

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Quarterly Unaudited Financial Report

For the three month period ended March 31, 2017

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

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Introduction

The Long Island Power Authority (the Authority) is a component unit of New York State (State). The Authority 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 the Authority. As part of the acquisition, the Authority also acquired an undivided 18% interest in the Nine Mile Point Unit 2 (NMP2) generating facility, located in upstate New York, which is operated and managed by Exelon Corporation.

Overview of the Consolidated Financial Statements

The Authority is engaged in business type activities and follows financial reporting for enterprise funds. The Authority'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).

Management's Discussion and Analysis of the Authority's financial performance provides an overview of the Authority's financial information for the three month period ended March 31, 2017 compared to 2016. The unaudited quarterly financial statements should be read in conjunction with the annual audited financial statements, which may be found on the Authority's website at www.lipower.org.

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Consolidated Statements of Net Position

March 31, 2017 and December 31, 2016

(Amounts in thousands)

Assets and Deferred Outflows of Resources	March 31, 2017 (unaudited)	December 31, 2016 (audited)
Current assets:		
Cash and cash equivalents	\$ 308,217	562,156
Restricted cash - working capital requirements	236,679	207,045
Restricted cash	148,598	88,572
Investments	235,647	219,212
Counterparty collateral – posted by the Authority	14,472	8,365
Accounts receivable (less allowance for doubtful accounts of \$36,672 and \$37,716 at March 31, 2017 and December 31, 2016, respectively)	412,170	484,781
Other receivables	93,666	113,154
Fuel inventory	105,701	103,894
Material and supplies inventory	47,449	46,771
Regulatory assets to be recovered within one year	226,200	151,012
Prepayments and other current assets	67,319	54,222
Total current assets	1,896,118	2,039,184
Noncurrent assets:		
Restricted cash and cash equivalents	129,479	76,733
Restricted investments	338,094	394,239
Utility plant and property and equipment, net	7,821,378	7,768,551
Nuclear decommissioning trust	122,034	115,800
Other long-term receivables	28,303	28,285
Unrealized charges	144,442	136,131
Financial derivatives	6,618	2,846
Prepayments	4,427	3,215
Regulatory assets for future recovery	1,148,695	1,148,239
Acquisition adjustment (net of accumulated amortization)	1,072,916	1,100,760
Total noncurrent assets	10,816,386	10,774,799
Deferred outflows of resources:		
Deferred defeasance costs on debt refunding	265,961	273,558
Accumulated decrease in fair value of commodity derivatives	2,975	11,740
Pensions	1,481	1,481
Total deferred outflows of resources	270,417	286,779
Total assets and deferred outflows of resources	\$ 12,982,921	13,100,762

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Consolidated Statements of Net Position

March 31, 2017 and December 31, 2016

(Amounts in thousands)

Liabilities and Net Position	March 31, 2017 (unaudited)	December 31, 2016 (audited)
Current liabilities:		
Short-term debt	\$ 410,625	405,625
Current maturities of long-term debt	117,250	117,250
Current maturities of UDSA debt	72,598	72,598
Current portion of capital lease obligation	187,019	195,959
Accounts payable and accrued expenses	421,870	445,566
Regulatory liabilities payable in one year	10,016	12,100
Commodity derivative instruments	437	11,569
Accrued payments in lieu of taxes	3,343	10,729
Accrued interest	91,414	48,042
Customer deposits	36,997	37,701
Total current liabilities	1,351,569	1,357,139
Noncurrent liabilities:		
Long-term debt	3,399,761	3,396,020
Long-term UDSA debt	4,349,862	4,360,731
Capital lease obligations	1,978,469	2,021,284
Borrowings	81,019	82,241
A&R Operations Services Agreement-employee retirement benefit	586,149	580,720
Financial derivative instruments	147,384	149,496
Commodity derivative instruments	15,740	2,324
Asset retirement obligation	69,012	66,487
Long-term liabilities and unrealized credits	67,459	69,933
Claims and damages	32,383	41,430
Total noncurrent liabilities	10,727,238	10,770,666
Deferred inflows of resources:		
Regulatory credits - grants	502,213	502,213
Accumulated increase in fair value of financial derivatives	6,618	2,846
Pensions	1,499	1,499
Accumulated increase in fair value of certain investment accounts	17,565	11,333
Total deferred inflows of resources	527,895	517,891
Net position:		
Net investment in capital assets	(198,042)	(115,699)
Restricted	95,531	73,879
Unrestricted	478,730	496,886
Total net position	376,219	455,066
Total liabilities, deferred inflows of resources and net position	\$ 12,982,921	13,100,762

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

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

Three month period ended March 31, 2017 and 2016

(unaudited)

(Amounts in thousands)

	2017	2016
Operating revenues – electric sales	\$ 744,865	715,932
Operating expenses:		
Operations – power supply charge ^(a)	340,734	333,541
Operations – power supply charge – property tax related ^(b)	52,813	54,418
Operations and maintenance	152,903	126,286
Operations and maintenance – amortizations	7,754	8,052
Storm restoration	38,380	50,906
General and administrative	6,788	6,626
Depreciation and amortization	68,779	63,659
Payments in lieu of taxes and assessments	81,283	81,143
Total operating expenses	749,434	724,631
Operating income	(4,569)	(8,698)
Nonoperating revenues and expenses:		
Other income, net:		
Investment income	1,623	2,393
Grant income	1,858	5,766
Carrying charges on regulatory assets	6,524	6,800
Other	780	1,071
Total other income, net	10,785	16,030
Interest charges and (credits):		
Interest on long-term debt	86,095	81,529
Other interest	7,073	8,920
Other interest amortizations	(6,683)	(1,373)
Allowance for borrowed funds used during construction	(1,422)	(1,786)
Total interest charges and (credits)	85,063	87,290
Change in net position	(78,847)	(79,958)
Net position, beginning of year	455,066	481,499
Net position, end of year	\$ 376,219	401,541

^(a) National Grid Power Supply Agreement (PSA) and Nine Mile Point 2 (NMP2) operating costs have been reclassified in 2016 from Operations and Maintenance to Power Supply Charge for comparative presentation purposes.

^(b) Pass through taxes related to the PSA, NMP2 and certain other long term operating agreements for 2016 have been reclassified to Power Supply Charge for comparative presentation purposes.

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)
Consolidated Statements of Cash Flows
Three month period ended March 31, 2017 and 2016
(unaudited)
(Amounts in thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Operating revenues received	\$ 846,600	797,739
Paid to suppliers and employees:		
Operations and maintenance	(162,465)	(142,304)
Operations – power supply charge ^(a)	(453,170)	(430,987)
Power supply charge – property tax related ^(b)	(52,813)	(54,418)
Payments in lieu of taxes	(131,754)	(134,035)
Collateral on commodity derivative transactions, net	(4,860)	6,593
Pension funding	(8,500)	(5,800)
Net cash provided by operating activities	<u>33,038</u>	<u>36,788</u>
Cash flows from investing activities:		
Earnings received on investments	6,102	2,067
Restricted cash	(142,406)	(34,844)
Sales of restricted investment securities	56,145	—
Purchases of investment securities	(16,435)	(9,900)
Other	—	510
Net cash used in investing activities	<u>(96,594)</u>	<u>(42,167)</u>
Cash flows from noncapital financing related activities:		
Grant proceeds	—	14,671
Proceeds from credit facility draws and commercial paper program	5,000	30,000
Net cash provided by noncapital related activities	<u>5,000</u>	<u>44,671</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(148,420)	(103,695)
Proceeds from insurance recoveries	—	49,580
Debt issuance costs	(193)	(175)
Other interest costs	(10,526)	(9,615)
Interest paid	(36,244)	(28,396)
Net cash used in capital and related financing activities	<u>(195,383)</u>	<u>(92,301)</u>
Net decrease in cash and cash equivalents	(253,939)	(53,009)
Cash and cash equivalents at beginning of year	562,156	600,698
Cash and cash equivalents at end of year	<u>\$ 308,217</u>	<u>547,689</u>
Reconciliation to net cash provided by operating activities:		
Operating income	\$ (4,569)	(8,698)
Adjustments to reconcile operating income to net cash provided by provided by provided by operating activities:		
Depreciation and amortization	68,779	63,659
Operations and maintenance – amortizations	7,754	8,052
Other post-employment benefit non-cash expense	4,189	10,345
Nuclear fuel burned	3,421	2,299
Shoreham and visual benefit assessment surcharges	10,235	9,416
Accretion of asset retirement obligation	927	877
Changes in operating assets and liabilities:		
Accounts receivable, net	91,766	104,942
Regulatory assets and liabilities	(122,237)	(116,083)
Fuel and material and supplies inventory	(2,485)	12,081
Accounts payable, accrued expenses and other	(24,742)	(50,102)
Net cash provided by operating activities	<u>\$ 33,038</u>	<u>36,788</u>

^(a) National Grid Power Supply Agreement (PSA) and Nine Mile Point 2 (NMP2) operating costs have been reclassified in 2016 from Operations and Maintenance to Power Supply Charge for comparative presentation purposes.

^(b) Pass through taxes related to the PSA, NMP2 and certain other long term operating agreements for 2016 have been reclassified to Power Supply Charge for comparative presentation purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Three Month Period ended March 31, 2017 Compared to 2016

The change in net position for the three month period ended March 31, 2017 was \$1 million higher than the three month period of 2016.

Operating revenue rose \$29 million when compared to the same three month period of 2016, resulting from rate changes effective January 1, 2017, consistent with the approved Three Year Rate Plan. In the 2017 approved budget, revenue was projected to grow to reflect anticipated (i) increases in the Power Supply Charge; (ii) increases in operating expenses to support new programs to maintain reliability, improve system resiliency and customer satisfaction; (iii) increases in property tax assessments; and (iv) increases in debt service, including fixed obligation coverage, to support the Authority's capital improvement program.

Also effective January 1, 2017, the Power Supply Charge includes costs associated with the National Grid Power Supply Agreement (PSA) and operation and maintenance costs associated with the Authority's 18% interest in the Nine Mile Point 2 (NMP2) nuclear generating station. These changes were made to be more consistent with how other New York State electric utilities classify generation capacity costs. To achieve conformity and comparability, the prior year amounts related to the PSA and NMP2 have been reclassified in the financial statements from operating costs to the Power Supply Charge. Power supply costs, including those related to pass through property taxes, increased \$6 million when compared to the same three month period of 2016 due to an increase in natural gas and oil prices.

Operations and maintenance expense increased \$27 million when compared to the same three month period of 2016 due to higher costs related to increased tree trimming to improve system resiliency. Also, contributing to the increase, was a lower level of storm activity (discussed below) which results in higher labor cost allocations to the operating areas such as customer and business services.

Storm restoration expense decreased \$13 million when compared to the same three month period of 2016 due to a lower level of storm activity. The Authority experienced five storm events through March 2017, two of which required mutual assistance compared with seven storm events through March 2016, three of which required mutual assistance.

Depreciation and amortization increased \$5 million when compared to the same three month period of 2016 primarily due to increased utility plant assets placed in service.

Other income decreased \$5 million when compared to the same three month period of 2016 primarily due to the receipt in the prior year of a Federal Emergency Management

Agency grant related to a reimbursable storm event for which the Authority received \$4.3 million.

Interest charges decreased \$2 million when compared to the same three month period of 2016 due to the impact of the interest savings resulting from the 2016 refunding of long term bonds.

Supplemental Schedule to the Consolidated Statements of Net Position

Shown below is a supplemental schedule to the Consolidated Statements of Net Position detailing the Authority's costs to be recovered/returned in a future period (regulatory assets or liabilities). Amounts to be recovered within the one year period showed an increase totaling \$75 million from December 31, 2016 to March 31, 2017 due primarily to the increase in the Power Supply Charge recovery. Fixed capacity costs related to long-term purchased power agreements are recognized seasonally to appropriately match to the period of higher capacity requirements resulting in a higher deferral during the first half of the year.

	(amounts in thousands)	
	March 31, 2017	December 31, 2016
	<u> </u>	<u> </u>
Regulatory assets to be recovered within one year		
Operations services agreement – employee retirement benefits	\$ 58,000	54,199
Shoreham property tax settlement	47,093	43,498
Power supply charge	72,139	9,400
Employee benefit plan settlement	21,634	21,634
Revenue decoupling mechanism	15,734	15,024
New York State assessment	5,615	1,330
Debt issuance costs	3,209	3,209
Southampton visual benefit assessment	1,007	948
Distributed energy resources	1,769	1,770
Balance	<u>\$ 226,200</u>	<u>151,012</u>
Regulatory assets for future recovery		
Operations services agreement – employee retirement benefits	405,053	423,050
Shoreham property tax settlement	417,148	424,396
Employee benefit plan settlement	167,662	173,070
Power supply charge	42,109	44,649
Delivery service adjustment	76,261	41,841
Debt issuance costs	32,351	33,004
Southampton visual benefit assessment	8,111	8,229
Balance	<u>\$ 1,148,695</u>	<u>1,148,239</u>
Regulatory liabilities payable within one year		
Delivery service adjustment	\$ 10,016	12,100
Balance	<u>\$ 10,016</u>	<u>12,100</u>