3/15/2022
Series 2015 CP 1AB	Commercial Paper	200,000	65,000	400,000	405,000	60,000	6/30/2025
Series 2015 CP 2AB	Commercial Paper	150,000	45,000	195,000	155,000	85,000	6/30/2025
Series 2015 CP 3AB	Commercial Paper	100,000	—	150,000	50,000	100,000	5/05/2023
Series 2015 CP 4AB	Commercial Paper	200,000	100,000	245,000	175,000	170,000	3/08/2024
Series 2015 CP 5AB	Commercial Paper	100,000	80,000	135,000	215,000	—	3/11/2022
Series 2015 CP 6AB	Commercial Paper	250,000	—	140,000	140,000	—	3/14/2024
Total short-term debt	$	1,200,000	292,000	1,463,000	1,338,000	417,000	

(f) *Covenants*

LIPA's General Resolution, bond agreements with purchasers of LIPA's direct placement notes, and bank agreements supporting its short-term borrowing program generally include certain covenants, events of default, and remedies including, in some cases, acceleration of the related obligations. In addition, the bond agreements and bank agreements generally include different and/or additional covenants from the General Resolution such as, among others: (i) a requirement that LIPA maintain an amount not less than $150 million in the Rate Stabilization Fund and (ii) a more rigorous rate covenant. Complete copies of LIPA's financing documents for its long-term and short-term borrowings, the bond agreements, bank agreements, and related offering documents have been filed with the Municipal Securities Rulemaking Board's EMMA website. Such documents can also be found on LIPA's website (https://www lipower org/investors/).

(g) Fixed Obligation Coverage Ratio

LIPA makes use of a fixed obligation coverage ratio to determine revenue requirements. LIPA's methodology for calculating the fixed obligation coverage ratio excludes certain specified non-cash items from expenses. Depreciation expense and amortization of the Acquisition Adjustment and other regulatory assets, including the PSEG Long Island accrual expense for future OPEB benefit cost obligations, are excluded from the coverage calculation. The revenue section of this calculation includes revenues received from certain customers used to satisfy regulatory assets that were established when LIPA issued debt to fund these projects. For calculating the coverage ratios, such cash receipts are available to meet LIPA's fixed obligation requirements, as they are a component of cash flow but are excluded from revenues for accrual accounting purposes.

Certain interest related costs, such as interest rate derivative costs, letters of credit and remarketing fees, bond administration costs, and interest related to customer deposits, are treated as ordinary operating expenses without coverage. LIPA and UDSA principal and interest payments, including interest payments on LIPA's short-term borrowing program and payments on leases, are included for coverage.

Effective in 2020, LIPA modified its financial policy related to fixed obligation coverage as a result of the impact of the adoption of GASB Statement No. 87. This new standard no longer differentiates between capital and operating leases and considers all leases with a term greater than one year to be a financing arrangement, with a corresponding asset and liability on the Consolidated Statements of Net Position.

To supply electricity to its customers, LIPA enters into long-term power supply agreements for power plants and regional transmission cables. Although these power plants and cables are not owned by LIPA, under these new accounting rules, LIPA must recognize a right-to-use asset and a corresponding lease liability in its Consolidated Statements of Net Position. The new accounting guidance does not change payments under these contracts but increases assets and liabilities, which will impact LIPA's fixed obligation coverage ratio in 2020 and beyond.

In 2020, LIPA's financial policy was updated to modify its financial target to ensure the same cash flow would be generated as the prior lease accounting rules. Effective for 2021 and 2020, LIPA's financial policy established a fixed obligation coverage ratio of 1.35x of debt and lease payments, using the new definition of leases as described above. This new target effective for 2020 will generate the same cash flow to cover fixed obligations as the prior lease accounting rules and the prior coverage target.

(Amounts in thousands, unless otherwise stated)

LIPA's calculation of its fixed obligation coverage ratio for the years ended December 31, 2021 and 2020 is shown below for informational purposes.

		2021	2020	
Operating revenues, (net of uncollectible expense)	$	3,930,788	3,900,721	(1)
Other income		75,277	89,765	(1)
Shoreham Settlement & VBA regulatory asset receipts		52,081	49,647	(2)
Total revenues and income		4,058,146	4,040,133	
Operating expenses		(3,630,026)	(3,641,086)	(1)
Add non cash expenses/(deduct cash funding):				
Depreciation and amortizations		425,898	420,977	(1)
Lease allowance		407,395	420,664	(3)
OPEB accrual expense		45,825	46,837	(4)
Other interest expense		(42,142)	(29,995)	(2)
Total expenses		(2,793,050)	(2,782,603)	
Funds available for debt service	**$**	**1,265,096**	**1,257,530**	
Principal and interest – LIPA		231,631	255,145	(2)
Principal and interest – UDSA		367,388	319,029	(2)
Lease obligations		407,395	420,664	(3)
Total fixed obligation debt service	**$**	**1,006,414**	**994,838**	
Fixed Obligation Coverage Ratio:				
Excluding UDSA		1.40	1.39	(5)
Including UDSA		1.26	1.26	
Board Approved Coverage				
Excluding UDSA		**1.35**	**1.35**	
Including UDSA		**1.15**	**1.15**	

Notes:

(1) See Statements of Revenues, Expenses and Changes in Net Position

(2) See Statements of Cash Flow

(3) See note 12 (h) (below)

(4) The financial policy adopted by LIPA's Board adds back the PSEG Long Island OPEB accrual operating expense as available to pay debt service. There are no mandatory pre-funding requirements for these OPEB expenses. LIPA voluntarily sets aside funds for OPEB obligations in an OPEB Account after payment of all operating expenses and debt service each year. See note 11 for more detail.

(5) 2021 – Excluding UDSA equal to ($1,265,096 less ($367,388))/(1,006,414 less ($367,388))
2020 – Excluding UDSA equal to ($1,257,530 less ($319,029))/(994,838 less ($319,029))

(Amounts in thousands, unless otherwise stated)

(h) Changes in noncurrent liabilities

LIPA's other long-term liabilities as of December 31, 2021 were comprised of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
Long-term liabilities and unrealized credits	$ 62,838	23,844	(45,557)	41,125
Borrowings	61,786	50	(27,097)	34,739
Claims and damages	65,734	98,701	(8,976)	155,459
Lease obligations	2,457,513	71,803	(407,395)	2,121,921
Total other long-term liabilities	$ 2,647,871	194,398	(489,025)	2,353,244

LIPA's other long-term liabilities as of December 31, 2020 were comprised of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
Long-term liabilities and unrealized credits	$ 49,713	175,047	(161,922)	62,838
Borrowings	67,084	—	(5,298)	61,786
Claims and damages	68,197	11,471	(13,934)	65,734
Lease obligations	2,791,610	86,567	(420,664)	2,457,513
Total other long-term liabilities	$ 2,976,604	273,085	(601,818)	2,647,871

(13) OSA – Employee Retirement Benefits Obligations

PSEG Long Island

PSEG Long Island employee pension and OPEB obligations are legal obligations of PSEG Long Island, and the employees covered by these plans are PSEG Long Island employees. However, the cost to employ PSEG Long Island's workforce, including employee pension and other post-employment benefits, are a "pass through expenditure" and contractual liability of LIPA.

When transitioning National Grid employees to PSEG Long Island, to ensure the National Grid workforce serving LIPA was protected against benefit losses from the transition, the PSEG Long Island benefit plans credited National Grid transitioned employees for service prior to the OSA for purposes such as eligibility, participation, vesting, company match levels, subsidies (including any type of early retirement subsidy), and attainment of retirement dates. In addition, those employees who immediately prior to the OSA effective date could have become eligible to participate in the National Grid post-employment health and life insurance benefit plans, are entitled to receive substantially equivalent post-employment health and life insurance benefits from PSEG Long Island. This arrangement created a prior service cost obligation totaling $126 million for pensions and $316 million for OPEBs as of January 1, 2014.

(Amounts in thousands, unless otherwise stated)

The following table provides a roll-forward of the changes to the benefit obligations and the fair value of the plan assets during each of the years ended December 31, 2021 and 2020.

		Pension benefits		Post-employment benefits	
		2021	2020	2021	2020
Benefit obligation at beginning of year	$	569,636	453,255	698,696	625,505
Service cost		38,307	32,706	23,267	19,814
Interest cost		13,815	14,382	17,771	20,441
Actuarial (gain) loss		(18,714)	74,707	(88,782)	41,954
Benefits paid		(7,058)	(5,414)	(11,123)	(9,018)
Plan amendment		—	—	—	—
Benefit obligation at end of year		595,986	569,636	639,829	698,696
Fair value of assets at beginning of year		343,234	282,251	—	—
Actual return on plan assets		48,877	36,397	—	—
LIPA/Employer contribution		37,400	30,000	11,123	9,018
Gross benefits paid		(7,058)	(5,414)	(11,123)	(9,018)
Fair value of assets at end of year		422,453	343,234	—	—
LIPA unfunded obligation	$	(173,533)	(226,402)	(639,829)	(698,696)

The table also provides the funded status of the PSEG Long Island plans and the amounts recognized as the long-term contractual liability on the Consolidated Statements of Net Position at the end of both years.

The table does not reflect the balance of LIPA's OPEB Account, which was established to pre-fund the contractual liability for post-employment benefits. LIPA's Board authorized the creation of an OPEB Account to allow LIPA to segregate funds to meet future OPEB obligations for PSEG Long Island employees. As of December 31, 2021 and 2020, LIPA had on deposit in the OPEB Account approximately $581 million and $475 million, respectively. For a further discussion, see Note 11.

The unfunded contractual liability related to pension and post-employment benefits decreased during 2021 due to gains on pension assets combined with the impact of an update of certain assumptions regarding the census data, claims costs, excise taxes, and the discount rate. These changes resulted in a net actuarial gain of approximately $19 million for pension benefits and approximately $89 million for post-employment benefits as follows:

(amounts in millions)		Pension benefits	Post-employment benefits
Updated census data	$	0.6	4.1
Updated assumptions		(0.2)	(78.4)
Impact of adopting granular method		5.1	6.3
Discount rate changes (see table below)		(24.2)	(20.8)
Total (gain) loss	$	(18.7)	(88.8)

The actuarial valuations related to pension and post-employment benefits involve estimates and assumptions regarding the probability of events in the future. Below are the weighted average assumptions used to calculate actuarial present values of benefit obligations as of December 31, 2021 and 2020:

	Pension benefits		Post-employment benefits	
	2021	2020	2021	2020
Discount rate	3.21 %	2.98 %	3.28 %	3.08 %
Rate of compensation increase	3.95 %	3.95 %	3.95 %	3.95 %

Pension Plan Assets

During 2021 and 2020, LIPA provided $37 million and $30 million, respectively, to PSEG Long Island for deposit in its pension plan trust fund. The trust is sponsored, overseen, and managed by the PSEG Thrift & Pension Investment Committee. The benefit plan assets are maintained separately and are not commingled with other PSEG plans. The benefit plan assets are not LIPA assets and, therefore, are not reflected on the Consolidated Statements of Net Position. These assets, however, reduce LIPA's contractual obligation to PSEG Long Island for the benefit obligations of the PSEG Long Island employees. The following table outlines the PSEG Long Island pension assets as of December 31, 2021 and 2020:

		2021		2020	
Investment type		Amount	Allocation	Amount	Allocation
Equity	$	319,122	75.6%	259,421	75.6%
Fixed-income		102,197	24.2	82,949	24.2
Other		1,134	0.2	864	0.2
	$	422,453	100.0%	343,234	100.0%

National Grid A&R PSA

The capacity charge of the A&R PSA is adjusted each year for the actuarially required contributions for the pension and OPEB (P&OPEB) benefits of the employees that work at these National Grid power plants. The actuarially required contributions are reflected in annual filings by National Grid with FERC. As of the most recent estimate provided by National Grid's actuary dated March 2021, the P&OPEB obligations are underfunded by approximately $23 million. This underfunding is a component in the development of the actuarially required contributions in each year. LIPA does not expect to have a material liability for P&OPEB obligations under the A&R PSA upon termination of the contract.

(14) LIPA Employee Benefits

All full-time LIPA employees must participate in one of two employee retirement plans offered by LIPA, either: (i) the New York State and Local Retirement System (the Retirement System); or (ii) the New York State Voluntary Defined Contribution Plan (VDC). Employees in part-time positions have the option of enrolling in the Retirement System.

(a) Pension Plans

(i) Plan Description

The Retirement System is a cost-sharing multiple-employer defined benefit retirement system. The net position of the Retirement System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in fiduciary net position allocated to the Retirement System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the Retirement System. Retirement System benefits are established under the provisions of the New York State Retirement and Social Security Law (NYSRSSL). Once a public employer elects to participate in the Retirement System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Retirement System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

(ii) Benefits

The Retirement System provides retirement benefits as well as death and disability benefits and uses a tier concept to distinguish membership classes (i.e. Tiers 1 through 6) with Tier membership based on the date an employee joins the Retirement System. The Retirement System is noncontributory for Tier 1 and 2 employees who joined on or prior to July 26, 1976. Tiers 3 and 4 employees, who joined between July 27, 1976 and December 31, 2009, are required to contribute 3% of their gross earnings toward their retirement benefits until the employee either accrues ten years of service credit or has been a member of the Retirement System for ten years after their date of membership. Employees who joined the Retirement System after January 1, 2010 are Tier 5 employees and contribute 3% of their salary during their entire length of service. Employees who joined the Retirement System on or after April 1, 2012 are Tier 6 employees and must contribute for their entire length of service.

Tier 6 contribution rates vary based on annual compensation. During the first three years of membership, the Tier 6 employee contribution rate is based on the employee's annual wage. After this three-year period, the employee's contribution rate will be based on actual earnings in the two years prior. The contribution rate varies between 3% and 6% depending on an employee's actual salary.

Members in Tiers 1, 2, 3, and 4 become vested in the pension plan after five years of credited service and members in Tiers 5 and 6 after ten years of credited service. All members are generally eligible to receive benefits at age 55. The benefit is generally 1.66% of final average salary (FAS), multiplied by the number of years of service, for members who retire with less than 20 years of service. The benefit calculation for Tiers 1 and 2 members with greater than 20 years of service credit, or Tiers 3 through 5 members between 20 and 30 years of service credit is calculated using 2% of FAS for each year of service. Tier 3 through 5 members are eligible for an additional 1.5% of FAS applied to each year of service over 30 years. The benefit for Tier 6 members with more than 20 years of service is 1.75% of FAS for 20 years of service plus 2% of FAS for each year of service credit in excess of 20 years. The Retirement System provides an annual automatic cost of living adjustment to members or surviving spouses based on certain eligibility criteria.

(iii) Post-Employment Benefit Increases

A cost-of-living adjustment is provided annually to: (i) all pensioners who have attained age 62 and have been retired for five years; (ii) all pensioners who have attained age 55 and have been retired for ten years; (iii) all disability pensioners, regardless of age, who have been retired for five years; (iv) Retirement System recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years; and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria.

(iv) Employers Contributions

Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Retirement Systems' fiscal year ending March 31. LIPA's contributions for the year ended December 31, 2021, 2020, and 2019, were equal to 100% of the contributions required, and were \$0.72 million, \$0.61 million, \$0.57 million, respectively.

(Amounts in thousands, unless otherwise stated)

(v) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred In-flows of Resources Related to Pensions

As of December 31, 2021 and 2020, LIPA reported a liability of $10 thousand and $2.7 million, respectively, for its proportionate share of the Retirement System net pension liability. The total pension liability, as reported by the Retirement System, as of March 31, 2021 was determined using an actuarial valuation as of April 1, 2020, with update procedures used to roll-forward the total pension liability to March 31, 2021. LIPA's proportionate share of the net pension liability was based on a projection of LIPA's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

As of December 31, 2021 and 2020, LIPA's proportionate share was 0.01% of the Retirement System net pension liability.

For the year ended December 31, 2021 and 2020, LIPA recognized pension expense of $0.40 million and $0.81 million, respectively. As of December 31, 2021 and 2020, LIPA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		2021		2020	
		Deferred Outflows of Resources	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between expected and actual expense	$	120	—	161	—
Net difference between projected and actual earnings on investments		—	2,820	1,399	—
Changes in assumptions		1,805	34	55	48
Net difference between LIPA's contributions and proportionate share of contributions		398	46	376	15
LIPA's contributions subsequent to the measurement date		722	—	606	—
	$	3,045	2,900	2,597	63

(Amounts in thousands, unless otherwise stated)

The net amount of LIPA's balances of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan years ended December 31:		
2022		(24)
2023		51
2024		(91)
2025		(513)
	$	(577)

(vi) Actuarial Assumptions

For December 31, 2021, the total pension liability as of the measurement date was determined by using an actuarial valuation as of April 1, 2020, with update procedures used to roll-forward the total pension liability to the measurement date. The actuarial valuation used the following assumptions:

Measurement date:	March 31, 2021
Actuarial valuation date:	April 1, 2020
Actuarial cost method:	Aggregate Cost Method
Inflation:	2.70 %
Salary scale:	4.40 %
Investment rate of return, including inflation (compounded annually, net of expenses):	5.90 %
Cost of living adjustments, annually:	1.40 %
Decrement tables:	April 1, 2015 – March 31, 2020 Retirement System's Experience
Mortality improvement:	Society of Actuaries Scale MP-2020

For December 31, 2020, the total pension liability as of the measurement date was determined by using an actuarial valuation as of April 1, 2019, with update procedures used to roll-forward the total pension liability to the measurement date. The actuarial valuation used the following assumptions:

Measurement date:	March 31, 2020
Actuarial valuation date:	April 1, 2019
Actuarial cost method:	Aggregate Cost Method
Inflation:	2.50 %
Salary scale:	4.20 %
Investment rate of return, including inflation (compounded annually, net of expenses):	6.80 %
Cost of living adjustments, annually:	1.30 %
Decrement tables:	April 1, 2010 – March 31, 2015 Retirement System's Experience
Mortality improvement:	Society of Actuaries Scale MP-2018

(Amounts in thousands, unless otherwise stated)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major class asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage any by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized below:

Asset class	Long-term expected real rate of return (%)
Domestic equity	4.05
International equity	6.30
Private equity	6.75
Real estate	4.95
Opportunistic/Absolute return strategies	4.50
Credit	3.63
Real assets	5.95
Fixed income	—
Cash	0.50

(vii) Discount Rate

The discount rate used to calculate the total pension liability was 5.90% and 6.80% as of December 31, 2021 and 2020, respectively. The projection of cash flows used to determine the discount rate assumes that contributions from pension plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current pension plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Amounts in thousands, unless otherwise stated)

(viii) Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following represents the current-period net pension liability of LIPA's proportionate share of the net pension liability, as of December 31, 2021, calculated using the current-period discount rate assumption of 5.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.90%) or 1-percentage-point higher (6.90%) than the current assumption:

		1% Decrease (4.9%)	Assumption (5.9%)	1% Increase (6.9%)
LIPA's proportionate share of the net pension liability	$	2.7 million	10,000	(2.5) million

The following represents the sensitivity to the net pension liability (asset) of LIPA's proportionate share as of December 31, 2020, calculated using the discount rate assumption of 6.80%:

		1% Decrease (5.8%)	Assumption (6.8%)	1% Increase (7.8%)
LIPA's proportionate share of the net pension liability	$	5.0 million	2.7 million	0.6 million

(b) New York State Voluntary Defined Contribution Plan

LIPA offers certain full-time employees participation in a VDC Plan, which is an alternative to the State's Retirement System. The VDC option is available to all unrepresented State, New York City, and local public employees who are hired on or after July 1, 2013 and are paid at a rate of $75 thousand or more on an annual basis. For those employees choosing this option, LIPA is required to contribute 8% of their gross salary and the employee contributes between 3% and 6% depending on salary. All contributions are fully vested after one year.

(c) Deferred Compensation Savings Plan

LIPA also offers all employees an option to participate in a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457(b). This plan permits participants to defer a portion of their salaries until future years. Amounts deferred under the plan are not available to employees or beneficiaries until termination, retirement, death, or an unforeseeable emergency. An independent trustee is also responsible for the administration of this plan.

(d) Other Post-Employment Benefits

OPEBs are a form of employee compensation that are recognized in the same period in which the compensated service is provided by the employees. OPEB includes post-employment healthcare benefits (including medical, dental, vision, hearing, and other health-related benefits) and other forms of post-employment benefits (including life insurance, disability, and long-term care).

LIPA is a participating employer in the New York State Health Insurance Program (NYSHIP), which is an agent multiple-employer plan administered by the New York State Department of Civil Service. Through NYSHIP, LIPA provides certain medical benefits for eligible retired employees and their dependents. Participation in the NYSHIP program provides for employees and/or their dependents to continue eligibility for these benefits in retirement. Employees with membership in the NYSLRS are eligible for retiree medical insurance if the employee has at least one year of full-time service with LIPA and satisfied the requirements for retiring as a member of the Retirement System. Employees enrolled in the VDC are eligible for retiree medical insurance if the employee has five years of full-time service with LIPA and meet the age requirement of the Retirement System tier in effect at the time the employee last entered service.

NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State.

LIPA's OPEB liability totaled approximately $23 million as of December 31, 2021 and 2020, respectively. LIPA's OPEB Trust, a legally separate Section 115 trust approved by LIPA's Board to accumulate resources for its OPEB obligation, totaled approximately $30 million and $26 million as December 31, 2021 and 2020, respectively, for a total respective funding of 130.1% and 113.8%. Contributions to the OPEB Trust are based on an actuarial valuation.

(15) Commitments and Contingencies

(a) Leases

In 2020, LIPA adopted the provisions of GASB Statement No. 87. As such LIPA recognized a lease obligation and a right-to-use asset for agreements whereby LIPA obtains the right to the present service capacity of an underlying asset and the right to determine the nature and manner of an underlying asset's use for a period of one year or greater. Below is a description of these lease arrangements:

(i) Capacity Arrangements

In providing electricity to its customers, LIPA has entered into a variety of power purchase agreements that ensure LIPA has the ability to meet the electricity needs of its customers. These arrangements can range from contracts where LIPA acquires a product such as power without controlling the underlying facility, to arrangements where LIPA obtains the right to control the underlying facility by controlling a plant's output or a transmission lines throughput. LIPA has recorded a right-to-use asset and a corresponding lease obligation in each power and transmission contract where it has obtained control. A common feature of arrangements where LIPA has recorded a right-to-use asset and a corresponding lease obligation involves the plant owner transferring to LIPA the right to bid capacity prices into the NYS capacity markets during the term of the contract.

The right-to-use assets associated with capacity arrangements include tolling arrangements, capacity-only arrangements, and firm transmission contracts. The lessors to these capacity agreements typically bill LIPA based upon a fixed monthly capacity charge applied to the megawatts under contract for the term of the contract. During the term of the arrangement, the megawatts under contract are subject to a capacity test to determine each years contractual megawatts, whereas the fixed monthly capacity charge maybe be subject to adjustment based upon fixed rate scheduled changes, price indexes and other computations. These arrangements do not contain any residual value guarantees by LIPA and LIPA has not paid any termination penalties associated with these agreements in 2021 or 2020. Contractual elements such as service arrangements included within these capacity arrangements have been excluded from the determination of the right-to-use asset and corresponding lease obligation. As of December 31, 2021 and 2020, the right-to-use asset, net of amortization and the corresponding lease obligation for capacity arrangements amounted to approximately $2.4 billion and $2.7 billion, respectively.

(ii) Property Leases

LIPA leases 16 facilities throughout Long Island in order to serve its customers. These sites include its corporate offices, customer service centers, operation centers and staging sites. While terms vary by lease, each lease provides for a monthly lease payment subject to a fixed escalation on the anniversary date of each agreement. None of the leases contain provisions for variable payments or residual value guarantees. Additionally, there are no other payments such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability reflected as outflows of resources in either 2021 or 2020. As of December 31, 2021 and 2020, the right-to-use asset, net of amortization and the corresponding lease obligation for property leases amounted to approximately $79 million and $90 million, respectively.

(iii) Vehicles

LIPA leases a fleet of vehicles ranging from passenger cars to heavy duty trucks. Lease terms range up to 120 months. The monthly lease payment is based upon a straight-line depreciation of the vehicle cost over its term, a monthly variable interest rate based upon LIBOR plus 1.95% and a management fee. The management fee is excluded from the computation of the right-to-use asset and corresponding obligation. If LIPA decides to end an individual vehicle lease prior to term end, any difference between the undepreciated vehicle cost, (as calculated under the lease) and the proceeds received from the sale of the vehicle by the leasing company are either returned to LIPA if the proceeds are greater than the undepreciated cost or charged to LIPA if less than the undepreciated cost.

There are no other payments such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability reflected as outflows of resources. As of December 31, 2021 and 2020, the right-to-use asset, net of amortization and the corresponding lease obligation for the fleet amounted to approximately $7 million and $10 million, respectively.

(Amounts in thousands, unless otherwise stated)

Presented below is a summary of the principal and interest requirements to maturity for the capacity, property lease and fleet lease liability for each of the five subsequent fiscal years and in five-year increments thereafter:

Year		Principal	Interest	Total
2022	$	348,638	57,695	406,333
2023		353,101	48,932	402,033
2024		348,296	40,170	388,466
2025		344,131	31,387	375,518
2026		339,304	22,827	362,131
2027-2031		689,552	31,803	721,355
2032-2036		37,556	2,896	40,452
2037-2041		9,981	239	10,220
Total	$	2,470,559	235,949	2,706,508

(b) Other Energy Agreements and Transmission Agreements

LIPA has entered into other power purchase agreements with terms that extend beyond one year, with varying terms expiring through 2034. While these agreements do not qualify as leases, certain agreements have certain minimum payment terms. The approximate minimum obligation associated with such agreements are approximately $2 million per year for remaining term of agreement.

LIPA has natural gas transportation agreements for the delivery of gas to its contracted gas-fueled power generating facilities. Certain of these agreements have minimum obligations. As of December 31, 2021, the approximate minimum obligation associated with such agreements are approximately $5 million per year from 2022 through 2023 and approximately $4 million per year from 2024 through 2028, and approximately $2 million for 2029.

LIPA also has natural gas physical supply contracts which have no fixed costs associated with them.

LIPA has several contracts to purchase renewable energy and energy from waste facilities. These contracts do not have minimum obligations and LIPA only pays if the energy is delivered. For the years ended December 31, 2021 and 2020, LIPA paid approximately $101 million and $115 million for energy related to these contracts, respectively.

LIPA also has a 20-year power purchase agreement for a 130-megawatt offshore wind farm to be installed off the coast of Long Island that is expected to be commercially operational by the end of 2023. LIPA will only pay for energy when delivered without taking construction risk and has no financial commitment until the wind farm is commercially operational.

As provided by LIPA's tariff, the cost of all the facilities noted above are includable and recoverable through the Power Supply Charge.

(c) Insurance Programs

LIPA's insurance program is comprised of a combination of policies, from major insurance companies, self-insurance, and contractual transfer of liability, including naming LIPA as an additional named insured and indemnification.

LIPA has purchased Workers' Compensation insurance from the New York State Insurance Fund to provide coverage for claims arising from employee accidents or injuries. In addition, LIPA carries Employment Practices Liability Insurance from a major insurance company and LIPA's office property and liability coverage is administered by the New York State Office of General Services Bureau of Risk & Insurance Management through a master policy the State procures for various State entities, including LIPA. Liability related to construction projects and similar risks is transferred through contractual indemnification and compliance with insurance requirements. LIPA also has insurance coverage on its interest in NMP2 as disclosed in Note 10.

LIPA has commercially available excess general liability, property, and cyber insurance for claims above its self-insurance provisions. For general liability, including automobile liability, LIPA is self-insured up to $3.0 million per occurrence. For property damage and extra expense combined, LIPA is self-insured up to $1.5 million per occurrence. For property damage or loss due to a named windstorm and flood, 2% of the value at risk is self-insured per occurrence with a minimum of $1.5 million and up to a maximum self-insured level of $7.5 million. For cyber-related events, including an event relating to LIPA's information technology system, LIPA is self-insured for up to $15 thousand per event. Similarly, LIPA's service provider, PSEG Long Island, also maintains cyber insurance covering events related to information technology and operating systems where LIPA is an additional named insured.

LIPA has no general property insurance for damage to its poles and wires and is self-insured.

(16) Legal Proceedings

(a) PSEG Long Island

PSEG Long Island's liability for third-party claims in performing its obligations to operate and maintain LIPA's T&D system is generally limited to the aggregate loss and expense between $2.5 million and $5.0 million in any contract year other than for loss and expense attributable to PSEG Long Island's gross negligence or willful misconduct, for which there is no limitation on PSEG Long Island's liability. PSEG Long Island is not responsible for any liabilities that occurred prior to January 1, 2014.

(b) Superstorm Sandy

Four purported class action lawsuits were filed against LIPA and National Grid related to Superstorm Sandy that contain common allegations of wrongdoing and/or gross negligence relating to LIPA's and National Grid's preparedness and response to the storm. These actions seek monetary damages, fees, and other relief. The four suits were consolidated into a single class action.

In June 2018, the court granted plaintiffs' motion to certify a class consisting of residential customers who lost power for more than three days and did not require an electrical inspection due to flooding before service could be restored. LIPA appealed that ruling. On December 29, 2021, the appellate court issued a decision and order reversing the lower court's class certification order. The plaintiffs have filed a motion to renew and reargue the December 29 decision and in the alternative for leave to appeal to New York's highest court. That motion is currently awaiting decision.

Twelve more individual actions have been filed on behalf of the owners of approximately 100 properties in the Breezy Point, Belle Harbor, and Rockaway Park neighborhoods of the Rockaway Peninsula, in the Queens portion of the Service Area. These suits allege generally that the failure to de-energize the electrical system in the Rockaways in advance of the tidal surges experienced during the storm resulted in fires that caused various types of property damage, ranging from all or partial loss of plaintiffs' customers' homes. In February 2018, the Court of Appeals, New York State's highest court, affirmed lower court rulings that LIPA is not entitled at this point to dismissal of the fire cases.

The class action and the fire cases, are being defended, and although the amounts sought in damages are significant, the outcome of these matters cannot be predicted with certainty at this time. LIPA does not believe that they will have a material impact on the operating results or financial condition of LIPA.

(c) Environmental

National Grid and LIPA are parties to Liabilities Undertaking and Indemnification Agreements which, when taken together, provide, generally, that environmental liabilities will be divided between National Grid and LIPA on the basis of whether they relate to assets transferred to National Grid or retained by LIPA as part of the 1998 LIPA/LILCO Merger (Merger). In addition, to clarify and supplement these agreements, National Grid and LIPA also entered into an agreement to allocate between them certain liabilities, including environmental liabilities, arising from events occurring prior to the Merger and relating to the business and operations to be conducted by LIPA after the Merger (the Retained Business) and to the business and operations to be conducted by National Grid after the Merger (the Transferred Business).

National Grid is responsible for all liabilities arising from all manufactured gas plant operations on Long Island (MGP Sites), including those currently or formerly operated by National Grid or any of its predecessors, whether or not such MGP Sites were related to the Transferred Business or the Retained Business. In addition, National Grid is responsible for all environmental liabilities traceable to the Transferred Business and certain scheduled environmental liabilities. Environmental liabilities that arise from the non-nuclear generating business (a Transferred Business) may be recoverable by National Grid as part of the capacity charge under the A&R PSA. LIPA is responsible for all environmental liabilities traceable to the Retained Business and certain scheduled environmental liabilities.

Environmental liabilities, other than those related to MGP sites that existed as of the date of the Merger that are untraceable, including untraceable liabilities that arise out of common and/or shared services, have been allocated to LIPA and National Grid, as provided for in the Merger.

The A&R PSA addresses the terms by which LIPA will continue to purchase electricity from certain National Grid facilities. Generally, National Grid's liabilities under this contract are limited to losses due to gross negligence or willful misconduct or violations of environmental laws not consistent with prudent utility practices.

(d) Environmental Matters Retained by LIPA

Superfund Sites—Under Section 107(a) of the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA, also commonly referred to as Superfund), parties that generated or arranged for disposal of hazardous substances are liable for costs incurred by the Environmental Protection Agency (EPA) or others that are responding to a release or threat of release of hazardous substances.

Metal Bank—Cottman Avenue is a National Priorities List site with polychlorinated biphenyl (PCB) contamination on the Delaware River in Philadelphia, Pennsylvania. EPA sued a number of potentially responsible parties (PRPs) and subsequently settled with all defendants, among them a number of utility companies—including LILCO—alleged to have sent used transformers to the site during the 1960s and 1970s. The remediation has been completed and monitoring at the site continues. LIPA's contribution toward the settlement and monitoring costs has not been material. One feature of the long-term remedy began to fail within two years of construction, and the EPA required the PRP group to repair it. The repair costs were not material to LIPA.

The U.S. Department of Interior, the National Oceanic and Atmospheric Administration and the Pennsylvania Fish and Boat Commission and Departments of Environmental Protection and Conservation and Natural Resources notified the PRP group that they have claims for damages to natural resources allegedly impacted by releases of hazardous substances to and from the Cottman site. While disputing the liability, the PRP group engaged in settlement discussions with these agencies and, at the end of 2018, reached a tentative agreement to resolve their claims. The parties negotiated a settlement agreement and, following two notice and comment periods, the trustees executed the agreement effective November 4, 2021. The PRP group made a timely settlement payment on November 30, 2021 that resolved the matter. The settlement will not have a material impact on the operating results or financial condition of LIPA.

EPA has alleged that LILCO and other utility companies have liability for PCB contamination at another site in Philadelphia at which Metal Bank of America managed used transformers until the mid-1980s. In September 2020, EPA advised the PRPs that it has a cost recovery claim against them for response costs that EPA allegedly has incurred. The PRP group and EPA have entered into a tolling agreement extending the period of limitations on the claim, and that period currently expires on September 15, 2022. The likelihood and size of any claim by EPA against the PRPs are uncertain, but LIPA believes that any such claim would not have a material impact on the operating results or financial condition of LIPA.

(e) Asbestos Proceedings

Litigation is pending in New York State Court against LIPA, LILCO, National Grid and various other defendants involving thousands of plaintiffs seeking damages for personal injuries or wrongful death allegedly caused by exposure to asbestos. The cases for which LIPA may have financial responsibility involve employees of various contractors and subcontractors engaged in the construction or renovation of certain power plants formerly owned by LILCO. These cases include extraordinarily large damage claims, which have historically proven to be excessive. The actual aggregate amount paid to plaintiffs alleging exposure to asbestos at these power plants over the years has not been material to LIPA. Due to the nature of how these cases are litigated, it is difficult to determine how many of the remaining cases that have been filed (or of those that will be filed in the future) involve plaintiffs who were exposed to asbestos at any of these power plants. Based upon experience, it does not appear that currently pending or future claims involving plaintiffs who allege exposure to asbestos at any of these power plants will have a material impact on the operating results or financial condition of LIPA.

(Amounts in thousands, unless otherwise stated)

(17) Component Unit Consolidating Condensed Statements

UDSA is a component unit of LIPA and all of the activities and balances of the UDSA are blended into and reported as part of LIPA. The consolidating condensed information for December 31, 2021 and 2020 are below:

Consolidating Condensed Statement of Net Position
December 31, 2021

		LIPA	UDSA	Eliminations	Consolidated
Assets and deferred outflows of resources:					
Capital assets	$	10,414,617		—	10,414,617
Current assets		2,607,836	165,917	—	2,773,753
Regulatory assets		1,420,491	15,704	—	1,436,195
Noncurrent assets		994,447	3,931,161	(3,931,161)	994,447
Deferred outflows of resources		173,975	—	—	173,975
Total assets and deferred outflows of resources		15,611,366	4,112,782	(3,931,161)	15,792,987
Liabilities, deferred inflows of resources, and net position:					
Long-term debt, net of current maturities		5,301,796	3,839,019	—	9,140,815
Current liabilities		1,471,688	186,125	—	1,657,813
Regulatory liabilities		203,635	—	—	203,635
Noncurrent liabilities		7,326,067	—	(3,931,161)	3,394,906
Deferred inflows of resources		793,439	—	—	793,439
Net position		514,741	87,638	—	602,379
Total liabilities, deferred inflows of resources, and net position	$	15,611,366	4,112,782	(3,931,161)	15,792,987

Consolidating Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the year ended December 31, 2021

		LIPA	UDSA	Eliminations	Consolidated
Operating revenues	$	3,579,128	354,409	(2,749)	3,930,788
Operating expenses		3,394,833	237,942	(2,749)	3,630,026
Operating income		184,295	116,467	—	300,762
Nonoperating revenue and expenses		121,133	39	—	121,172
Interest charges and (credits)		212,554	144,689	—	357,243
Change in net position		92,874	(28,183)	—	64,691
Beginning net position		421,867	115,821	—	537,688
Ending net position	$	514,741	87,638	—	602,379

Consolidating Condensed Statement of Cash Flows
For the year ended December 31, 2021

		LIPA	UDSA	Eliminations	Total
Net cash provided by operating activities	$	850,833	350,340	—	1,201,173
Net cash (used in) provided by investing activities		(104,382)	39	—	(104,343)
Net cash provided by noncapital related activities		288,267	—	—	288,267
Net cash used in capital and related financing activities		(964,215)	(367,518)	—	(1,331,733)
Net increase (decrease) in cash and cash equivalents		70,503	(17,139)	—	53,364
Cash and cash equivalents at beginning of year		346,303	128,833	—	475,136
Cash and cash equivalents at end of year	$	416,806	111,694	—	528,500

(Amounts in thousands, unless otherwise stated)

Consolidating Condensed Statement of Net Position
December 31, 2020

		LIPA	UDSA	Eliminations	Consolidated
Assets and deferred outflows of resources:					
Capital assets	$	10,313,576	—	—	10,313,576
Current assets		2,267,141	181,819	(10)	2,448,950
Regulatory assets		1,440,101	17,739	—	1,457,840
Noncurrent assets		1,029,375	4,165,967	(4,165,967)	1,029,375
Deferred outflows of resources		226,254	—	—	226,254
Total assets and deferred outflows of resources		15,276,447	4,365,525	(4,165,977)	15,475,995
Liabilities, deferred inflows of resources, and net position:					
Long-term debt, net of current maturities		4,694,767	4,061,650	—	8,756,417
Current liabilities		1,490,825	188,054	(10)	1,678,869
Regulatory liabilities		98,731	—	—	98,731
Noncurrent liabilities		7,989,681	—	(4,165,967)	3,823,714
Deferred inflows of resources		580,576	—	—	580,576
Net position		421,867	115,821	—	537,688
Total liabilities, deferred inflows of resources, and net position	$	15,276,447	4,365,525	(4,165,977)	15,475,995

Consolidating Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the year ended December 31, 2020

		LIPA	UDSA	Eliminations	Consolidated
Operating revenues	$	3,554,603	348,867	(2,749)	3,900,721
Operating expenses		3,474,744	169,091	(2,749)	3,641,086
Operating income		79,859	179,776	—	259,635
Nonoperating revenue and expenses		117,405	775	—	118,180
Interest charges and (credits)		209,443	149,552	—	358,995
Change in net position		(12,179)	30,999	—	18,820
Beginning net position		434,046	84,822	—	518,868
Ending net position	$	421,867	115,821	—	537,688

Consolidating Condensed Statement of Cash Flows
For the year ended December 31, 2020

		LIPA	UDSA	Eliminations	Total
Net cash provided by operating activities	$	732,661	338,304	—	1,070,965
Net cash (used in) provided by investing activities		(30,562)	775	—	(29,787)
Net cash provided by noncapital related activities		152,448	—	—	152,448
Net cash used in capital and related financing activities		(924,893)	(319,295)	—	(1,244,188)
Net (decrease) increase in cash and cash equivalents		(70,346)	19,784	—	(50,562)
Cash and cash equivalents at beginning of year		416,649	109,049	—	525,698
Cash and cash equivalents at end of year	$	346,303	128,833	—	475,136

(18) Subsequent Events

Subsequent events have been evaluated through March 30, 2022, which is the date that the financial statements were available to be issued.

(Amounts not in thousands)

Schedule of the LIPA's Proportionate Share of the Net Pension Liability
New York State and Local Employees' Retirement System

As of measurement date March 31,	2021	2020	2019	2018	2017	2016	2015
Proportionate percentage of net pension liability	0.0098574%	0.0103052%	0.0103343%	0.0096075%	0.0099883%	0.0106679%	0.0280362%
Proportionate share of the net pension liability	$ 9,815	$ 2,728,884	$ 732,219	$ 310,076	$ 938,526	$ 1,712,234	$ 947,131
LIPA's covered-employee payroll	$ 4,720,000	$ 4,279,104	$ 3,883,794	$ 4,088,041	$ 3,782,636	$ 3,511,480	$ 8,246,620
LIPA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.21%	63.77%	18.85%	7.58%	24.81%	48.76%	11.49%
Plan fiduciary net position as a percentage of the total pension liability	99.95%	96.27%	98.24%	94.70%	90.70%	97.95%	97.20%

Schedule of the LIPA's Contributions
New York State and Local Employees' Retirement System

As of December 31,	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	$ 723,107	605,939	$ 568,817	$ 608,517	$ 558,890	$ 198,948	$ 850,124
Contributions in relation to statutorily required contributions	$ 723,107	605,939	$ 568,817	$ 608,517	$ 558,890	$ 198,948	$ 850,124
Contribution deficiency (excess)	—	—	—	—	—	—	—
LIPA's covered-employee payroll	$ 4,720,000	4,279,104	3,883,794	4,088,041	3,782,636	3,511,480	8,246,620
Contributions as a percentage of covered payroll	15.32%	14.16%	14.65%	14.89%	14.78%	5.67%	10.31%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority has presented information for those years for which information is available.

See accompanying independent auditors' report.

KPMG LLP
Suite 200
1305 Walt Whitman Road
Melville, NY 11747-4302

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
Long Island Power Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the business-type activities of the Long Island Power Authority (LIPA), a component unit of the State of New York, as of and for the year ended December 31, 2021, and the related notes to the consolidated financial statements, which collectively comprise LIPA's consolidated financial statements, and have issued our report thereon dated March 30, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered LIPA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of LIPA's internal control. Accordingly, we do not express an opinion on the effectiveness of LIPA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether LIPA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LIPA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LIPA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Melville, NY
March 30, 2022

LIPA
Long Island Power Authority