

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

Quarterly Unaudited Financial Report

For the nine month period ended September 30, 2016

**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 nine month period ended September 30, 2016 compared to 2015. 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](http://www.lipower.org).

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

Statements of Net Position

(Amounts in thousands)

<b>Assets and Deferred Outflows of Resources</b>	<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>(unaudited)</b>	<b>(audited)</b>
Current assets:		
Cash and cash equivalents	\$ 327,714	600,698
Restricted cash - working capital requirements	251,065	208,099
Restricted cash	123,730	33,518
Investments - OPEB account	49,967	29,500
Counterparty collateral – posted by the Authority	23,377	48,357
Accounts receivable (less allowance for doubtful accounts)	697,666	489,757
Other receivables	116,799	85,988
Fuel inventory	95,071	117,616
Material and supplies inventory	34,413	47,808
Unrealized charges	27,593	75,574
Regulatory assets due within one year:		
A&R Operations Services Agreement - employee retirement benefits	54,199	54,199
Shoreham property tax settlement	43,498	43,498
Employee benefit plan settlement	21,634	21,634
Fuel and purchased power costs	22,788	3,108
Delivery service adjustments	16,615	—
Revenue decoupling mechanism	13,655	17,297
New York State assessment	3,880	1,708
Debt issuance costs	3,209	4,100
Enterprise resource planning system	—	4,860
Outage management system	—	2,424
Transition costs – power supply management	1,692	1,692
Southampton visual benefit assessment	948	888
Distributed energy resources	879	—
Prepayments and other current assets	64,731	49,963
	1,995,123	1,942,286
Noncurrent assets:		
Restricted cash and cash equivalents	504,569	501,990
Utility plant and property and equipment, net	7,697,388	7,548,163
Nuclear decommissioning trust	116,491	110,436
Other long-term receivables	28,268	38,082
Unrealized charges	212,386	197,227
Prepayments	—	12,231
Regulatory assets:		
A&R Operations Services Agreement - employee retirement benefits	371,982	413,978
Shoreham property tax settlement	429,836	447,414
Employee benefit plan settlement	178,479	194,705
Fuel and purchased power costs	31,858	34,086
Delivery service adjustments	50,090	—
Debt issuance costs	31,784	38,498
Enterprise resource planning system	—	43,670
Outage management system	—	21,757
Transition costs – power supply management	13,956	15,224
Southampton visual benefit assessment	7,999	8,407
Distributed energy resources	293	—
Acquisition adjustment (net of accumulated amortization)	1,128,604	1,212,134
Total noncurrent assets	10,803,983	10,838,002
Deferred outflows:		
Deferred loss on debt refunding	282,802	254,157
Accumulated decrease in fair value of commodity derivatives	28,398	—
Pensions	1,481	195
Total deferred outflows	312,681	254,352
Total assets and deferred outflows	\$ 13,111,787	13,034,640

**LONG ISLAND POWER AUTHORITY**  
(A Component Unit of the State of New York)  
Statements of Net Position  
(Amounts in thousands)

<b>Liabilities and Net Position</b>	<b>September 30, 2016</b> <b>(unaudited)</b>	<b>December 31, 2015</b> <b>(audited)</b>
Current liabilities:		
Short-term debt	\$ 520,625	350,000
Current maturities of long-term debt	117,250	178,295
Current maturities of UDSA long-term debt	62,790	60,000
Current portion of capital lease obligation	194,838	190,955
Accounts payable and accrued expenses	453,118	456,649
Regulatory liabilities:		
Fuel and purchased power costs	—	30,027
Delivery service adjustments	33,715	—
Commodity derivative instruments	49,849	73,599
Accrued payments in lieu of taxes	11,813	10,008
Accrued interest	82,560	47,832
Customer deposits	37,832	38,419
Total current liabilities	1,564,390	1,435,784
Noncurrent liabilities:		
Long-term debt	2,992,300	4,305,146
Long-term UDSA debt	4,411,272	3,127,322
Capital lease obligations	2,071,760	2,188,295
Borrowings	83,458	87,064
A&R Operations Services Agreement - employee retirement benefits	502,802	491,678
Financial derivative instruments	211,857	173,199
Commodity derivative instruments	20,047	44,086
Asset retirement obligation	65,573	62,906
Long-term liabilities and unrealized credits	72,065	93,530
Claims and damages	43,227	27,822
Total noncurrent liabilities	10,474,361	10,601,048
Deferred inflows:		
Regulatory credits - grants	502,213	502,213
Accumulated increase in fair value of derivatives	3,236	4,514
Pensions	1,295	417
Accumulated increase in fair value of OPEB trust	2,316	—
Accumulated increase in fair value of Nine Mile Point 2 trust	14,126	9,165
Total deferred inflows	523,186	516,309
Net position:		
Net investment in capital assets	(103,130)	(158,313)
Restricted	223,757	142,026
Unrestricted	429,223	497,786
Total net position	549,850	481,499
 Total liabilities, deferred inflows and net position	 \$ 13,111,787	 13,034,640

**LONG ISLAND POWER AUTHORITY**  
(A Component Unit of the State of New York)  
Statements of Revenues, Expenses, and Changes in Net Position  
(unaudited)  
(Amounts in thousands)

	<b>Nine months ended</b>	
	<b>September 30,</b>	
	<b>2016</b>	<b>2015</b>
Operating revenues – electric sales	\$ 2,687,870	2,796,392
Operating expenses:		
Operations – fuel and purchased power	1,051,520	1,209,430
Operations and maintenance	588,903	593,128
Operations and maintenance – amortizations	23,261	8,465
Storm restoration	104,367	52,151
General and administrative	21,037	17,047
Depreciation and amortization	196,480	167,265
Pass through taxes under certain long-term operating agreements	150,703	144,547
Payments in lieu of taxes and assessments	260,561	269,934
Total operating expenses	<u>2,396,832</u>	<u>2,461,967</u>
Operating income	<u>291,038</u>	<u>334,425</u>
Nonoperating revenues and expenses:		
Other income, net:		
Investment income	3,646	5,721
Grant income	11,822	17,116
Carrying charges on regulatory assets	20,027	20,807
Other	4,914	696
Total other income, net	<u>40,409</u>	<u>44,340</u>
Interest charges and (credits):		
Interest on long-term debt, net	246,462	247,958
Other interest	24,675	32,160
Other interest amortization	(5,462)	(1,341)
Allowance for borrowed funds used during construction	(2,579)	(5,864)
Total interest charges and (credits)	<u>263,096</u>	<u>272,913</u>
Change in net position	68,351	105,852
Net position, beginning of year	<u>481,499</u>	<u>433,325</u>
Net position, end of period	<u>\$ 549,850</u>	<u>539,177</u>

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

Statements of Cash Flows

(unaudited)

(Amounts in thousands)

**Nine months ended**  
**September 30,**

	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Operating revenues received	\$ 2,512,905	2,710,660
Paid to suppliers and employees:		
Operations and maintenance	(686,603)	(652,481)
Pass through taxes under certain long-term operating agreements	(150,703)	(144,547)
Fuel and purchased power	(986,623)	(1,139,193)
Payments in lieu of taxes and assessments	(342,673)	(289,166)
Collateral on commodity derivative transactions, net	24,980	(23,733)
PSEG Long Island pension funding	(28,100)	(30,000)
Net provided by operating activities	343,183	431,540
Cash flows from investing activities:		
Earnings received on investments	4,643	441
Restricted cash	(135,757)	(104,694)
Purchase of investment securities	(17,371)	—
Other	243	2,064
Net cash used in by investing activities	(148,242)	(102,189)
Cash flows from noncapital financing related activities:		
Grant proceeds	18,787	99,262
Proceeds from credit facility draws and commercial paper program	170,625	450,000
Redemption of credit facility draws and commercial paper program	—	(430,000)
Net cash provided by noncapital related activities	189,412	119,262
Cash flows from capital and related financing activities:		
Capital and nuclear fuel expenditures	(366,423)	(262,788)
Proceeds from insurance recoveries and settlements	49,580	—
Proceeds from the issuance of long-term debt	1,513,384	200,000
Debt issuance costs	(7,768)	—
Interest paid, net	(192,071)	(212,842)
Other interest costs	(26,645)	—
Redemption of long-term debt	(1,627,394)	(514,505)
Net cash used in capital and related financing activities	(657,337)	(790,135)
Net decrease in cash and cash equivalents	(272,984)	(341,522)
Cash and cash equivalents at beginning of year	600,698	782,466
Cash and cash equivalents at end of period	\$ 327,714	440,944
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 291,038	334,425
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	219,741	175,730
Nuclear fuel burned	7,929	10,554
Shoreham surcharges	37,173	30,327
Bad debt expense	15,004	18,383
Accretion of asset retirement obligation	2,667	2,831
Other, net	2,370	14,515
Changes in operating assets and liabilities:		
Accounts receivable, net	(233,801)	(140,214)
Regulatory assets and liabilities	4,850	(70,830)
Fuel and material and supplies inventory	24,178	24,127
Counterparty collateral	24,980	(23,733)
Accounts payable, accrued expenses and other	(52,946)	55,425
Net cash provided by operating activities	\$ 343,183	431,540

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

### **Nine Month Period ended September 30, 2016 Compared to 2015**

The change in net position for the nine months ended September 30, 2016 was \$38 million less favorable than the nine month period of 2015.

Operating revenue decreased \$109 million compared to the nine month period of 2015 primarily due to a \$158 million decline in fuel and purchased power revenues, partially offset by an increase in base revenue due to increased base rates effective January 1, 2016, as approved in the Three Year Rate Plan.

Fuel and purchased power expense decreased \$158 million compared to the nine month period of 2015 due to a decline in natural gas and oil prices and a reduction in the cost of purchased power. This decrease was partially offset by higher settlement costs on certain hedge positions.

Operations and maintenance expense decreased \$4 million compared to the nine month period of 2015 primarily due to the elimination of outstanding accruals related to resolution of issues with the former service provider.

Operations and maintenance expense for regulatory asset amortizations increased \$15 million compared to the nine month period of 2015 due to the amortization of deferred pension and other related retirement costs effective January 1, 2016, as approved by the Board of Trustees.

Storm restoration expense increased \$52 million compared to the nine month period of 2015 due to a higher level of storm activity in 2016. Major storms with significant outages may require aid from the industry's mutual assistance network (a partnership of electric companies from across the country to help speed restoration). Five of the seventeen 2016 storms required mutual aid assistance compared with one mutual aid event of the fifteen 2015 storms. Furthermore, effective January 1, 2016, as approved in the Three Year Rate Plan, storms in excess of the approved budget will be recovered through the delivery service adjustment over a three year period and as such approximately \$66 million has been deferred for recovery.

Depreciation and amortization increased \$29 million compared to the nine month period of 2015 primarily due to the change to whole life depreciation rates in accordance with an updated depreciation study approved in the Three Year Rate Plan.

Pass through taxes and payments in lieu of taxes and assessments decreased \$3 million compared to the nine month period of 2015 primarily due to the decrease in assessments resulting from both lower revenues and a lower imposed rate.

Other income decreased \$4 million compared to the nine month period of 2015 primarily due to the delayed receipt of a New York State Energy Research and Development Authority grant.

Interest charges decreased \$10 million compared to the nine month period of 2015 due to the impact of the 2015 Utility Debt Securitization refinancing.