



LIPA Annual Report

LIPA Board of Trustees Meeting







March 27, 2024

Presented by: Donna Mongiardo, Vice President — Controller

The Power is Yours™



Discussion Topics

-  Public Authority Information System (PARIS) Deliverables
-  Annual Financial Statements
-  Management's Discussion & Analysis (Unaudited)
-  Summary Statement of Net Position
-  Summary Statement of Revenue, Expenses, and Changes in Net Position
-  Significant Changes in Notes

Public Authority Reporting Information System (PARIS) Deliverables

File Summary Statements - Annual Report:

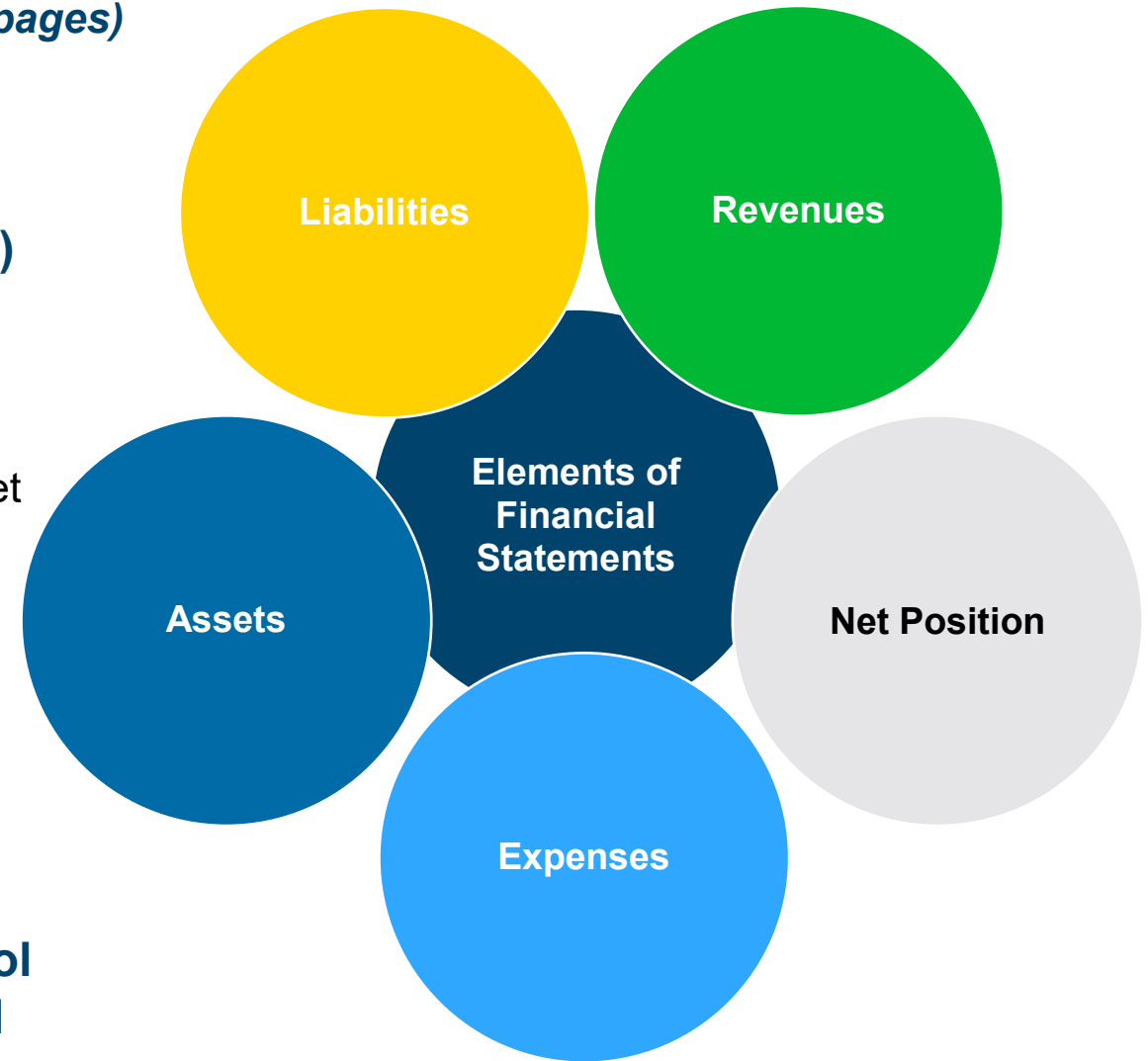
- Statement of Net Position
- Statement of Revenue, Expenses, and Net Position
- Schedule of Debt
- All included in detail in the audited consolidated financial statements

Annual Audit:

- Independent Auditors Report (KPMG Unmodified Opinion)
- Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Accounting Standards*
- Report on Investment Compliance
- Report on Debt Compliance
- Report on the Rate Stabilization Fund agreed upon procedures

Annual financial statements — (95 pages)

- **Independent Auditors' Report**
- **Management's Discussion and Analysis (MD&A)**
- **Financial Statements**
 - Statements of Net Position (Balance Sheet)
 - Statements of Revenues, Expenses and Changes in Net Position (Income Statement)
 - Statements of Cash Flows
- **Notes to Financial Statements**
- **Required Supplementary Information (RSI's for Pension)**
- **Independent Auditors' Report on internal control over financial reporting and on compliance and other matters**



Management's discussion & analysis (unaudited)

Operational Highlights

- Second Amended and Restated OSA
- New York State Legislative Commission on the Future of LIPA
- Climate Act and LIPA budget planning to address needs and power plants under Contract
- Certain Litigation Related to Payments in Lieu of taxes
- COVID-19 and related Arrears Credit Program
- Debt-to-Asset Ratio (Note includes detail calculation)

Discuss 2023 and 2022 comparison year-over-year analysis

- As a regulated entity, the Board has approved the deferral of mark-to-market changes to eliminate customer bill volatility and as such the Statement of Net Position has many variances related to deferrals.
 - OPEB Dedicated Account
 - NMP2 Trust
 - Derivative Instruments
 - OSA Employee Retirement Benefit Obligation

Summary Statement of Net position

- Current assets increased \$181M due to higher OPEB-dedicated account market values and fuel inventory balances offset by lower AR
- Regulatory assets decreased \$44M due to \$3M net decrease in the Delivery Service Adjustment (DSA) and Revenue Decoupling Mechanism, \$8M in OSA retirement obligation, \$117M scheduled amortizations, offset by \$50M in lower deferred gains on commodity derivatives and \$34M in the property tax litigation deferral.
- Noncurrent assets decreased \$206M due to the annual Acquisition Adjustment amortization and \$66M decrease in the commodity derivative values.
- Noncurrent liabilities decreased \$195M due to \$341M lease and SBITA liabilities amortizations offset by a \$79M increase in the OSA retirement obligation due to actuarial assumption changes.
- Regulatory liabilities decreased \$232M due to the change in unrealized market value of commodity derivatives.
- Deferred inflows increased \$67M due to the deferred gain on unrealized market value changes in the OPEB Account

| | | | 2023-2022 Variance |
|--------------------------------------------------------------------|----------------------|-------------------|-----------------------|
| | 2023 | 2022 | |
| Assets and deferred outflows of resources: | | | |
| Capital assets, net | \$ 10,590,245 | 10,464,377 | 125,868 |
| Current assets | 3,006,392 | 2,825,504 | 180,888 |
| Regulatory assets | 682,765 | 726,741 | (43,976) |
| Noncurrent assets | 668,021 | 874,174 | (206,153) |
| Deferred outflows of resources | 165,323 | 155,298 | 10,025 |
| Total assets and deferred outflows of resources | 15,112,746 | 15,046,094 | 66,652 |
| Liabilities and deferred inflows of resources: | | | |
| Long-term debt, net of current maturities | 9,292,423 | 9,164,150 | 128,273 |
| Current liabilities | 1,643,720 | 1,474,470 | 169,250 |
| Regulatory liabilities | 118,990 | 351,456 | (232,466) |
| Noncurrent liabilities | 2,517,407 | 2,712,429 | (195,022) |
| Deferred inflows of resources | 712,785 | 646,257 | 66,528 |
| Total liabilities and deferred inflows of resources | 14,285,325 | 14,348,762 | (\$63,437) |
| Total net position | 827,421 | 697,332 | 130,089 |
| Total liabilities, deferred inflows of resources, and net position | \$ 15,112,746 | 15,046,094 | \$66,652 |

Summary statements of **revenue, expenses, and changes in net position**

- **Change in Net Position** totaled \$130M for FY 2023

| | 2023 | 2022 |
|------------------------------------------------------------|-------------|-------------|
| Electric revenue, net of uncollectible accounts expense \$ | 3,698,833 | 4,279,158 |
| Operating expenses | (3,351,354) | (3,944,593) |
| Interest charges, net | (363,393) | (343,080) |
| Total operating and interest expenses | (3,714,747) | (4,287,673) |
| Revenue less operating expenses and interest charges, net | (15,914) | (8,515) |
| Grant income | 42,210 | 40,766 |
| Other income, net | 103,793 | 62,702 |
| Total other income, net | 146,003 | 103,468 |
| Change in net position | 130,089 | 94,953 |
| Net position, beginning of year | 697,332 | 602,379 |
| Net position, end of year | \$ 827,421 | 697,332 |

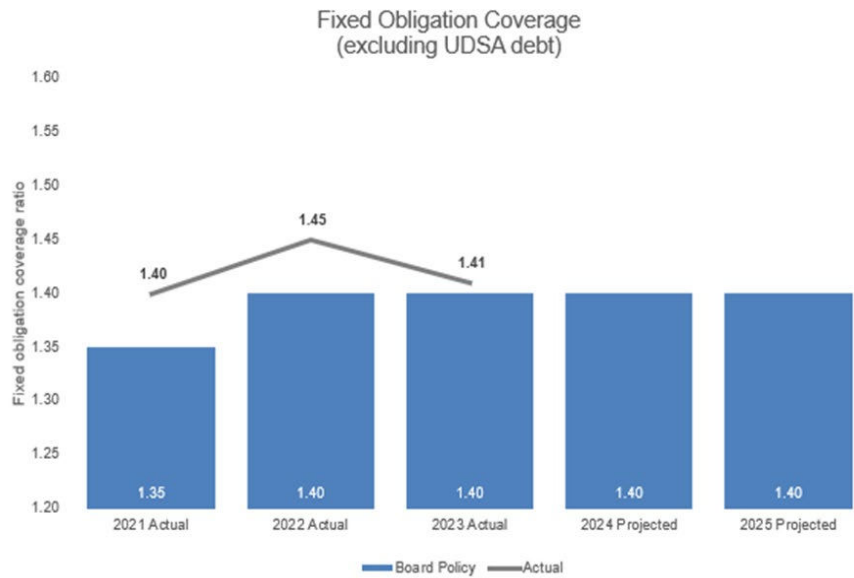
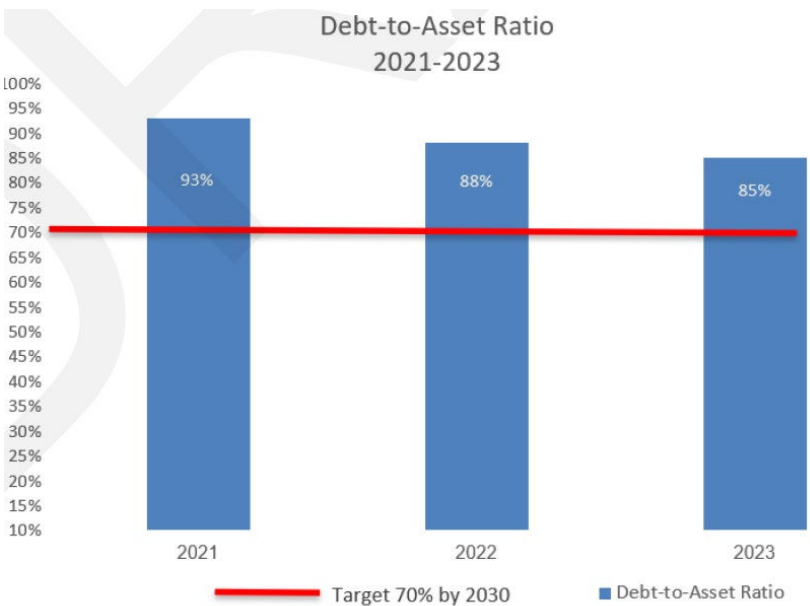
Management’s Discussion & Analysis (Unaudited)

Capital Asset and Financing Activities

- Issued \$400M new money
- Issued \$698M UDSA refunding for net present value savings of \$45M
- Issued \$657M LIPA refunding for net present value savings of \$6M
- Issued \$136M UDSA Green Bonds to fund resiliency projects

Liquidity and Capital Resources

- Debt-to-Asset Ratio
- 276 days available cash and credit
- Achieved 1.41x fixed obligation coverage compared to Board Policy on Fiscal Sustainability of 1.40x



Budget Presented Debt-to-Asset Ratio and Comparison to Public Power Peers

(Page 74 of the 2024 Approved Budget)

The Board's plan will reduce LIPA's debt-to-assets ratio from 110% in 2016 to 70% by 2030, as shown in Figure 30. By comparison, LIPA's debt-to-assets ratio was over 230% upon the acquisition of the Long Island Lighting Company in 1998, primarily because of the legacy of the Shoreham nuclear power plant. A 70% debt ratio is still on the higher end of the industry but with LIPA's other credit strengths will likely be sufficient to achieve the AA-category credit ratings that are typical for large public power utilities.

Figure 30: LIPA's Debt-to-Asset Ratio Compared to Public Power Peers



| Public Power Utility | Bond Rating | Debt Ratio % |
|-------------------------------|-------------|--------------|
| Salt River Project | Aa1 | 42% |
| OUC (Orlando) | Aa2 | 47% |
| Austin Electric | Aa3 | 48% |
| Seattle City Light | Aa2 | 55% |
| SMUD (Sacramento) | Aa3 | 57% |
| CPS Energy (San Antonio) | Aa1 | 58% |
| OPPD (Omaha) | Aa2 | 64% |
| LADWP (Los Angeles) | Aa2 | 65% |
| Average of Peer Group Members | | 55% |



Management’s Discussion & Analysis (Unaudited)

Bond Ratings

- Board’s Policy on Fiscal Sustainability has resulted in four upgrades to LIPA’s credit ratings since 2013.

| Rating Agency | 2023 | 2022 | 2021 |
|---------------|--------------|--------------|--------------|
| Moody’s | A2 (Stable) | A2 (Stable) | A2 (Stable) |
| S&P | A (Stable) | A (Stable) | A (Stable) |
| Fitch | A (Positive) | A (Positive) | A (Positive) |



Significant Notes (page 31)

Summary of Significant Accounting Policies (Note 2 page 33)

- GASB Statement No. 96, Subscription-Based Information Technology Arrangements adoption - no impact on the Statement of Revenues, Expenses and Changes in Net Position. Through 2023, LIPA's Utility Plant increased \$10M and a \$8M obligation was recorded.

Regulatory Accounting (Note 5 page 41)

- Update for additional annual potential exposure of \$34M related to the Suffolk County Tax Litigation until conclusion of the appeals process

Debt-to-Asset Ratio (Note 12 page 73)

- LIPA's Board policy seeks to reduce the Debt-to-Asset ratio to approximately 70% by 2030. LIPA's Debt-to-Asset ratio is calculated as Gross debt (including short-term debt) less debt service reserve funds divided by Net Utility Plant and property and equipment, (inclusive of grant-funded mitigation assets), plus net working capital. Net working capital is defined as current assets less current liabilities.

| | 2023 | 2022 | 2021 |
|---------------------------------------|---------------|------------|------------|
| Plant assets plus net working capital | \$ 13,005,212 | 12,416,614 | 12,510,957 |
| Adjusted Debt | \$ 11,034,001 | 10,947,566 | 11,653,923 |
| Debt-to-Asset Ratio | 84.84% | 88.17% | 93.15% |

Debt – to – Asset Ratio (Note 12)

LIPA's Board policy seeks to reduce the Debt-to-Asset ratio to approximately 70% by 2030. LIPA's Debt-to-Asset ratio is calculated as Gross debt (including short-term debt) less debt service reserve funds divided by Net Utility Plant and property and equipment, (inclusive of grant-funded mitigation assets as discussed in Note 6(a)), plus net working capital. Net working capital is defined as current assets less current liabilities. See the calculation below.

| | 2023 | 2022 | |
|-------------------------------------------------------------------|----------------------|-------------------|-----|
| Long-term LIPA and UDSA debt | \$ 8,868,456 | 8,760,431 | (1) |
| Short-term debt | 345,000 | 131,000 | (1) |
| Lease and SBITA liabilities | 1,830,817 | 2,128,226 | (2) |
| LIPA Pension obligations (asset) | 2,660 | (830) | (3) |
| Unfunded OSA pension obligations | 102,019 | 81,889 | (4) |
| Less: | | | |
| UDSA restricted cash | (114,951) | (153,150) | (2) |
| Adjusted Debt | 11,034,001 | 10,947,566 | |
| Current assets | 3,159,934 | 2,981,818 | (2) |
| Less amounts included in adjusted debt: | | | |
| UDSA restricted cash | (114,951) | (153,150) | (3) |
| Current assets, net of amounts included in adjusted debt | 3,044,983 | 2,828,668 | |
| Current liabilities | 1,663,977 | 1,660,567 | (2) |
| Less amounts included in adjusted debt: | | | |
| Current maturities of long-term LIPA and UDSA debt | (286,875) | (294,775) | (3) |
| Current maturities of lease and SBITA liabilities | (402,086) | (358,361) | (3) |
| Short-term debt | (345,000) | (131,000) | (3) |
| Current liabilities, net of amounts included in adjusted debt | 630,016 | 876,431 | |
| Net working capital (net current assets minus liabilities) | 2,414,967 | 1,952,237 | |
| Utility plant and property and equipment, net | 10,590,245 | 10,464,377 | (2) |
| Plant assets plus net working capital | \$ 13,005,212 | 12,416,614 | |
| Adjusted Debt | \$ 11,034,001 | 10,947,566 | |
| Debt-to-Asset Ratio | 85% | 88% | (5) |

(1) See Note 12(c) and (f)

(2) See Statement of Net Position

(3) See Note 14(a)

(4) See Note 13

(5) 2023 \$11,034,001 / \$13,005,212

2022 \$10,947,566 / \$12,416,614

Significant Notes

OSA - Employee Benefit Obligation – Note 13 *(page 75)*

- Discount rate lowered from 5.3% to 5.13% – increased liability
- OSA Pension and OPEB liability totaled \$616M compared to the LIPA OPEB- Dedicated Account held by LIPA of \$644M.

LIPA Pension Disclosures – Note 14 *(page 78)*

Commitments and Contingencies – Note 15 *(page 86)*

- Primarily related to our Purchase Power Agreements

Legal Disclosures – Note 16 *(page 89)*

Condensed Statements with UDSA (LIPA Component Unit) – Note 17 *(page 92)*

Questions?

Donna Mongiardo
Vice President – Controller

lipower.org

