

Long Island Power Authority and Subsidiaries

Approved Operating Budget-2005

Approved Capital Budgets-2005 and 2006

Five Year Financial Projections-2005-2009

George E. Pataki
Governor



Richard M. Kessel
Chairman

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Executive Summary

The revenue and expenditure forecasts contained herein represent the approved operating budget of the Long Island Power Authority and its subsidiaries (LIPA) for the year ending December 31, 2005 and the approved capital budgets for the years ending December 31, 2005 and 2006. Also included are projected statements of revenues and expenses and sources and uses of funds for the five-year period 2005-2009.

The revenue budget incorporates actual and projected results for 2004, as normalized for the effects of weather, and forecasts of electric load additions and the expected effects of the Long Island Choice program and LIPA's demand side management/energy conservation initiatives. The revenue budget also reflects the current recovery of a portion of excess fuel and purchased power costs estimated to be incurred in 2005 as well as a portion of 2003 excess costs deferred for future recovery in accordance with LIPA's tariff. Expenditure forecasts contained in the budget incorporate those operation and maintenance programs, including initiatives planned for 2005, that are designed to meet system growth requirements and to further improve the levels of service provided to LIPA's customers. Highlights of the sales and revenue forecasts and approved operating and capital expenditure plans follow.

Electric sales for 2005 are forecasted to increase to 19,733,733 MWH, or 1.5% over projected sales for 2004, as normalized for the effects of weather. Sales to residential customers are estimated to grow by 1.6% and sales to commercial and industrial customers are forecasted to grow by 1.5% compared with the normalized levels projected for 2004. Finally, other electric sales, mostly consisting of sales to other public authorities, are estimated to increase by 1.1% as compared with the projection for 2004.

Revenues for 2005 are forecasted to increase to \$3.028 billion, or 6.4% over the projected level for 2004. The increase is reflective of adjustments made during 2004 to LIPA's Fuel and Purchased Power Cost Adjustment (FPPCA) to allow LIPA to recover a portion of the significantly higher fuel and purchased power costs that it continues to experience. In spite of the

sharp increase, LIPA will continue to recover the portion of its excess fuel and purchased power costs needed to meet its earnings surplus target of approximately \$20 million. Based on this budget, LIPA plans no change in the FPPCA at this time.

Sales revenues are primarily from retail sales of electricity to the residential, commercial and industrial markets. Also included are revenues from electric sales to public authorities and for street lighting and revenues from non-electric sources, such as pole attachments, late payment charges and other miscellaneous service fees. Budgeted revenues also include the recovery of excess fuel and purchased power costs deferred during 2003, which are being recovered from customers over a ten-year period. Finally, budgeted revenues reflect \$34.6 million of recoveries from Suffolk County customers as permitted under the Shoreham Property Tax Settlement and the effect of lower New York State gross receipts taxes, the product of legislation advocated and approved by Governor Pataki.

Fuel and Purchased Power costs for 2005, before the impact of prior year deferrals, are budgeted at \$1.537 billion or 11.7% over the comparable 2004 projected amount. The budget is based on forecasted natural gas, fuel oil, nuclear fuel and purchased power prices, net of the impact of projected financial settlements derived under LIPA's fuel hedging program. Also included are costs related to: generation capacity added by contract since 2002; electric power wheeling; non-owned transmission cable capacity payments and operations and maintenance activities; LIPA's share of New York ISO operating and administrative costs; services received under the Energy Management Agreement with KeySpan Corporation (KeySpan); fuel hedging premiums; commissions paid on off-system sales; and a non-cash charge to match the revenues, before associated taxes, related to the recovery of 2003's deferred excess fuel and purchased power costs, which are being recovered from customers over a ten-year period (see Revenues, above). Partially offsetting these costs are budgeted revenues from the sale of ancillary services, such as providing operating reserves, regulation and frequency response services and the sale of transmission congestion credits.

Operations and Maintenance expenses for 2005 are budgeted at \$703 million, an increase of 1.2% as compared with the projected level for 2004. O&M expenses are comprised primarily of costs associated with the transmission and distribution system management and power supply agreements with KeySpan. In addition to the costs associated with operating LIPA's T&D system and providing generated and purchased power, these agreements include management fees and performance incentives related to system reliability, customer service, cost control and worker safety. Other major costs included in Operations and Maintenance expenses are those related to: LIPA's Clean Energy Program; the operation and maintenance activities associated with the Nine Mile Point 2 nuclear power generating plant; research and development activities; reserve accruals for potential losses related to bad debts and storm damage; and retail programs and market research activities.

General and Administrative expenses for 2005 are budgeted at \$44 million. This represents an increase of 7.1% as compared with the projected level for 2004. General and Administrative costs consist primarily of outside engineering, financial, legal and other professional services and salaries, benefits and other LIPA employee-related costs. Also included are expenses related to the cost of public liability damage claims, office rent, communications, and other general and administrative activities.

Depreciation and Amortization in 2005 is budgeted to increase to \$233.7 million, or 2.2% versus the projected 2004 level. This category of expense is comprised of depreciation of LIPA-owned electric assets and the amortization of the acquisition adjustment related to the takeover of certain assets of the Long Island Lighting Company in 1998. In accordance with Financial Accounting Standards Board pronouncement #143, contributions to the Nine Mile Point 2 nuclear decommissioning fund are now being accounted for under the category “Accretion of Asset Retirement Obligation,” an Operation and Maintenance expense.

Revenue Taxes for 2005 are budgeted at \$51.4 million. This level reflects a decrease of 11.7% as compared with the level projected for the prior year. These taxes are based on gross revenues received from the sale of electricity and tax assessments on other sources of revenues, including the recovery of excess fuel and purchased power costs incurred in prior years. The expense included in the budget is net of tax credits associated with sales made under the Power-for-Jobs (PFJ) program. The year-to-year decrease reflects the lower gross receipts tax rates associated with legislation advocated and approved by Governor Pataki in 2000.

Payments in-lieu-of Taxes, or PILOTs, for 2005 are budgeted at \$164.4 million, an increase 5.7% as compared with the projected level for 2004. The expense levels reflect forecasts of real property-based taxes presently incurred by LIPA from various jurisdictions, including New York City (the Rockaways), Nassau and Suffolk Counties, towns, villages, school districts and special purpose districts. They do not reflect the real property-based taxes being passed through to LIPA pursuant to its purchase power agreements for merchant-owned generation. Real property taxes associated with the generating assets under contract through the Power Supply Agreement (\$137.1 million) are included in Operations and Maintenance expense.

Other Income and Deductions for 2005 are budgeted at \$52.2 million. This represents an increase of 10.3% as compared with the projected 2004 level. This category consists of non-cash carrying charges accrued on deferred balances related to the Shoreham property tax settlement, earnings on LIPA’s short-term cash investments and Nine Mile Point 2 decommissioning fund balances, net proceeds from the sales of emissions allowances and miscellaneous sources, such as jobbing activities. The higher 2005 level is primarily the result of increased earnings on LIPA’s short-term investments expected as a result of higher interest rates and cash balances.

Interest Expense for 2005 is budgeted at \$326.2 million, a 2.5% increase as compared with the level projected for 2004. The budgeted expense is based on forecasted levels of outstanding debt, associated fees and the amortization of debt-related deferred charges and credits. The higher expense level reflects the higher interest rates projected for 2005. The effects of these factors have been partially offset by savings LIPA has been able to achieve by restructuring its debt and the expanded use of debt derivative instruments. The average level of debt outstanding during 2005 is forecasted at \$7.031 billion. The effective interest rate is 4.405%. This debt level and rate compare with a projected debt level of \$7.049 billion and an effective interest rate of 4.239% for 2004.

Excess of Revenues Over Expenses: While, as previously noted, LIPA plans no change in 2005 to its Fuel and Purchased Power Cost Adjustment at this time, it will monitor its revenue and expense projections during the year and adjust the FPPCA, as appropriate, to achieve an earnings surplus level consistent with its target.

Cash Flow from Operations for 2005 is budgeted at \$316.1 million and reflects cash generated from LIPA's budgeted operating results.

Capital expenditures, comprised primarily of construction and removal projects, are budgeted at \$277.4 million for 2005. This represents an increase of \$42.6 million, or 18.2% versus the expenditure level approved for 2004. The capital expenditure budget for 2006 is \$315.5 million, an increase of \$38.1 million or 13.7% as compared with the expenditure level approved for 2005. The increases reflect the funding requirements for new power supply projects planned for Long Island for the budget years and beyond. Transmission and distribution system projects, which total \$256.1 million for 2005 and \$302 million in 2006, net of cost-sharing and other contributions, include the construction of new supply transmission interconnections and related substation and transmission system upgrades of \$57.8 million and \$69.5 million in 2005 and 2006, respectively. The remaining T&D system projects are designed to maintain system reliability and to meet the requirements of normal load growth. Capital expenditures, including the cost of capitalized nuclear fuel, related to LIPA's 18% share of the upstate Nine Mile Point 2 nuclear power plant are budgeted at \$16.6 million in 2005 and \$8.6 million in 2006, reflecting the timing of when nuclear fuel reloadings are scheduled to take place. These expenditure levels represent decreases of \$.9 million in 2005 and \$8 million in 2006 as compared to the level for the prior year. The remainder of the capital budget includes provisions for LIPA information systems, furniture, computer and other equipment and capitalized interest.

The spending programs that comprise these budgets underscore LIPA's continued commitment to the provision of safe, reliable and affordable electric service to the residents and businesses of Long Island and the Rockaway's. They incorporate



the operating and capital outlays necessary to provide additional and reliable sources of electricity, while reflecting LIPA's commitment to containing or even reducing its controllable expenditure levels. For example, LIPA's non-fuel operating costs for 2005 are only 1.5% higher than the projected 2004 level, while LIPA continues to face increases in the costs of services and materials related to the operation of the electric system. At the same time, LIPA's 2005 budget for conservation, new technologies and other clean energy initiatives is increasing by \$8 million, or 22% as compared with the budgeted expenditure level for 2004. This clearly demonstrates LIPA's strong belief that conservation and environmentally-friendly technologies must have a significant role in meeting the growing energy needs of its customers.

LIPA looks forward to meeting the challenges that the coming years will no doubt present. We are presently reviewing organizational alternatives and other strategies that will allow LIPA to best serve its customers in a future of continued volatility of energy prices and supplies. Whatever the future brings, LIPA's customers should feel confident that we will continue to work hard in assuring that our customers receive reliable service at the lowest possible cost.

Five-Year Projections of Revenues and Expenses and Sources and Uses of Cash focus on the longer-term. These projections indicate that, assuming base rates remain unchanged in the five-year period, LIPA's FPPCA surcharge will require modest changes in the 2006-2009 timeframe, reflecting the growing demand for energy. The projected changes in the FPPCA surcharge in 2006-2009 are +1.5%, -2.1%, -1.2% and -2.0%, respectively. Actual results may differ from these projections.

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Statements of Revenues and Expenses

(Thousands of Dollars)

	2004		Approved 2005	% Chg. From Projected 2004	Ref.
	Approved	Projected (1)			
Revenues	\$ 2,710,006	\$ 2,845,903	\$ 3,028,136	6.40	A-2
Expenses					
Fuel and Purchased Power Costs	1,287,430	1,376,718	1,537,435	11.67	A-5
Operations and Maintenance Expenses	660,442	694,922	703,038	1.17	A-6
General and Administrative Expenses	40,541	41,057	43,966	7.09	A-7
Depreciation and Amortization	231,875	228,731	233,692	2.17	A-8
Revenue Taxes	54,110	58,257	51,433	(11.71)	A-9
Payments in Lieu of Taxes (PILOTS)	158,290	155,444	164,354	5.73	A-9
Total Operating Expenses	2,432,688	2,555,129	2,733,918	7.00	
Operating Income	277,318	290,774	294,218	1.18	
Other Income and Deductions	41,139	47,316	52,184	10.29	A-10
Interest Expense	298,457	318,090	326,154	2.54	A-11
Excess of Revenues Over Expenses	\$ 20,000	\$ 20,000	\$ 20,248	1.24	
Debt Service Coverage Ratios (x):					
Senior Lien Debt	2.23	2.06	2.24	0.18	
Senior Lien and Subordinated Debt	1.94	1.81	2.08	0.27	
Total Debt	1.91	1.78	2.05	0.27	

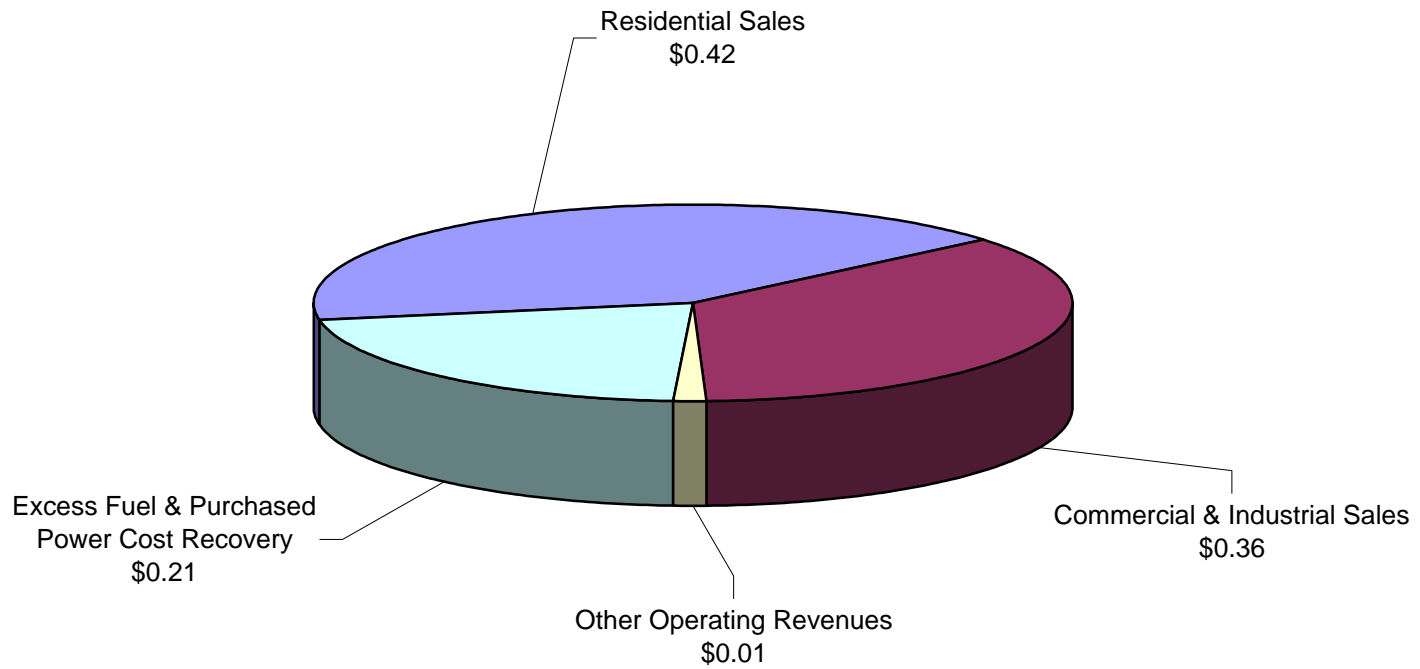
Note: (1) Projection as of August 31, 2004.

Sales and Revenues

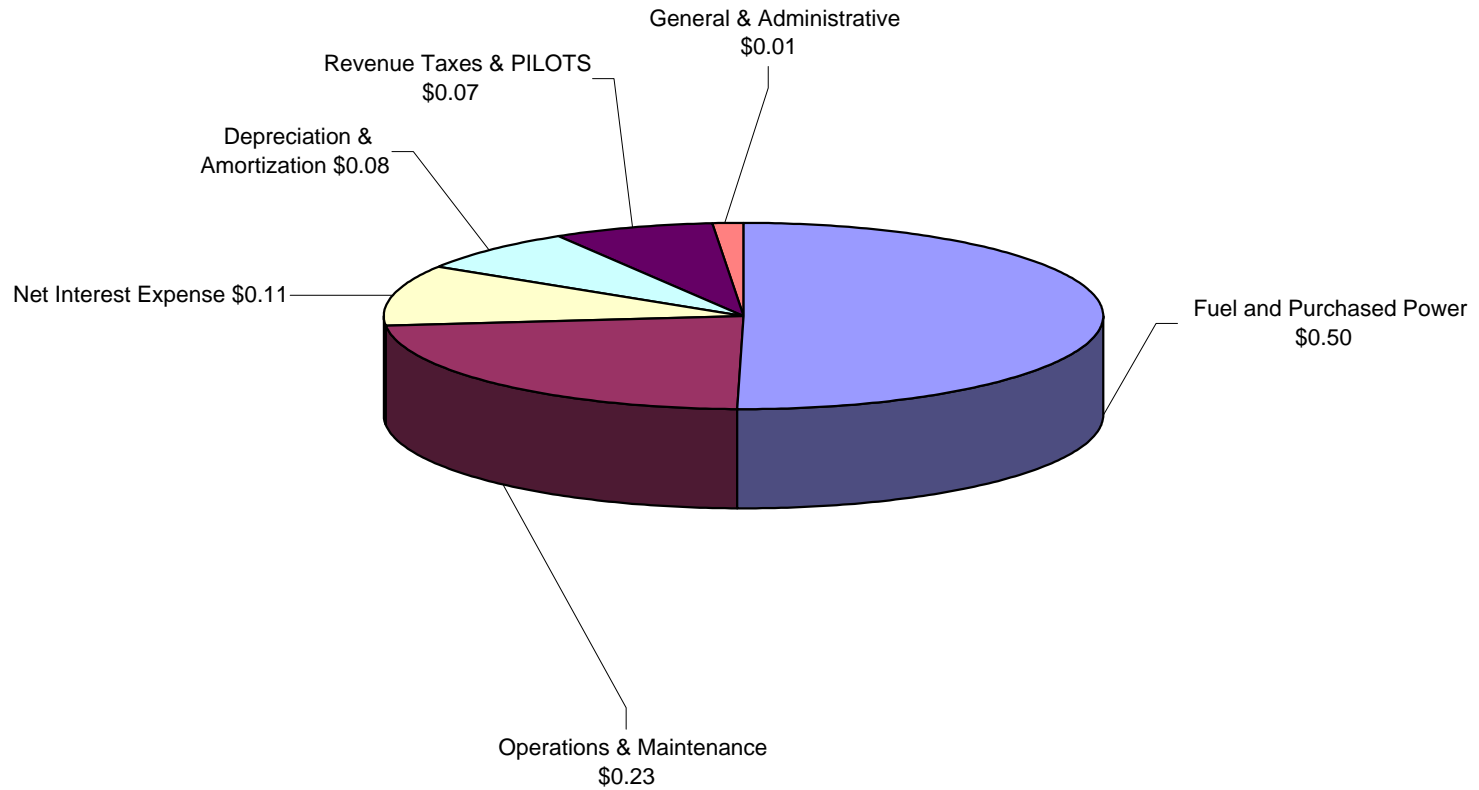
	2004		Approved 2005	% Chg. From Projected 2004
	Approved	Projected (1)		
Sales of Electricity (MWh)				
Residential Sales	9,078,491	9,170,629	9,318,776	1.62
Commercial & Industrial Sales	9,803,847	9,824,387	9,971,730	1.50
Other Sales to Public Authorities/Street Lighting	425,327	438,533	443,227	1.07
Total Sales of Electricity	19,307,665	19,433,549	19,733,733	1.54
Revenues (\$ thousands)				
Residential Sales	\$ 1,242,874	\$ 1,260,165	\$ 1,266,937	0.54
Commercial & Industrial Sales	1,122,372	1,113,415	1,085,779	(2.48)
Other Sales to Public Authorities/Street Lighting	39,327	40,660	40,581	(0.19)
Sales for Resale	2,610	1,895	725	(61.74)
Recovery of Deferred Shoreham Property Settlement Costs	(34,164)	(33,494)	(34,560)	3.18
Recovery of Deferred Fuel and Purchased Power Costs	37,493	37,032	36,911	(0.33)
Wheeling Revenues	6,606	7,187	7,360	2.41
Pole Attachment Fees	2,550	3,569	3,463	(2.97)
Late Payment and Dishonored Check Charges	3,675	3,752	4,785	27.53
Service Activation Charges	3,064	238	941	295.38
Miscellaneous Revenues	1,291	462	1,706	269.26
Current Recovery of Excess Fuel and Purchased Power Costs	282,308	411,021	613,508	49.26
Total Revenues	\$ 2,710,006	\$ 2,845,902	\$ 3,028,136	6.40

Note: (1) Projection as of August 31, 2004.

Source of 2005 Revenue Dollar



Use of 2005 Revenue Dollar



Fuel and Purchased Power Costs

(Thousands of Dollars)

	2004		Approved 2005	% Chg. From Projected 2004
	<u>Approved</u>	<u>Projected (1)</u>		
Fuel Oil	\$ 366,801	\$ 468,092	\$ 511,128	9.19
Natural Gas	248,129	247,701	318,618	28.63
Purchased Power	296,459	401,859	359,981	(10.42)
Wheeling and Capacity Charges (excl. Nine Mile)	206,823	189,076	229,616	21.44
Nine Mile Nuclear Fuel (incl. Disposal and Decomm. Costs)	8,452	8,141	9,326	14.56
Nine Mile Wheeling Charges	7,545	7,415	7,823	5.50
Y-49 and Y-50 Cable Operating Costs	24,140	16,673	25,308	51.79
Fuel Hedging Program Costs	17,296	4,246	5,624	32.45
Fuel Hedging Program Financial Settlements	(3,074)	(28,132)	(61,682)	119.26
Emissions Allowances Purchases	4,562	3,851	660	(82.86)
ESCO Bill Credit Adjustment Payments	4,438	6,263	29,362	368.82
Ancillary Service Revenues-Net	(2,682)	(607)	(2,645)	335.75
Energy Management Agreement	7,766	9,166	8,040	(12.28)
ISO-Related Service Costs	47,150	43,492	45,100	3.70
NYPA Transmission Adjustment Charge	8,600	8,444	8,777	3.94
Cost of Off-System Sales	6,315	3,271	5,200	58.97
Barge Lease and Transportation Costs	200	200	200	-
Clean Energy Peak Load Reduction Rebates	1,610	347	500	44.09
Other-One-Time Adjustments	-	(49,288)	-	(100.00)
	1,250,530	1,340,210	1,500,935	11.99
Recovery of Deferred Fuel and Purchased Power Costs	36,900	36,508	36,500	(0.02)
Total Fuel and Purchased Power Costs	\$ 1,287,430	\$ 1,376,718	\$ 1,537,435	11.67

Note: (1) Projection as of August 31, 2004.

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Operations and Maintenance Expenses

(Thousands of Dollars)

	<u>Approved 2004</u>	<u>Approved 2005</u>	<u>% Chg.</u>	<u>Ref.</u>
KeySpan Management Services Agreement (1)	\$ 242,572	\$ 258,200	6.44	A-6.1
KeySpan Power Supply Agreement	317,865	335,752	5.63	A-6.1
Nine Mile Point 2 O&M	29,398	26,881	(8.56)	A-6.2
Research & Development	2,586	3,162	22.27	A-6.3
Clean Energy Program	36,171	44,326	22.55	A-6.4
Storm Damage Reserve	5,000	5,000	-	(2)
Uncollectible Accounts	12,130	12,496	3.02	(2)
Assessments	2,575	2,703	4.97	(2)
Long Island Choice Program	50	150	200.00	(2)
Customer Service Telephone Response Systems	187	178	(4.81)	(2)
Customer Care Services	300	200	(33.33)	(2)
Economic Development	745	195	(73.83)	(2)
Retail Programs and Market Research Activities	1,430	1,005	(29.72)	(2)
Load Research/Rates Tariffs	366	266	(27.32)	(2)
Power Quality Program	175	100	(42.86)	(2)
Postage-Paid Remittance Envelopes	2,705	2,258	(16.52)	(2)
O & M-Y49 Cable	120	240	100.00	(2)
O&M-Y50 Cable	1,600	500	(68.75)	(2)
Accretion of Asset Retirement Obligation	3,867	4,099	6.00	(2)
Miscellaneous	600	5,327	787.83	(2)
Total Operations and Maintenance Expenses	\$ 660,442	\$ 703,038	6.45	

Notes: (1) Excludes expenditures related to the R&D and Clean Energy programs.

(2) Not detailed on separate schedule.

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KeySpan Contracts-Operating Expenses

(Thousands of Dollars)

	Approved <u>2004</u>	Approved <u>2005</u>	<u>% Chg.</u>
Management Services Agreement (1)			
T&D System Operating Costs	\$ 272,385	290,677	6.72
Management Fee	10,000	10,000	-
Synergy Savings	(47,213)	(49,877)	5.64
Non-Cost Performance Incentives	7,400	7,400	-
Total Management Services Agreement	\$ 242,572	\$ 258,200	6.44
Power Supply Agreement (1)			
Operation and Maintenance Expenses	\$ 316,219	\$ 333,081	5.33
Incremental Synergy Savings	(2,354)	(1,329)	(43.54)
Non-Cost Performance Incentives	4,000	4,000	-
Total Power Supply Agreement	\$ 317,865	\$ 335,752	5.63
Energy Management Agreement (2)			
Operating Expenses	\$ 3,150	\$ 3,282	4.19
Management Fees	1,500	1,500	-
Synergy Savings	(1,884)	(1,742)	(7.54)
Non-Cost Performance Incentives	5,000	5,000	-
Total Energy Management Agreement	\$ 7,766	\$ 8,040	3.53
Total Contracts with KeySpan	\$ 568,203	\$ 601,992	5.95

Notes: (1) Expenses incurred under the Management Services and Power Supply Agreements are included as Operations and Maintenance Expenses. See schedule A-6

(2) Expenses incurred under the Energy Management Agreement are included as Fuel and Purchased Power costs. See schedule A-5.



Nine Mile Point 2 Operations and Maintenance Expenses

(Thousands of Dollars)

	Approved <u>2004</u>	Approved <u>2005</u>	<u>% Chg.</u>
Refueling Outage Amortization	\$ 3,879	\$ 5,559	43.31
Non-Outage Operating Expenses	24,803	20,725	(16.44)
Insurance	89	99	11.24
Nine Mile Oversight	627	498	(20.57)
Total Nine Mile Point 2 O&M Expenses	\$ 29,398	\$ 26,881	(8.56)

Research & Development Expenses
 (Thousands of Dollars)

	<u>Approved 2004</u>	<u>Approved 2005</u>	<u>% Chg.</u>
T&D and Customer Utilization Projects	\$ 875	\$ 1,400	60.00
NYSERDA	1,600	1,600	-
Clean Energy/Energy Efficiency Projects	3,500	2,490	(28.86)
Base KeySpan Labor Included in MSA Budget	1,111	1,162	4.59
Total Research and Development Budget	7,086	6,652	(6.12)
Less: R&D Projects Included in Clean Energy Program	(4,500)	(3,490)	(22.44)
Total Research & Development Expenses	\$ 2,586	\$ 3,162	22.27

Clean Energy Program Expenses
 (Thousands of Dollars)

	<u>Approved 2004</u>	<u>Approved 2005</u>	<u>% Chg.</u>
Energy Efficiency Programs	\$ 21,723	\$ 28,209	29.86
Peak Load Reduction Program ⁽¹⁾	500	150	(70.00)
Low Income Conservation	2,700	2,400	(11.11)
Research & Development	3,500	2,490	(28.86)
NYSERDA-Clean Energy Research Programs	1,000	1,000	-
Advertising and Promotion	2,500	2,300	(8.00)
Program Administration	1,043	4,422	323.97
Base KeySpan Labor Included in MSA Budget	3,205	3,355	4.68
Total Clean Energy Program Expenses	\$ 36,171	\$ 44,326	22.55

Note: (1) Excludes cost of customer rebates, which are provided for under Fuel and Purchased Power costs.

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General and Administrative Expenses
 (Thousands of Dollars)

	<u>Approved 2004</u>	<u>Approved 2005</u>	<u>% Chg.</u>
Employee Salaries and Benefits	\$ 11,987	\$ 12,174	1.56
Other Employee Expenses	295	154	(47.80)
Professional Services	20,538	24,072	17.21
Office Rent	1,309	1,394	6.49
Telephone	266	213	(19.92)
Office Supplies, Printing, Postage and Messenger	487	404	(17.04)
Meetings, Conferences and Seminars	531	412	(22.41)
Equipment Leases and Maintenance	196	157	(19.90)
Dues/Memberships/Subscriptions	175	228	30.29
Repairs and Maintenance	20	16	(20.00)
Insurance	1,651	1,500	(9.15)
Injuries and Damages Reserve	2,000	2,150	7.50
Communications	535	575	7.48
Board of Trustees and Other Public Meetings	22	30	36.36
Community Relations	109	72	(33.94)
Sponsorships/Special Events	298	288	(3.36)
Investor Relations/Bond Trustee Expense	15	6	(60.00)
Miscellaneous	107	121	13.08
	-		
Total Administrative and General Expenses	\$ 40,541	\$ 43,966	8.45

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Professional Services
 (Thousands of Dollars)

	<u>Approved 2004</u>	<u>Approved 2005</u>	<u>% Chg.</u>
Accounting and Audit Services	\$ 1,600	\$ 1,765	10.31
Forensic Accounting Reviews	1,250	-	(100.00)
Rates and Tariffs	550	550	-
Legal	3,861	6,050	56.70
Communications	348	175	(49.71)
Information Technology	565	756	33.81
Telecommunications	120	120	-
Engineering	8,114	8,383	3.32
Risk Management-Insurance	141	163	15.60
Risk Management-Fuel	600	600	-
Financial Advisor/Cash Management	2,950	4,950	67.80
Human Resources	60	-	(100.00)
Service Improvement	50	-	(100.00)
Long Island Choice	150	15	(90.00)
Storm Review Panel	75	70	(6.67)
Business Continuity	-	75	N/M
Document Imaging	-	150	N/M
Records Management	-	100	N/M
Miscellaneous	104	150	44.23
Total Consulting Expenses	\$ 20,538	\$ 24,072	17.21

N/M=Not meaningful

Notes: (1) Excludes professional services included under the Management Services Agreement budget.

(2) Professional services related to the Clean Energy Program have been included under the Clean Energy Program.



Depreciation and Amortization

(Thousands of Dollars)

	Approved <u>2004</u>	Approved <u>2005</u>	<u>% Chg.</u>
Amortization of Acquisition Adjustment	\$ 112,681	\$ 112,681	-
Depreciation Expense-Plant-in-Service	115,671	121,011	4.62
Depreciation Expense-Decommissioning Fund-Nine Mile Point 2	3,523	-	(100.00)
Total Depreciation and Amortization	\$ 231,875	\$ 233,692	0.78

Taxes and Payments in-lieu-of Taxes

(Thousands of Dollars)

	Approved <u>2004</u>	Approved <u>2005</u>	<u>% Chg.</u>
Revenue Taxes	\$ 54,110	\$ 51,433	(4.95)
Payments in-lieu-of Taxes (PILOTS)			
Long Island and New York City	\$ 145,326	\$ 150,939	3.86
Nine Mile PILOTS	3,780	3,215	(14.95)
Merchant Power Plants	9,184	10,200	11.06
Total PILOTS	\$ 158,290	\$ 164,354	3.83

Other Income and Deductions
 (Thousands of Dollars)

	Approved <u>2004</u>	Approved <u>2005</u>	<u>% Chg.</u>
Short-Term Investment Income	\$ 5,070	\$ 12,854	153.53
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	31,578	32,345	2.43
Sales of Emission Credits	1,005	3,082	206.67
Interest Income on Nuclear Decommissioning Trust Fund	2,521	2,701	7.14
Miscellaneous Income and Deductions	965	1,202	24.61
Total Other Income and Deductions	\$ 41,139	\$ 52,184	26.85

Interest Expense
 (Thousands of Dollars)

	Approved <u>2004</u>	Approved <u>2005</u>	<u>% Chg.</u>
LIPA Interest Expense from Page A-12	\$ 292,758	\$ 309,710	5.79
Other Interest Expense			
NYSERDA	\$ 8,075	\$ 8,075	-
Amortization of Deferred Debt Issue Costs/Discounts/ (Premiums)	(12,158)	(6,182)	(49.15)
Amortization of Deferred Losses (Gains) on Debt Redemptions	4,790	11,268	135.24
Letters of Credit Fees	7,169	7,320	2.11
Broker/Dealer Fees on Auction Rate Bonds	2,534	2,605	2.80
Interest on Customer Security Deposits	1,150	1,200	4.35
Bond Administration Costs and Bank Fees	798	783	(1.88)
Remarketing Fees	789	582	(26.28)
Promissory Note due from KeySpan	(8,075)	\$ (8,075)	-
Carrying Charges on Deferred Credits	5,427	2,768	(49.00)
Total Other Interest Expense	\$ 10,499	\$ 20,344	93.76
Capitalized Interest	4,800	3,900	(18.75)
Total Interest Expense	\$ 298,457	\$ 326,154	9.28

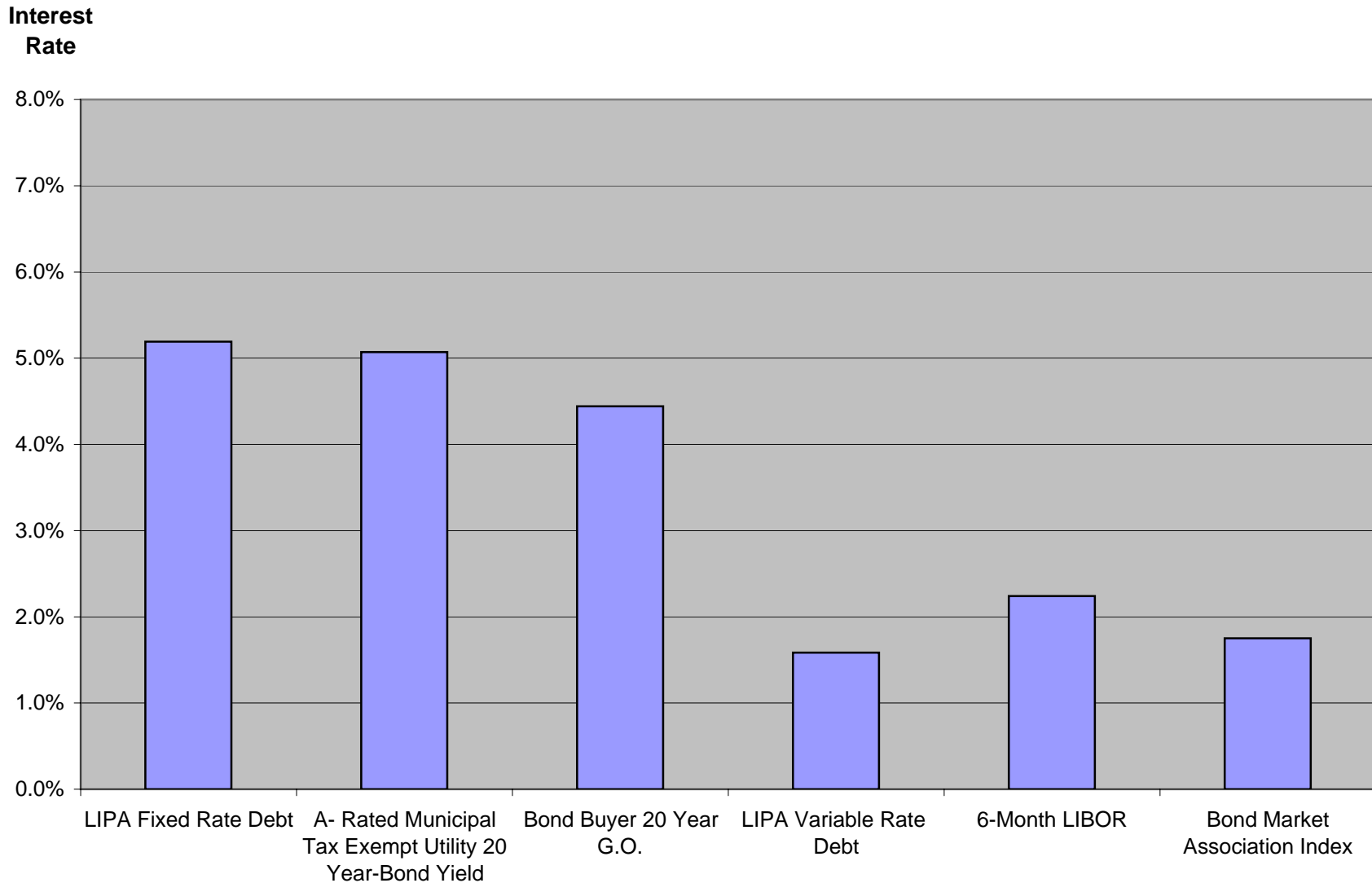
2005 Average Cost of Debt

<u>Series</u>	<u>Type</u>	<u>Maturity</u>	<u>Average Principal Outstanding (SThousands)</u>	<u>Effective Interest Rate</u>	<u>Interest Expense (SThousands)</u>
Senior Lien Debt					
1998 A	Serial Bonds	2005-2016	\$ 733,322	5.270%	38,643
1998 A	Term Bonds	2018-2029	1,263,350	5.235%	66,136
1998 A	Capital Appreciation Bonds (1)	2005-2028	159,435	4.994%	7,962
1998 B	Serial Bonds (2)	2005-2016	654,435	4.423%	28,948
1998 B	Term Bonds (2), (5)	2018	57,145	4.487%	2,564
2000 A	Capital Appreciation Bonds (3)	2005-2028	318,724	5.627%	17,934
2001A	Serial Bonds (2), (5)	2013-2021	21,960	4.636%	1,018
2001 A	Term Bonds (2)	2025-2029	278,040	5.004%	13,913
2001 (B-K) (M-P)	Auction Rate Bonds (4)	2033	700,000	2.109%	14,766
2001 L	Term Bonds (5)	2033	116,000	5.247%	6,087
2003 A	Serial Bonds	2005-2009	75,525	4.947%	3,736
2003 B	Serial Bonds	2005-2014	449,933	5.059%	22,762
2003 C	Serial Bonds (2), (5)	2013-2033	137,860	4.462%	6,151
2003 C	Term Bonds (2), (5)	2033	185,520	4.912%	9,112
2003 D-H	Variable Rate Debt (6)	2029	293,625	4.447%	13,058
2003 I-O	Auction Rate Debt (6)	2029	293,600	4.447%	13,056
2004A	Serial Bonds	2013-2025	33,900	4.268%	1,447
2004A	Term Bonds	2029-2034	166,100	5.021%	8,340
2005A	New Issue-April 1, 2005 (7)	2034	30,000	5.643%	1,693
Total Senior Lien Debt			\$ 5,968,474	4.647%	\$ 277,326
Subordinate Debt					
Series 7A & 7B	Variable Rate (5)	2025	\$ 250,000	4.011%	\$ 10,028
Series 8	Mandatory Purchase	2005-2010	187,345	4.896%	9,172
Series 2001 1A-3B	Variable Rate (4)	2033	525,000	2.109%	11,074
Commercial Paper	Variable Rate (4)	Various	100,000	2.110%	2,110
Total Subordinated Debt			\$ 1,062,345	3.048%	\$ 32,384
Total Average Debt Outstanding			\$ 7,030,819	4.405%	\$ 309,710

- (1) Represents accreted value of original proceeds of \$145.793 million, adjusted for partial refinancing in 2003.
- (2) Net of savings from fixed-to-floating/basis swap arrangement entered into by the Authority in July 2004.
- (3) Represents accreted value of original proceeds of \$325.165 million, adjusted for partial refinancing in 2003.
- (4) Variable rates ranging from 1.875% to 2.25%.
- (5) Net of amortization of swaption proceeds (\$35 million) over the life of the respective debt securities.
- (6) Net of amortizations for issue premium, insurance costs and swaption proceeds of \$82 million received in 2003.
- (7) Assumes \$40 million fixed rate financing on April 1, 2005.



Comparative Interest Rates (As of 10/29/2004)



Cash Flow from Operations

(Thousands of Dollars)

	Approved <u>2004</u>	Approved <u>2005</u>	<u>% Chg.</u>
Excess Of Revenues Over Expenses	\$ 20,000	\$ 20,248	1.24
Add Back (Deduct) Non-Cash Items:			
Recovery of Deferred Shoreham Property Tax Settlement Costs	34,164	34,560	1.16
Recovery of Deferred Fuel and Purchased Power Costs	36,900	36,500	(1.08)
Prepaid Fuel Hedging Program Costs-Net of Amortization	(3,979)	(10,576)	165.80
Prepaid Nine Mile Point 2 Refueling Outage Costs-Net of Amortization	(3,591)	5,365	N/M
Prepaid Nuclear Fuel Expense	(9,600)	(12,204)	27.13
Amortization of Nine Mile Nuclear Fuel Costs	6,811	7,502	10.15
Amortization of Mobile Generating Units-Net of Amortization	-	657	N/M
PSA Property Taxes-Accrual Net of True-Up for Prior Year	4,900	5,300	8.16
Depreciation and Amortization	231,875	233,692	0.78
Decommissioning Trust Fund Contribution-Nine Mile Point 2	(3,523)	(3,523)	-
Accretion of Asset Retirement Obligation	3,867	4,099	6.00
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	(31,578)	(32,345)	2.43
Amortization of Deferred Debt Issue Costs (Premiums)	(12,158)	(6,182)	(49.15)
Amortization of Deferred Losses (Gains) on Debt Redemptions	4,790	11,268	135.24
Interest on Capital Appreciation Bonds	25,086	25,896	3.23
Capitalized Interest	(4,800)	(3,900)	(18.75)
Other	(20,000)	-	(100.00)
Total Non-Cash Items	259,164	296,109	14.26
Excess of Revenues Over Expenses-Cash Basis	\$ 279,164	\$ 316,357	13.32

N/M=Not meaningful

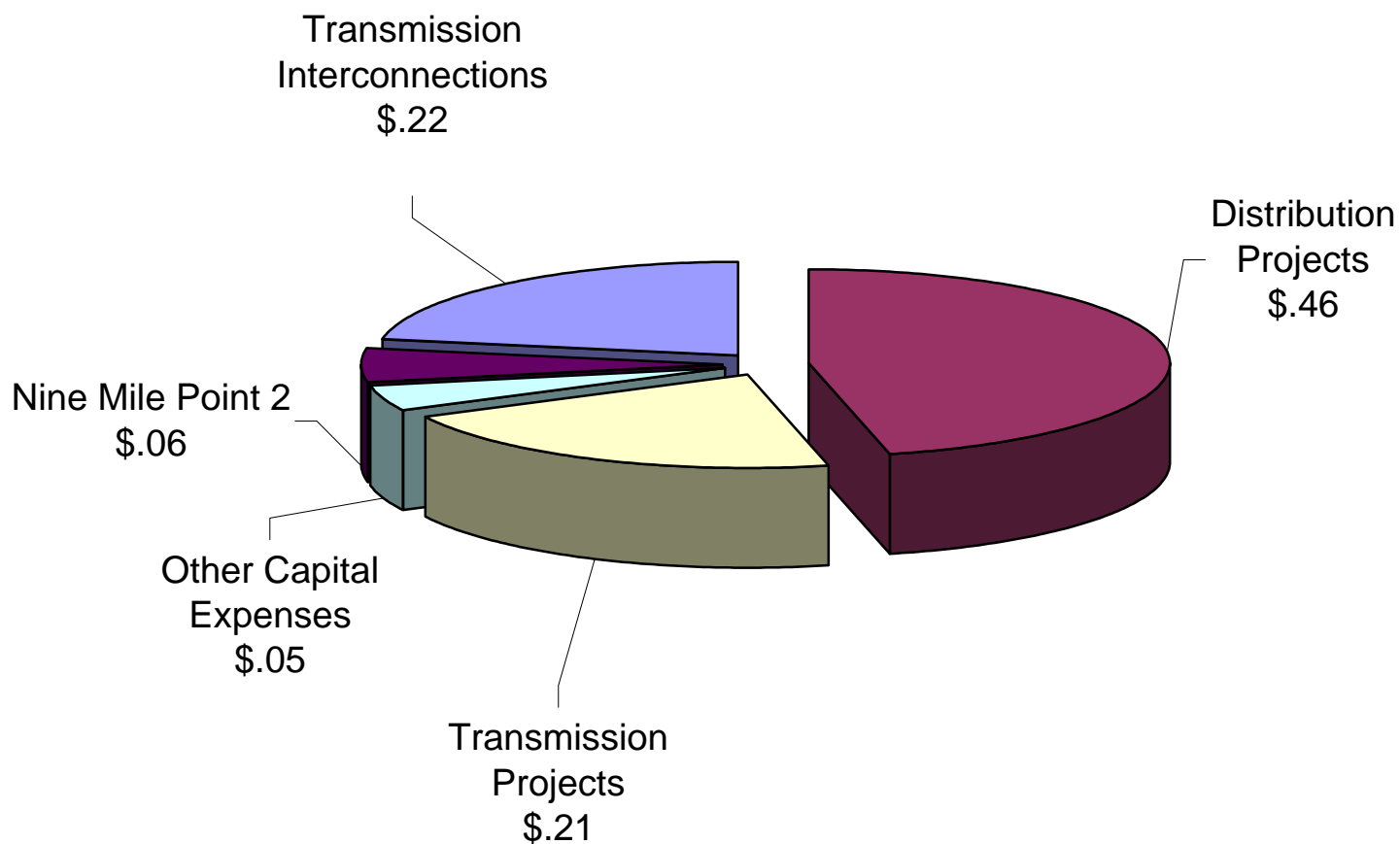
Capital Expenditures

(Thousands of Dollars)

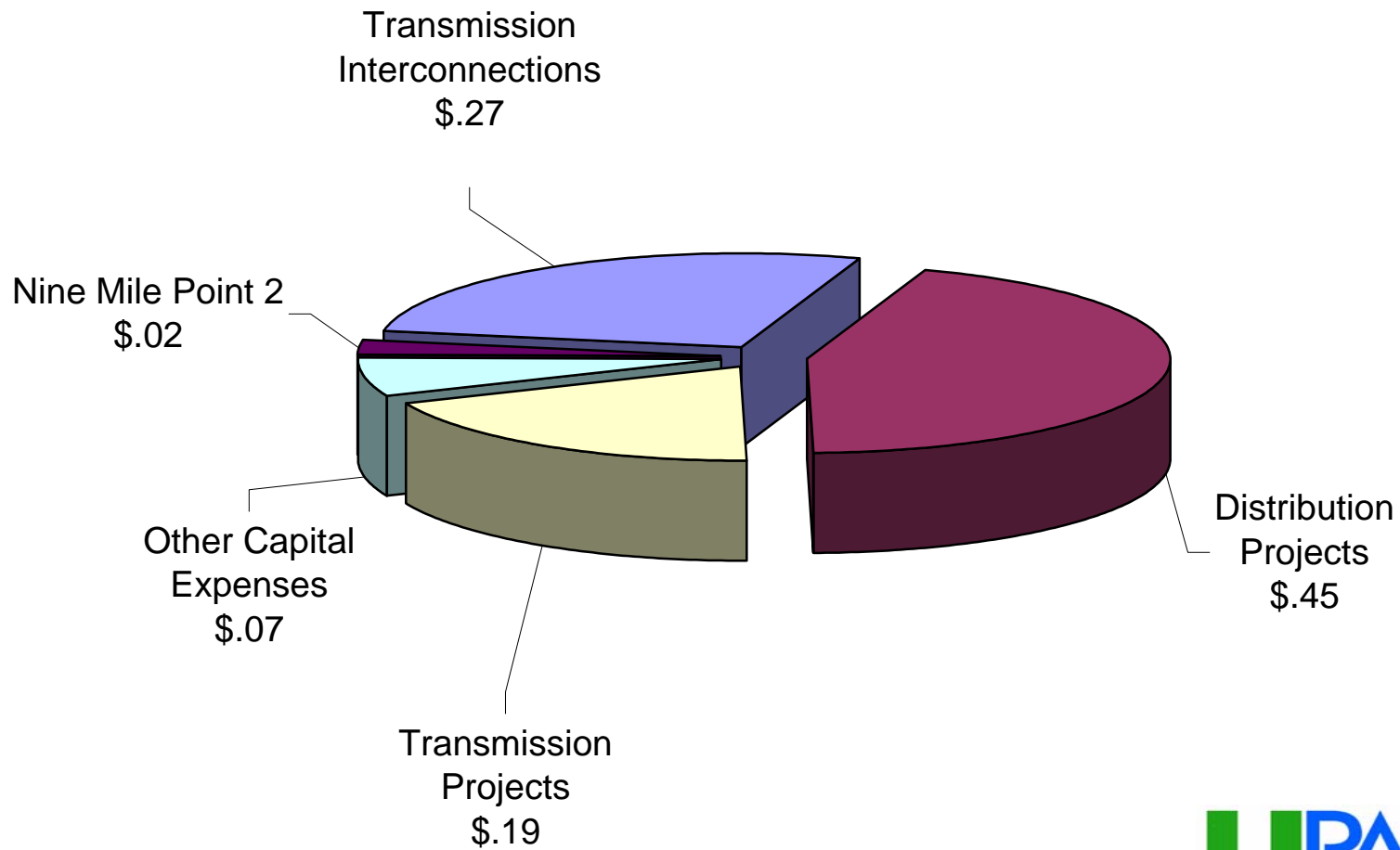
	Approved 2004	Approved 2005	% Chg.	Approved 2006	% Chg.
Transmission Projects					
Transmission Interconnections-New Power Plants (Major Capital)	\$ 2,000	\$ 4,550	127.50	\$ 7,000	53.85
Transmission Interconnections-Offshore WindProjects (Major Capital)	-	2,550	N/M	20,000	684.31
Transmission Interconnections-Neptune Cable (Major Capital)	-	22,400	N/M	45,500	103.13
Transmission Interconnections-NUSCO Cable (Major Capital)	-	30,000	N/M	15,000	(50.00)
Transmission Interconnections - Other (Major Capital)	-	4,903	N/M	3,600	(26.58)
Queens Substations and Lines (Major Capital)	4,350	150	(96.55)	1,250	733.33
Nassau Substations and Lines (Major Capital)	2,970	5,950	100.34	16,318	174.25
Western Suffolk Substations and Lines (Major Capital)	8,615	15,515	80.09	27,425	76.76
Eastern Suffolk Northfork Substation and Lines (Major Capital)	24,323	21,000	(13.66)	9,250	(55.95)
North Fork Substations and Lines (Major Capital)	10,000	-	(100.00)	-	N/M
Other Transmission (Routine Capital)	13,132	13,457	2.47	9,900	(26.43)
Other Transmission (Major Capital)	875	5,000	471.43	1,200	(76.00)
Total Transmission Projects	66,265	125,475	89.35	156,443	24.68
Distribution Projects					
Substations (Major Capital)	23,585	17,277	(26.75)	18,406	6.53
Substations (Routine Capital)	8,520	3,100	(63.62)	3,195	3.06
Electric Lines-New Customer Load (Routine Capital)	25,687	31,027	20.79	31,027	-
Electric Lines-Other (Routine Capital)	55,650	57,856	3.96	75,205	29.99
Purchase and Install Meters/Transformers (Routine Capital)	20,980	20,931	(0.23)	20,943	0.06
Public Works	2,453	2,453	-	2,453	-
Other Distribution (Routine Capital)	2,414	3,090	28.00	2,586	(16.31)
Total Distribution Projects	139,289	135,734	(2.55)	153,815	13.32
Project Funding for Emerging Work and Land Acquisitions	3,772	7,739	105.17	17,372	124.47
Additional Public Works Projects (beyond MSA)	1,000	1,000	-	1,000	-
Total Transmission and Distribution Projects	210,326	269,948	28.35	328,630	21.74
Cost-Sharing and Other Contributions	-	(13,841)	N/M	(26,600)	92.18
Capitalized Interest	4,800	3,900	(18.75)	4,600	17.95
Nine Mile Point Two Plant Additions/Replacements/Capitalized Nuclear Fuel	17,537	16,631	(5.17)	8,617	(48.19)
LIPA Information Systems/Furniture and Equipment	2,061	715	(65.31)	210	(70.63)
Total Capital Expenditures	\$ 234,724	\$ 277,353	18.16	\$ 315,457	13.74

N/M=Not Meaningful

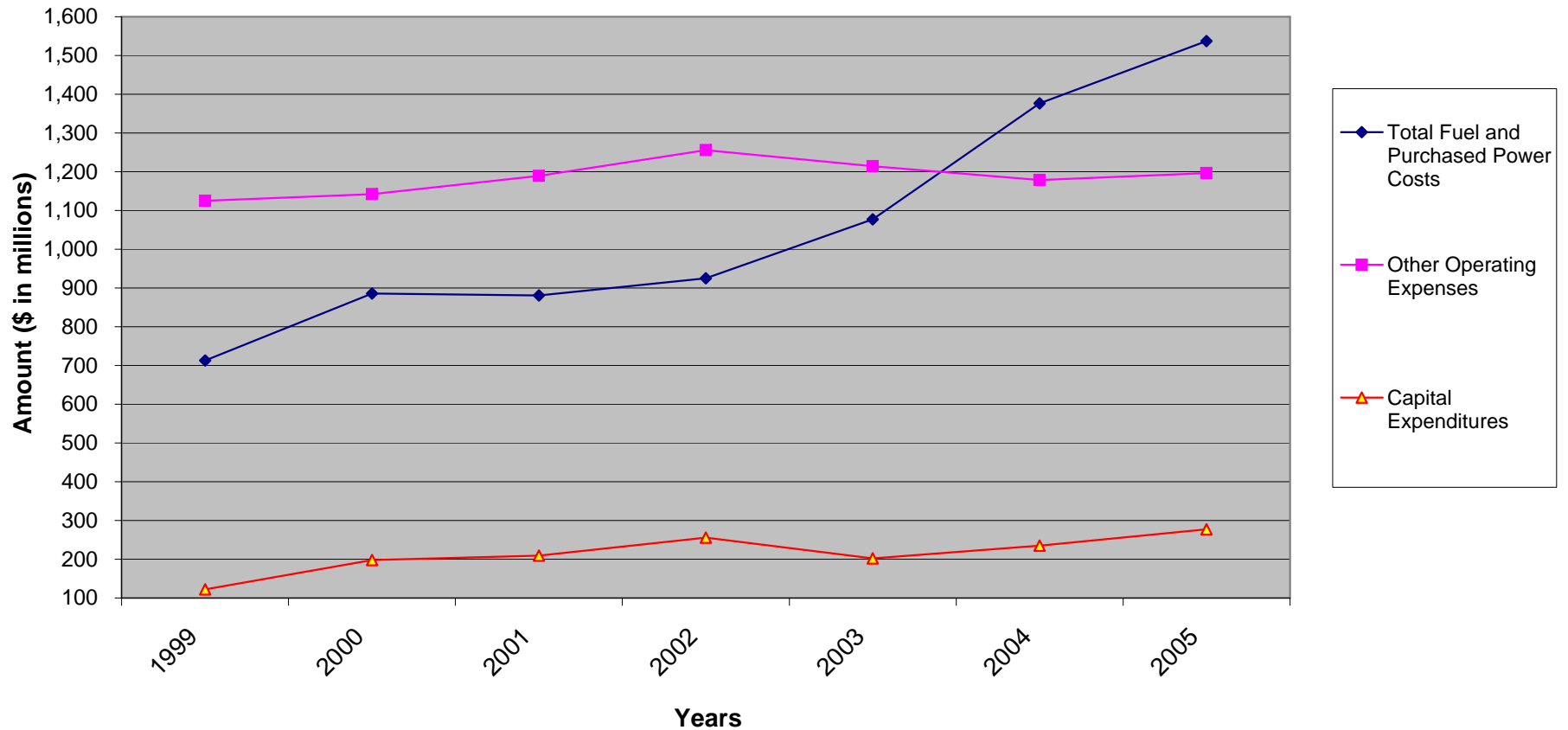
Use of 2005 Capital Dollar



Use of 2006 Capital Dollar



**Cost Comparisons
1999 Through 2005
(based on actual and proposed values)**



Statements of Revenues and Expenses

(Thousands of Dollars)

	Approved Budget	Projected			
	2005	2006	2007	2008	2009
Revenues	\$ 3,028,136	\$ 3,107,139	\$ 3,103,277	\$ 3,126,822	\$ 3,115,294
Expenses					
Fuel and Purchased Power Costs	1,537,435	1,564,132	1,529,481	1,542,247	1,524,834
Operations and Maintenance Expenses	703,038	736,653	751,753	744,634	743,360
General and Administrative Expenses	43,966	44,879	46,180	47,520	48,898
Depreciation and Amortization	233,692	241,510	249,835	259,473	266,021
Revenue Taxes	51,433	52,658	52,935	53,610	53,721
Payments in Lieu of Taxes (PILOTS)	164,354	171,730	176,632	183,374	187,827
Total Operating Expenses	2,733,918	2,811,562	2,806,816	2,830,858	2,824,661
Operating Income	294,218	295,577	296,461	295,964	290,633
Other Income and Deductions	52,184	59,330	59,436	60,091	60,151
Interest Expense	326,154	334,907	335,897	336,055	330,784
Excess of Revenues Over Expenses	\$ 20,248	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Debt Service Coverage Ratios (x):					
Senior Lien Debt	2.24	2.19	2.23	2.42	2.70
Senior Lien and Subordinated Debt	2.08	2.03	2.07	2.24	2.25
Total Debt	2.05	2.00	2.04	2.21	2.22
Change in FPPCA surcharge from prior year	0.0%	1.5%	-2.1%	-1.2%	-2.0%

Statements of Sources and Uses of Funds

(Thousands of Dollars)

	Approved	Projected			
	Budget 2005	2006	2007	2008	2009
FUNDS PROVIDED FROM :					
Excess Of Revenues Over Expenses	\$ 20,248	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Plus (Minus) Non-Cash Items:					
Amortization of Deferred Shoreham Property Tax Settlement Credits	34,560	35,251	35,936	36,725	37,335
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	(32,345)	(32,320)	(32,288)	(31,829)	(31,383)
Deferred Fuel Cost Reconciliation	36,500	36,500	36,500	36,500	36,500
NMP2 Amortized Nuclear Fuel Expense	7,502	6,114	6,682	6,307	6,869
Amortization of Prepaid NMP2 Refueling Outage Costs	5,559	3,841	3,268	2,773	2,608
Amortization of Prepaid Fuel Hedging Program Costs	5,624	10,000	557	-	-
Asset Retirement Obligation Accretion - FASB 143	4,099	4,345	4,606	4,882	5,175
Depreciation and Amortization	233,692	241,510	249,835	259,473	266,021
Other	5,300	(1,300)	-	-	-
Debt Service Interest Expense	338,075	345,378	346,343	346,588	341,230
Proceeds of Bonds and Notes	40,000	180,000	210,000	100,000	75,000
Total Sources of Funds before Interest Expense	\$698,814	\$849,319	\$881,439	\$781,419	\$759,355
FUNDS USED FOR :					
Prepaid Fuel Hedging Program Costs	16,200	-	-	-	-
Prepaid NMP2 Refueling Outage Costs	194	6,343	220	4,996	225
Funding for NMP2 Plant Decommissioning	3,523	3,523	3,523	3,523	3,523
Bank and Related Fees	11,289	11,289	11,205	11,205	11,205
Debt Service Payments	467,581	507,235	518,327	535,100	547,337
Capital Expenditures	261,249	309,304	304,161	223,412	186,405
NMP2 Cash Fuel Expense Capital Expenditures	12,204	1,553	13,049	1,672	13,984
Change in cash position due to Operating, Financing and Investing Activities	(73,426)	10,072	30,954	1,511	(3,324)
Total Uses of Funds	\$698,814	\$849,319	\$881,439	\$781,419	\$759,355