

Presentation to the Finance and Audit Committee of the Board of Trustees – December 2017 Financial Report



LIPA Consolidated Results – December 2017 (Unaudited¹)

(\$ in thousands)

	Current Month				Year to Date				Annual* Budget
	Actual	Budget	\$ Var.	% Var.	Actual	Budget	\$ Var.	% Var.	
Revenues	\$246,936	\$266,640	(\$19,704)	-7.4%	\$3,481,613	\$3,586,948	(\$105,335)	-2.9%	\$3,586,948
Power Supply Charge	146,576	156,930	10,354	6.6%	1,842,587	1,992,875	150,288	7.5%	1,992,875
Revenue Net of Power Supply Costs	\$100,360	\$109,710	(\$9,350)	-8.5%	\$1,639,026	\$1,594,073	\$44,953	2.8%	\$1,594,073
PSEG Long Island Operating and Managed Expenses									
PSEG Long Island Operating Expenses	\$54,954	\$47,691	(\$7,263)	-15.2%	\$552,627	\$566,982	\$14,355	2.5%	\$566,982
PSEG Long Island Managed Expenses	(8,619)	5,471	14,090	257.5%	99,408	73,040	(26,368)	-36.1%	73,040
Utility Depreciation	14,665	14,031	(634)	-4.5%	165,884	167,634	1,750	1.0%	167,634
PILOTs - Revenue-Based Taxes	2,201	2,423	222	9.2%	31,764	32,482	718	2.2%	32,482
PILOTs - Property-Based Taxes	22,646	24,102	1,456	6.0%	282,833	285,772	2,939	1.0%	285,772
LIPA Expenses									
LIPA Operating Expenses	14,311	7,874	(6,437)	-81.8%	98,695	95,655	(3,040)	-3.2%	95,655
LIPA Depreciation and Amortization	9,319	9,315	(4)	0.0%	111,856	111,781	(75)	-0.1%	111,781
LIPA Deferred Amortized costs	2,585	2,585	-	0.0%	31,014	31,015	1	0.0%	31,015
Interest Expense, Other Interest Costs and Interest Amortizations	28,421	27,626	(795)	-2.9%	336,071	331,032	(5,039)	-1.5%	331,032
Total Expenses	\$140,483	\$141,118	\$635	0.4%	\$1,710,152	\$1,695,393	(\$14,759)	-0.9%	\$1,695,393
Other Income and Deductions	\$8,571	\$2,752	\$5,819	211.4%	\$41,715	\$33,552	\$8,163	24.3%	\$33,552
Grant Income	9,599	18,189	(8,590)	-47.2%	42,058	45,388	(3,330)	-7.3%	45,388
Change in Net Position	(\$21,953)	(\$10,467)	(\$11,486)	109.7%	\$12,647	(\$22,380)	\$35,027	-156.5%	(\$22,380)

Note: Variance - favorable/(unfavorable)

*Annual budget reflects budget amendment of \$10.2M

¹ Year-end results are draft, subject to change

LIPA Managed Costs – Variance Explanations

December 2017

(\$ in thousands)

	Current Month				Year to Date				Annual Budget
	Actual	Budget	\$ Var.	% Var.	Actual	Budget	\$ Var.	% Var.	
LIPA Expenses									
LIPA Operating Expenses	\$14,311	\$7,874	(\$6,437)	-81.8%	\$98,695	\$95,655	(\$3,040)	-3.2%	\$95,655
LIPA Depreciation and Amortization	9,319	9,315	(4)	0.0%	111,856	111,781	(75)	-0.1%	111,781
LIPA Deferred Amortized Expenses	2,585	2,585	-	0.0%	31,014	31,015	1	0.0%	31,015
Interest Expense, Other Interest Costs and Interest Amortizations	28,421	27,626	17	0.1%	336,071	331,032	(5,039)	-1.5%	331,032
Total Expenses	\$54,636	\$47,400	(\$6,424)	-13.6%	\$577,636	\$569,483	(\$8,153)	-1.4%	\$569,483
Other Income and Deductions	\$6,322	\$566	5,756	1017.0%	\$13,931	\$6,797	7,134	105.0%	\$6,797
Grant Income	9,599	18,189	(8,590)	-47.2%	42,058	45,388	(3,330)	-7.3%	45,388
Total Income	\$15,921	\$18,755	(\$2,834)	-15.1%	\$55,989	\$52,185	\$3,804	7.3%	\$52,185

Note: Variance – favorable/(unfavorable)

- Operating expenses, year to date, are over budget by \$3.0M primarily due to the resolution of an expense related to the prior service provider plus litigation reserves, partially offset by lower consulting costs due to delays in start dates
- Interest expense, year to date, is over budget by \$5.0M primarily due to higher variable rates than projected, unbudgeted amortization of non-cash deferrals and fees on increasing and extending certain credit
- Other income and deductions, year to date, is over budget by \$7.1M primarily due to investment income on NMP2 equity investments
- Grant income, year to date, is under budget by \$3.3M primarily due to the timing of completed FEMA projects and associated depreciation expense



LIPA Managed Costs – Professional Services December 2017

(\$ in thousands)

	Current Month			Year to Date			Annual
	Actual	Budget	\$ Var.	Actual	Budget	\$ Var.	Budget
Professional Services							
Legal	\$474	\$323	(\$151)	\$4,328	\$3,878	(\$450)	\$3,878
Accounting and Audit Services	170	162	(8)	1,726	1,791	65	1,791
Engineering/Strategic Planning/Contract Oversight	4	142	138	568	1,700	1,132	1,700
Financial Advisor/Cash Management	205	134	(71)	1,637	1,604	(33)	1,604
Information Technology	113	76	(37)	842	912	70	912
Risk Management-Fuel & Insurance	117	14	(103)	567	395	(172)	395
Grant Administration	50	17	(33)	312	225	(87)	225
Miscellaneous	135	75	(60)	187	300	113	300
Total Professional Services	\$1,268	\$943	(\$325)	\$10,167	\$10,805	\$638	\$10,805

Note: Variance – favorable/(unfavorable)

- Professional services year-to-date, are under budget by \$0.6M primarily due to the timing of outstanding costs budgeted but not yet incurred for Engineering/Strategic Planning /Contract Oversight expenses

LIPA Liquidity Position – December 2017

Liquidity Position

(\$ in thousands)

	December 31, 2017	Days Cash	November 30, 2017	Days
Operating liquidity				
Unrestricted cash and cash equivalents	\$633,555		\$343,085	
OPEB account cash, cash equivalents & investments	194,699		144,398	
PSEG LI Working Capital requirements	211,972		222,150	
Total operating liquidity	1,040,226	133 days	709,633	91
Available credit				
General Revenue Notes - Revolving Credit Facility	337,180		308,500	
General Revenue Commercial Paper	186,875		186,875	
Subordinated Revenue Commercial Paper	90,625		90,625	
Total available credit	614,680		586,000	
Total cash, cash equivalents, investments & available credit	\$1,654,906	212 days	\$1,295,633	166
Restricted cash				
FEMA - restricted	275,784		311,613	
UDSA	109,167		218,801	
Total restricted cash	\$384,951		\$530,414	



LIPA Consolidated Statement of Net Position – December 2017 (Unaudited¹)

(\$ in thousands)

ASSETS & DEFERRED OUTFLOWS OF RESOURCES	December 31, 2017	November 30, 2017	Variance
Current assets	\$1,917,596	\$1,694,618	\$222,978
Capital assets	\$8,088,014	\$8,031,175	56,839
Regulatory assets (including current)	\$1,244,506	\$1,255,684	(11,178)
Other noncurrent assets	\$1,542,164	\$1,611,303	(69,139)
Deferred outflows of resources	\$274,406	\$285,666	(11,260)
Total assets & deferred outflows of resources	\$13,066,686	\$12,878,446	\$188,240
LIABILITIES & DEFERRED INFLOWS OF RESOURCES			
Current liabilities	\$891,033	\$977,818	(\$86,785)
Regulatory liabilities	-	\$1,526	(1,526)
Long-term debt, (including current maturities)	\$7,476,609	\$7,177,397	299,212
Premiums on long-term debt	\$694,804	\$643,325	51,479
Capital leases	2,020,874	2,036,336	(15,462)
Other noncurrent liabilities	980,616	1,010,394	(29,778)
Deferred inflows of resources	535,034	\$541,982	(6,948)
Total liabilities & deferred inflows of resources	\$12,598,970	\$12,388,778	\$210,192
Total net position	\$467,716	\$489,669	(\$21,953)
Total liabilities, deferred inflows of resources & net position	\$13,066,686	\$12,878,447	\$188,239

¹ Year-end results are draft, subject to change

- Current assets increased \$223M primarily due to the 2017 issuance of LIPA bonds, offset by UDSA semi-annual debt service payment
- Capital assets increased \$57M due to FEMA storm hardening of distribution circuits and other T&D system capital improvements
- Other noncurrent assets decreased \$69M primarily due to the drawdown of FEMA restricted funds
- Current liabilities decreased \$87M due to scheduled interest payments of the UDSA bond issuances
- Long-term debt increased \$299M and premiums on long-term bonds increased \$51M primarily due to the 2017 issuance
- Capital leases decreased \$15M due to scheduled monthly amortization
- Other noncurrent liabilities decreased \$30M due to the elimination of the OPEB liability resulting from the funding to the associated Section 115 Trust and decreased valuation of swaps
- Deferred inflows of resources decreased \$7M due to realization of MTM value in the OPEB investments and NMP2 Trust

PSEG Long Island Operating Costs – December 2017

(\$ in thousands)

	Current Month				Year to Date				Annual*
	Actual	Budget	\$ Var.	% Var.	Actual	Budget	\$ Var.	% Var.	Budget
PSEG Long Island Operating Expenses									
Transmission & Distribution	\$22,168	\$15,908	(\$6,260)	-39.4%	\$210,510	\$199,556	(\$10,954)	-5.5%	\$199,556
Customer Services	10,478	9,733	(745)	-7.7%	118,845	118,147	(698)	-0.6%	118,147
Business Services	15,839	13,221	(2,618)	-19.8%	131,949	146,308	14,359	9.8%	146,308
Power Markets	677	1,297	620	47.8%	8,671	14,054	5,383	38.3%	14,054
Energy Efficiency & Renewable Energy	5,792	7,531	1,740	23.1%	82,652	88,918	6,266	7.0%	88,917
Total PSEG Long Island Operating Expenses	\$54,954	\$47,691	(\$7,263)	-15.2%	\$552,627	\$566,982	\$14,355	2.5%	\$566,982

Note: Variance - favorable/(unfavorable)

*Annual budget reflects budget amendment of \$10.2M and FIT Evaluation Costs (DER) – annual budget of \$2.6M has been distributed to appropriate lines of business.

- Transmission & Distribution, year to date, is over budget by \$11M primarily due to an increase in tree trimming and circuit improvement costs targeted to improve reliability
- Business Services, year to date, is under budget by \$14.4M due to lower legal counsel, shared facilities expenses and outside services spend
- Power Markets, year to date, is under budget by \$5.4M due to the deferral of various projects (Peaking, Renewable and Market Transition Study)
- Energy Efficiency & Renewable Energy, year to date, is under budget by \$6.3M primarily due to lower rebates than planned for Home Performance with the Energy Star Program

PSEG Long Island Managed Costs – December 2017

(\$ in thousands)

	Current Month				Year to Date				Annual Budget
	Actual	Budget	\$ Var.	% Var.	Actual	Budget	\$ Var.	% Var.	
<u>PSEG Long Island Managed Expenses</u>									
Uncollectible Accounts	\$722	\$1,787	\$1,065	59.6%	\$18,960	\$25,647	\$6,688	26.1%	\$25,647
Storm Restoration	(9,996)	2,725	12,721	466.9%	66,574	34,077	(32,497)	-95.4%	34,077
NYS Conservation Assessment & ORPS	891	590	(301)	-51.1%	11,012	8,880	(2,132)	-24.0%	8,880
Miscellaneous	(236)	370	606	163.8%	2,861	4,436	1,575	35.5%	4,436
Subtotal PSEG Long Island Managed Expenses	(\$8,619)	\$5,471	\$14,089	257.5%	\$99,408	\$73,040	(\$26,368)	-36.1%	\$73,040
Utility Depreciation	14,665	14,031	(634)	-4.5%	165,884	167,634	1,750	1.0%	167,634
PILOTS - Revenue-Based Taxes	2,201	2,423	222	9.1%	31,764	32,482	718	2.2%	32,482
PILOTS - Property-Based Taxes	22,646	24,102	1,457	6.0%	282,833	285,772	2,939	1.0%	285,772
Total PSEG Long Island Managed Expenses	\$30,893	\$46,027	\$15,134	32.9%	\$579,888	\$558,929	(\$20,960)	-3.7%	\$558,928
Other Income and Deductions	\$2,249	\$2,185	\$64	2.9%	\$27,784	\$26,756	\$1,028	3.8%	\$26,755

Note: Variance - favorable/(unfavorable)

- Uncollectible Accounts, year to date, is under budget by \$6.7M, due to a decrease in the required accounts receivable reserve
- Storm Restoration, year to date, is over budget by \$32.5M, due to a higher number of storms than planned and higher average costs per storm; three of the twelve storms incurred required mutual aid assistance
- Miscellaneous, year to date, is under budget by \$1.6M due to lower ARO NMP2 accretion

Revenue Variance Analysis – December 2017

(\$ in thousands)	Current Month				Year to Date				Annual Budget
	Actual	Budget	\$ Var.	% Var.	Actual	Budget	\$ Var.	% Var.	
Total Revenue	\$246,936	\$266,640	(\$19,704)	-7.4%	\$3,481,613	\$3,586,948	(\$105,335)	-2.9%	\$3,586,948
Power Supply Charge	146,576	156,930	10,354	6.6%	1,842,587	1,992,875	150,288	7.5%	1,992,875
Revenue Net of Power Supply Costs	\$100,360	\$109,710	(\$9,350)	-8.5%	\$1,639,026	\$1,594,073	\$44,953	2.8%	\$1,594,073
Sales of Electricity (MWh)									
Residential	727,617	728,466	(848)	-0.1%	9,088,624	9,237,712	(149,088)	-1.6%	9,237,712
Commercial	735,334	770,206	(34,872)	-4.5%	9,401,246	9,728,068	(326,822)	-3.4%	9,728,068
Public Authorities/Street Lighting	47,443	48,914	(1,472)	-3.0%	557,344	555,815	1,528	0.3%	555,815
Total Sales of Electricity (MWh)	1,510,394	1,547,586	(37,192)	-2.4%	19,047,214	19,521,596	(474,382)	-2.4%	19,521,596

Note: Variance - favorable/(unfavorable)

- Total Revenue, net of Power Supply Costs, year to date, is \$44.9M higher than budget due to the regulatory deferral mechanism primarily related to the Delivery Service Adjustment (DSA) for storms and debt service
- Sales of electricity were lower than budget, year to date, by 474 GWh or -2.4%
- Factors contributing to lower sales are:
 - a) Weather: Cooling Degree Days (CDD) during the summer peak months (May-September) were lower than anticipated by approximately 32 CDDs. Heating Degree Days (HDD) during the winter months (January - April & October - December) were lower than anticipated by approximately 312 HDDs. Both variances create a negative impact on sales from budget. Weather assumptions utilized in the budget process are based on a thirty year average.
 - b) Lower than expected load growth
 - c) Larger penetration of LED lighting, energy efficient products and solar installations
 - d) Economic factors



PSEG Long Island Capital Expenditures – December 2017

(\$ in thousands)

	Year to Date				Annual Budget
	Actual	Budget	\$ Var.	% Var.	
Transmission and Distribution					
Regulatory Driven	\$3,016	\$12,884	\$9,868	76.6%	\$12,884
Load Growth	169,382	162,822	(6,560)	-4.0%	162,548
Reliability	213,762	188,909	(24,853)	-13.2%	189,183
Economic, Salvage, Tools, Equipment & Other	26,884	31,156	4,272	13.7%	31,156
Total Transmission and Distribution Projects	\$413,044	\$395,771	(\$17,273)	-4.4%	\$395,771
Other PSEG Long Island Capital Expenditures					
Information Technology Projects	22,319	38,180	15,861	41.5%	38,180
Customer Operations	16,405	11,197	(5,208)	-46.5%	11,197
Other General Plant Projects	2,635	4,006	1,370	34.2%	4,006
Fleet	20,137	27,899	7,762	27.8%	27,899
Management Fee	9,591	12,779	3,188	24.9%	12,779
Total PSEG Long Island Capital Expenditures Excluding FEMA	\$484,131	\$489,832	\$5,701	1.2%	\$489,832
FEMA	182,996	188,754	5,758	3.1%	188,754
Total PSEG Long Island Capital Expenditures	\$667,127	\$678,586	\$11,459	1.7%	\$678,586

Note: Variance - favorable/(unfavorable)

- Transmission and Distribution is over budget, year to date, by \$17.3M due to an increase of \$24.9M in reliability projects and an increase of \$6.6M in load growth projects related to New Business offset by a decrease of \$9.9M in regulatory driven projects and \$4.3M in equipment purchases
- IT is under budget by \$15.9M due to the deferral of several projects, Customer Operations is over budget by \$5.2M due to additional AMI work, and Fleet is under budget by \$7.8M due to the timing of purchasing new vehicles

PSEG Long Island Major Capital Expenditures Over \$25M (Total Project Cost) – December 2017



Description	Original Total Project Cost (\$M)	Total Project Actuals Through 12/31/17 (\$M)	Current Working Estimate (\$M)	Current Estimated Completion Date
Shelter Island Replace Underground Failed Cable	\$29.5	\$7.7	\$26.1	Jun-18
Southampton to Canal: Transmission	\$56.2	\$0.4	\$52.2	Jun-19
Two Way Radio System Replacement	\$50.0	\$12.7	\$42.1	Dec-19
Berry St.: New substation	\$25.4	\$27.5	\$36.2	Jun-20
Hempstead: New substation	\$49.8	\$7.9	\$33.2	Jun-20
Ruland Rd to Plainview: Transmission	\$26.8	\$2.9	\$46.8	Jun-20
East Garden City to Valley Stream: Transmission	\$190.6	\$2.5	\$175.9	Dec-20
Kings Highway: New substation	\$35.5	\$7.8	\$54.7	Dec-19
Bridgehampton to Buell: Transmission	\$49.6	\$0.3	\$46.1	Jun-21
Riverhead to Canal: Transmission	\$191.5	\$0.0	\$191.5	Jun-21
Lindbergh (Nassau Hub): New substation	\$57.0	\$0.1	\$51.4	Jun-22
Substation Security Expansion Project	\$57.6	\$8.7	\$52.9	Dec-23
Syosset to Shore Rd.: Transmission	\$254.9	\$0.0	\$254.9	Jun-24
Sagtikos: New substation	\$64.5	\$0.0	\$60.2	Jun-25
Wainscott to Canal: Transmission	\$413.7	\$0.0	\$413.7	Jun-25
Total	\$1,552.6	\$78.6	\$1,537.9	

PSEG Long Island Capital Expenditures 2017 Project Carry Over Cost into 2018

2017 Carry Over Costs into 2018
(Thousands of Dollars)

	Location	Investment Description	2017 Carry Over Costs
<u>Transmission and Distribution</u>			
Reliability Projects			
	Kings Highway	Establish new 138/13 kV substation	3,000
Total Transmission and Distribution			\$ 3,000
 <u>Business Services</u>			
Facilities			
	Hicksville	Operations 2 Renovation	1,000
Total Business Services			\$ 1,000
Total 2017 Carry Over into 2018			\$ 4,000

Hedge Program Summary Report December 2017

Hedge Program Summary Report – December 2017



Ref.	Hedge Position	2018	2019	2020	2021
1	Hedge Ratio %: Swaps, Options + FP Physical Contracts	69%	49%	42%	26%
2	Change from last Month, %	10%	0%	0%	0%
Mark-to-Market (\$ millions)				Collateral, Received / (Posted)	
Realized		Unrealized		All Forward Periods	
	Dec-17	YTD	All Forward Periods, Unrealized*		As of 12/31/2017
3	(\$1.81)	(\$50.8)	(\$5.2)		(\$19.5)
					As of 11/30/2017
					(\$12.6)

*Includes the Net Present Value ("NPV") of all forward MtM and Premium values

- NYMEX Natural Gas prices remained volatile during December reacting to large swings in weather. Prompt month NYMEX Natural Gas contract hit **an intra-day high of \$3.127/dthm on December 4th** as weather models began to indicate considerable below-average temperatures heading towards the NE. **The colder weather failed to materialize and NYMEX Natural Gas prices declined to a low of \$2.568/dthm by December 21st.** However, even as frigid temperatures took over the Mid-West and NE regions the last week of December with daily high temperatures ranging between 18^o-28^o on LI, NYMEX Natural Gas prices were unable to get back above the \$3.00/dthm level.
- As NYMEX prices declined in the middle of the month, PSEG ER&T seized the opportunity to place several larger “value-trigger” hedges and, conversely, as prices moved higher, they placed smaller required time-trigger hedges for natural gas, gas basis, power and power basis. The most notable change in the **Hedge Ratios on Line Ref. #1** occurred for **2018 which increased by 10% to 69%**, while the smaller time-trigger hedges in 2019 and 2020 did not have a material ratio impact.
- December 2017 realized hedge losses totaled \$1.81M** and the **unrealized MtM value of LIPA’s portfolio at the end of December 2017 increased by \$8.5M to (\$5.2M)** versus November 2017 values of (\$13.7M); while **LIPA collateral posting increased \$6.9M to \$19.5M** as noted on Line Ref. #3.

Hedge Program Summary Report – December 2017



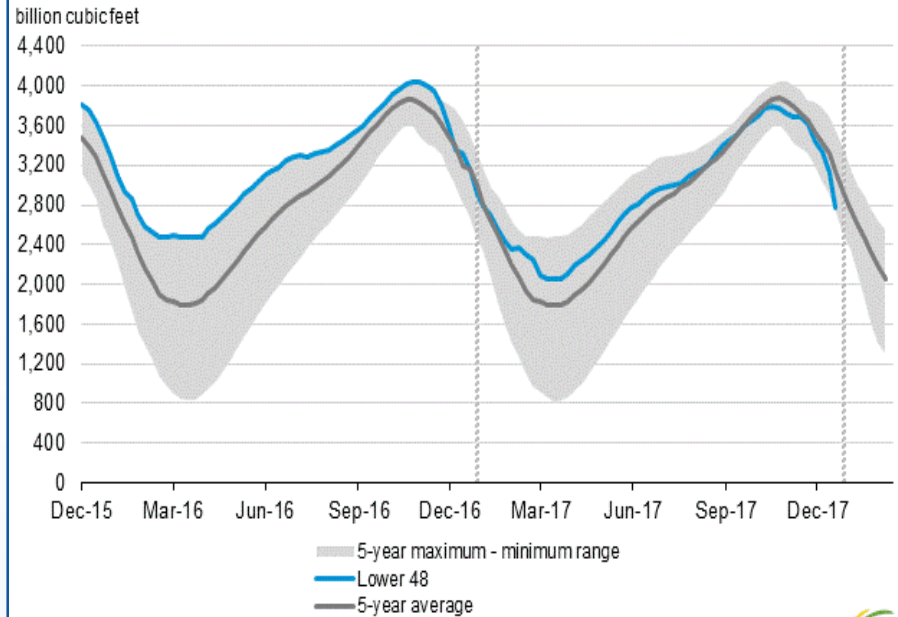
- Calendar **2018** natural gas which includes Feb-Dec (red line in the graph to the left) saw a **3.9% decrease month over month**. NYMEX natural gas prices for **2019 through 2021 were down by approximately 1.0%**, when compared to prices observed at the end of November.
- Price declines were due in part to **limited gas market liquidity** during the last week of December and the fact that traders' **attention focused on crude oil prices, that pushed above \$60/bbl**, after a Libyan pipeline explosion disrupted crude exports and earlier in the year OPEC production cuts began to rebalance the global oil market and inventories.

- In December **cash gas prices at Transco Zone 6 NY were in a range of \$3.378/dthm to \$10.433/dthm**. Higher prices were driven by an increase in natural gas demand for residential heating as temperatures fell well below freezing with **daily “high” temperatures ranging between 18°-28° on LI going into the New Years weekend**.
- For most of December, natural gas remained the lower cost fuel to consume, with LI generation consuming 80% natural gas and 20% liquid fuels.
- Based on the natural gas forward curve shown above, compared to the projected cost of residual fuel oil, natural gas should remain the economic fuel of choice going forward, with the exception of January 2018.

Hedge Program Summary Report – December 2017



Working gas in underground storage compared with the 5-year maximum and minimum



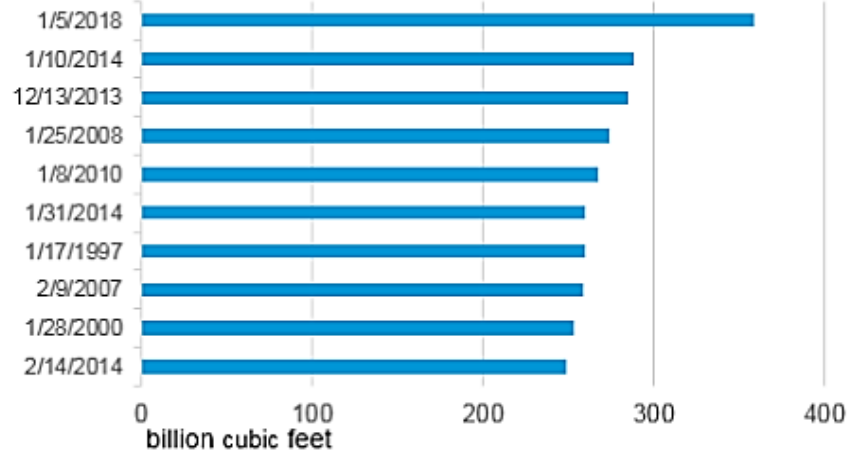
Source: U.S. Energy Information Administration



Ten Largest weekly storage withdrawals (1994-2018)

billion cubic feet (Bcf)

Report week



Source: U.S. Energy Information Administration, *Weekly Natural Gas Storage Report*

- Freezing temperatures which blanketed the lower 48 states during the last week of December and early in January caused a **record withdrawal out of gas storage**. According to the EIA natural gas in storage saw a **359 Bcf withdrawal** for the week ending January 5th **topping the previous record withdrawal of 288 Bcf set four years ago** during the Polar Vortex of 2014 **by 25%**.
- The cold weather also caused freeze-offs in several gas producing regions across the U.S. Pipeline imports from Canada and LNG imports increased during this period partially offsetting some of the production declines. Withdrawals from natural gas storage facilities played a key role during the cold snap to meet higher demand.
- The natural gas rig count dropped from a **high of 192 rigs in July** to **182** in recent Baker-Hughes reports.