

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

Quarterly Unaudited Financial Report

For the six month period ended June 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).

The Management's Discussion and Analysis of the Authority's financial performance provides an overview of the Authority's financial information for the six month period ended June 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.

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

Statements of Net Position

(Amounts in thousands)

Assets and Deferred Outflows of Resources	June 30, 2016	December 31, 2015
	(unaudited)	(audited)
Current assets:		
Cash and cash equivalents	\$ 421,313	600,698
Restricted cash - working capital requirements	185,468	208,099
Restricted cash	51,544	33,518
Investments - OPEB account	40,186	29,500
Counterparty collateral – posted by the Authority	10,123	48,357
Accounts receivable (less allowance for doubtful accounts)	439,448	489,757
Other receivables	75,756	85,988
Fuel inventory	105,978	117,616
Material and supplies inventory	45,442	47,808
Unrealized charges	30,120	75,574
Regulatory assets due within one year:		
Fuel and purchased power costs	71,680	3,108
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
Revenue decoupling mechanism	52,502	17,297
Delivery service adjustments	6,276	—
New York State assessment	2,224	1,708
Debt issuance costs	4,100	4,100
Enterprise resource planning system	—	4,860
Outage management system	—	2,424
Transition costs – power supply management	1,692	1,692
Distributed energy resources	1,106	—
Southampton visual benefit assessment	888	888
Prepayments and other current assets	97,733	49,963
	1,762,910	1,942,286
Noncurrent assets:		
Restricted cash and cash equivalents	503,860	501,990
Utility plant and property and equipment, net	7,655,324	7,548,163
Nuclear decommissioning trust	114,634	110,436
Other long-term receivables	28,250	38,082
Unrealized charges	184,917	197,227
Prepayments	—	12,231
Regulatory assets:		
A&R Operations Services Agreement - employee retirement benefits	385,981	413,978
Shoreham property tax settlement	441,323	447,414
Employee benefit plan settlement	183,881	194,705
Debt issuance costs	31,194	38,498
Delivery service adjustments	31,379	—
Enterprise resource planning system	—	43,670
Fuel and purchased power costs	32,600	34,086
Outage management system	—	21,757
Transition costs – power supply management	14,378	15,224
Southampton visual benefit assessment	8,290	8,407
Distributed energy resources	1,106	—
Acquisition adjustment (net of accumulated amortization)	1,156,447	1,212,134
Total noncurrent assets	10,773,564	10,838,002
Deferred outflows:		
Deferred loss on debt refunding	286,984	254,157
Accumulated decrease in fair value of financial derivatives	5,905	—
Pensions	195	195
Total deferred outflows	293,084	254,352
Total assets and deferred outflows	\$ 12,829,558	13,034,640

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

Liabilities and Net Position	June 30, 2016 (unaudited)	December 31, 2015 (audited)
Current liabilities:		
Short-term debt	\$ 520,625	350,000
Current maturities of long-term debt	143,650	178,295
Current maturities of UDSA long-term debt	36,540	60,000
Current portion of capital lease obligation	203,395	190,955
Accounts payable and accrued expenses	433,061	456,649
Regulatory liability - fuel and purchased power costs refundable	11,649	30,027
Commodity derivative instruments	35,372	73,599
Accrued payments in lieu of taxes	5,205	10,008
Accrued interest	44,986	47,832
Customer deposits	37,923	38,419
Total current liabilities	1,472,406	1,435,784
Noncurrent liabilities:		
Long-term debt	3,513,668	4,305,146
Long-term UDSA debt	3,891,050	3,127,322
Capital lease obligations	2,115,406	2,188,295
Borrowings	84,667	87,064
A&R Operations Services Agreement - employee retirement benefits	506,161	491,678
Financial derivative instruments	197,138	173,199
Commodity derivative instruments	2,033	44,086
Asset retirement obligation	64,672	62,906
Long-term liabilities and unrealized credits	72,847	93,530
Claims and damages	27,051	27,822
Total noncurrent liabilities	10,474,693	10,601,048
Deferred inflows:		
Regulatory credits - grants	502,213	502,213
Accumulated increase in fair value of derivatives	3,401	4,514
Pensions	417	417
Accumulated increase in fair value of Nine Mile Point 2 trust	12,850	9,165
Total deferred inflows	518,881	516,309
Net position:		
Net investment in capital assets	(81,863)	(158,313)
Restricted	197,525	142,026
Unrestricted	247,916	497,786
Total net position	363,578	481,499
 Total liabilities, deferred inflows and net position	 \$ 12,829,558	 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)

	Six months ended	
	June 30,	
	<u>2016</u>	<u>2015</u>
Operating revenues – electric sales	\$ 1,483,646	1,682,606
Operating expenses:		
Operations – fuel and purchased power	560,611	790,589
Operations and maintenance	404,926	392,552
Operations and maintenance – amortizations	15,514	6,474
Storm restoration	63,506	12,790
General and administrative	14,301	12,069
Depreciation and amortization	127,472	110,116
Pass through taxes under certain long-term operating agreements	100,470	96,365
Payments in lieu of taxes and assessments	169,033	178,628
Total operating expenses	<u>1,455,833</u>	<u>1,599,583</u>
Operating income	<u>27,813</u>	<u>83,023</u>
Nonoperating revenues and expenses:		
Other income, net:		
Investment income	5,094	2,432
Grant income	9,179	16,292
Carrying charges on regulatory assets	13,519	14,023
Other	1,699	1,858
Total other income, net	<u>29,491</u>	<u>34,605</u>
Interest charges and (credits):		
Interest on long-term debt, net	164,382	166,077
Other interest	14,203	20,786
Allowance for borrowed funds used during construction	(3,360)	(3,700)
Total interest charges and (credits)	<u>175,225</u>	<u>183,163</u>
Change in net position	(117,921)	(65,535)
Net position, beginning of year	<u>481,499</u>	<u>433,325</u>
Net position, end of period	<u>\$ 363,578</u>	<u>367,790</u>

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

Statements of Cash Flows

(unaudited)

(Amounts in thousands)

	Six months ended	
	June 30,	
	2016	2015
Cash flows from operating activities:		
Operating revenues received	\$ 1,495,087	1,745,879
Paid to suppliers and employees:		
Operations and maintenance	(458,042)	(430,068)
Pass through taxes under certain long-term operating agreements	(100,469)	(96,365)
Fuel and purchased power	(588,653)	(736,512)
Payments in lieu of taxes and assessments	(254,159)	(240,340)
Collateral on commodity derivative transactions, net	38,234	(22,455)
PSEG Long Island pension funding	(11,800)	(12,800)
Net provided by operating activities	<u>120,198</u>	<u>207,339</u>
Cash flows from investing activities:		
Earnings received on investments	4,569	767
Restricted cash	2,735	67,192
Purchase of investment securities	(10,686)	—
Other	277	437
Net cash (used in) provided by investing activities	<u>(3,105)</u>	<u>68,396</u>
Cash flows from noncapital financing related activities:		
Grant proceeds	16,110	99,155
Proceeds from credit facility draws and commercial paper program	170,625	450,000
Redemption of credit facility draws and commercial paper program	—	(330,000)
Net cash provided by noncapital related activities	<u>186,735</u>	<u>219,155</u>
Cash flows from capital and related financing activities:		
Capital and nuclear fuel expenditures	(237,676)	(156,043)
Proceeds from insurance recoveries and settlements	49,580	—
Proceeds from the issuance of long-term debt	783,288	200,000
Debt issuance costs	(4,713)	—
Interest paid, net	(153,992)	(146,148)
Other interest costs	(16,349)	(21,239)
Redemption of long-term debt	(903,351)	(352,180)
Net cash used in capital and related financing activities	<u>(483,213)</u>	<u>(475,610)</u>
Net (decrease) increase in cash and cash equivalents	(179,385)	19,280
Cash and cash equivalents at beginning of year	<u>600,698</u>	<u>782,466</u>
Cash and cash equivalents at end of period	<u>\$ 421,313</u>	<u>801,746</u>
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 27,813	83,023
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	142,986	116,590
Nuclear fuel burned	4,538	6,952
Bad debt expense	11,675	10,942
Accretion of asset retirement obligation	1,765	1,874
Other, net	22,736	(389)
Changes in operating assets and liabilities:		
Accounts receivable, net	50,683	33,265
Regulatory assets and liabilities	(102,948)	(41,070)
Fuel and material and supplies inventory	14,004	16,128
Counterparty collateral	38,234	(22,455)
Accounts payable, accrued expenses and other	(91,288)	2,479
Net cash provided by operating activities	<u>\$ 120,198</u>	<u>207,339</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Six Month Period ended June 30, 2016 Compared to 2015

The change in net position for the six months ended June 30, 2016 was \$52 million less favorable than the six month period of 2015.

Operating revenue decreased \$199 million compared to the six month period of 2015 primarily due to a \$230 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 \$230 million compared to the six 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.

Also contributing to the fuel and purchased power expense variation was a shift in the current year recognition of fixed capacity costs related to long-term purchased power agreements. Effective January 1, 2016, fixed capacity charges are recognized seasonally to appropriately match to the period of higher capacity requirements. As of June 30, 2016, approximately \$50 million of such costs were deferred for future collection over the summer months resulting in lower fuel and purchased power expenses for the six month period.

Operations and maintenance expense increased \$12 million compared to the six month period of 2015 primarily due to the scheduled increase in the 2016 management compensation fee.

Operations and maintenance expense for regulatory asset amortizations increased \$9 million compared to the six 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 \$51 million compared to the six month period of 2015 due to a higher level of storm activity in 2016. Four of the ten storms incurred in 2016 required mutual aid assistance compared with eight storms incurred in 2015, none of which required mutual aid assistance.

Depreciation and amortization increased \$17 million compared to the six 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.

Payments in lieu of taxes and assessments decreased \$10 million compared to the six month period of 2015 primarily due to the decrease in assessments resulting from both lower revenues and a lower imposed rate.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
(Unaudited)

Other income decreased \$5 million compared to the six month period of 2015 primarily due to the delayed receipt of the New York State Energy Research and Development Authority (NYSERDA) grant, partially offset by an increase in investment income.

Interest charges decreased \$8 million compared to the six month period of 2015 due to the impact of the 2015 Utility Debt Securitization refinancing.