

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED
MARCH 31, 2015 VERSUS 2014**

Revenues net of fuel and purchased power costs decreased approximately \$1 million in 2015 over the prior year. This was primarily due to a decrease in the New York State conservation assessment statutory rate.

Operations and maintenance expense decreased \$8 million due primarily to lower New York State conservation assessment charges, lower bad debt expense and lower Nine Mile Point 2 expense.

Operations and maintenance—regulatory asset amortizations are non-cash amortizations related to restructuring costs which were approved by the Authority's Board for collection from customers beginning in 2014 over the remaining life of the Amended and Restated Operations Services Agreement. The increase of \$2 million is due to the implementation of the outage management system and the enterprise resource planning system which took place in mid-2014.

Storm restoration expense decreased \$2 million due to less major storm activity.

General and Administrative costs decreased \$1 million due to reduced staffing levels resulting in lower salary and benefit related costs.

Depreciation and amortization decreased \$16 million as the Authority incorporated the results of a new depreciation study in September 2014. The depreciation study resulted in extending the useful life of the Authority's electric utility assets, thus reducing depreciation expense.

PILOTs – property-based increased \$3 million due to increased town and school tax payments.

Interest expense increased \$3 million due primarily to higher debt balances outstanding.

Consolidated Statement of Net Position
(Amounts in thousands)

	March 31, 2015 (unaudited)	December 31, 2014
Current assets:		
Cash and cash equivalents	\$ 613,347	\$ 782,466
Restricted Cash	705,800	618,384
Counterparty collateral - posted by the Authority	-	4,500
Accounts receivable (less allowance for doubtful accounts of \$38,817)	565,885	528,937
Other accounts receivable	53,642	145,796
Fuel inventory	108,310	128,201
Material and supplies inventory	36,155	41,538
Unrealized charges	61,517	56,735
Prepayments and other current assets	36,756	25,803
Regulatory assets due within one year	75,588	67,656
Total current assets	2,257,000	2,400,016
Noncurrent assets:		
Utility plant and property and equipment, net	6,721,459	6,727,057
Nuclear decommissioning trust	111,691	110,799
Other long-term receivables	28,325	28,325
Unrealized charges	238,851	224,235
Prepayments and other noncurrent assets	9,425	14,533
Regulatory assets:		
Operations Services Agreement - employee retirement benefits	607,227	597,592
Shoreham property tax settlement	457,208	460,419
Employee benefit plan settlement	210,931	216,339
Transition costs - Operations Services Agreement	44,809	45,974
Debt issuance costs	38,099	39,140
Enterprise resource planning system	37,378	38,710
Fuel and purchased power agreement deferred costs	36,646	37,311
Outage management system	23,689	24,297
Transition costs - power supply management	16,495	16,918
Southampton visual benefit assessment	8,710	8,779
Acquisition adjustment (net of accumulated amortization)	2,014,024	2,041,867
Total noncurrent assets	10,604,967	10,632,295
Deferred outflows:		
Deferred loss on debt refunding	153,308	159,162
Accumulated decrease in fair value of financial derivatives	1,827	4,179
	155,135	163,341
Total assets and deferred outflows	\$ 13,017,102	\$ 13,195,652
Current liabilities:		
Short-term debt	\$ 300,000	\$ 280,000
Current maturities of long-term debt	164,505	164,505
Current maturities of UDSA debt	15,000	15,000
Current portion of capital lease obligation	181,896	178,997
Accounts payable and accrued expenses	342,832	333,434
Regulatory liability - fuel and purchased power costs	20,827	40,245
Commodity derivative instruments	29,188	45,097
Accrued payments in lieu of taxes	49,766	45,678
Accrued interest	93,437	44,443
Counterparty collateral - held by the Authority	-	1,150
Customer deposits	37,504	39,266
Accrued storm costs	88,751	88,788
Total current liabilities	1,323,706	1,276,603
Noncurrent liabilities:		
Long-term debt	5,386,658	5,532,551
Long-term UDSA debt	2,016,910	2,019,340
Borrowings	90,610	91,779
Operations Services Agreement - employee retirement benefits	597,576	578,437
Capital lease obligation	2,331,913	2,379,250
Asset retirement obligation	67,344	66,414
Long-term liabilities and unrealized credits	97,434	97,291
Commodity derivative instruments	37,243	31,062
Financial derivative instruments	200,910	192,881
Claims and damages reserves	20,193	20,935
Total noncurrent liabilities	10,846,791	11,009,940
Deferred inflows:		
Grants received in advance	442,924	441,088
Accumulated increase in fair value of commodity derivatives	39,965	19,296
Accumulated increase in fair value of Nine Mile Point 2 trust	14,872	14,133
Total deferred inflows	497,761	474,517
Net Position:		
Net investment in capital assets	(148,292)	(346,219)
Restricted	705,800	618,384
Unrestricted	(208,664)	162,427
Total net position	348,844	434,592
Total liabilities and net position	\$ 13,017,102	\$ 13,195,652

**Consolidated Statement of Revenues, Expenses and
Changes in Net Position**
(Amounts in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Operating revenues - electric sales	\$ 878,474	\$ 956,991
Fuel and purchased power costs	456,981	534,653
Revenue net of fuel and purchased power costs	<u>421,493</u>	<u>422,338</u>
Other Operating expenses:		
Operations and maintenance	269,599	277,477
Operations and maintenance - regulatory asset amortizations	3,088	1,050
Storm restoration	4,442	6,667
General and administrative	6,502	7,375
Depreciation and amortization	56,104	71,993
Payments in lieu of taxes - revenue based	8,654	9,158
Payments in lieu of taxes - property based	75,889	72,986
Total Operating Expenses	<u>424,278</u>	<u>446,706</u>
Operating loss	<u>(2,785)</u>	<u>(24,368)</u>
Other income and deductions, net	<u>7,794</u>	<u>9,795</u>
Grant Income	<u>3,047</u>	<u>3,263</u>
Interest charges and (credits)	<u>93,804</u>	<u>90,804</u>
Change in net position	<u>(85,748)</u>	<u>(102,114)</u>
Net position		
Total net position, beginning of year	<u>434,592</u>	<u>378,101</u>
Total net position, end of period	<u>\$ 348,844</u>	<u>\$ 275,987</u>

Statements of Cash Flows

For the three months ended March 31, 2015 and 2014

(Amounts in thousands)

(Unaudited)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Operating revenues received, net of refunds	\$ 882,086	\$ 901,245
Paid to suppliers and employees:		
Operations and maintenance	(286,747)	(390,207)
Fuel and purchased power	(410,481)	(463,955)
Payments in lieu of taxes	(125,749)	(127,267)
Collateral on fuel derivative transactions, net	3,350	(7,000)
Pension funding	(5,900)	(23,000)
Net cash provided by (used in) operating activities	<u>56,559</u>	<u>(110,184)</u>
Cash flows from investing activities:		
Earnings received on investments	454	100
Other	129	498
Restricted cash	(87,416)	93,712
Net cash (used in) provided by investing activities	<u>(86,833)</u>	<u>94,310</u>
Cash flows from noncapital financing related activities:		
Grant proceeds	82,329	139,242
Proceeds from draw from credit facility and commercial paper program	20,000	100,000
Net cash provided by noncapital related activities	<u>102,329</u>	<u>239,242</u>
Cash flows from capital and related financing activities:		
Capital and nuclear fuel expenditures	(52,561)	(158,504)
Redemption of long-term debt	(150,000)	-
Interest paid, net	(38,613)	(33,997)
Net cash used in capital and related financing activities	<u>(241,174)</u>	<u>(192,501)</u>
Net (decrease) increase in cash and cash equivalents	(169,119)	30,867
Cash and cash equivalents at beginning of year	<u>782,466</u>	<u>378,821</u>
Cash and cash equivalents at end of the period	\$ <u>613,347</u>	\$ <u>409,688</u>
Reconciliation to net cash provided by operating activities:		
Operating loss	\$ (2,785)	\$ (24,368)
Adjustments to reconcile operating loss to net cash provided used in operating activities:		
Depreciation and amortization	59,192	73,043
Nuclear fuel burned	3,338	2,740
Accretion of asset retirement obligation	931	1,149
Other, net	6,118	9,400
Changes in operating assets and liabilities:		
Accounts receivable, net	(24,794)	(41,936)
Regulatory assets	(15,704)	(23,401)
Fuel and material and supplies inventory	25,274	3,109
Counterparty collateral	3,350	(7,000)
Claims, damages and storm restoration	(779)	(92,979)
Accounts payable, accrued expenses and other	2,418	(9,941)
Net cash provided by operating activities	\$ <u>56,559</u>	\$ <u>(110,184)</u>