

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2006
Approved Capital Budgets-2006 and 2007
Five Year Financial Projections-2006-2010

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, 2006 and the approved capital budgets for the years ending December 31, 2006 and 2007. Also included are projected statements of revenues and expenses and sources and uses of funds for the five-year period 2006-2010.

The revenue budget incorporates actual and projected results for 2005, as normalized for the effects of weather, and forecasts of electric load additions and the expected effects of LIPA's retail choice programs and its demand side management/energy conservation initiatives. The revenue budget also reflects the recovery of excess fuel and purchased power costs estimated to be incurred in 2006 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 2006, which are designed to accommodate system growth and to further improve the levels of reliable service provided to LIPA's customers. Highlights of the sales and revenue forecasts and approved operating and capital expenditure plans follow.

Electric sales for 2006 are forecasted at 19,919,995 MWH, which represents an increase of 163,000 MWH, or .8% over projected sales for 2005, as normalized for the effects of weather. Sales to residential customers are estimated to grow by 1.2% and sales to commercial and industrial customers are expected to remain relatively flat, growing by .3% compared with the normalized levels projected for 2005. Finally, other electric sales, mostly consisting of sales to other public authorities, are estimated to increase by 4.2% as compared with the level projected for 2005.

Revenues for 2005 are forecasted at \$3.7 billion, or 14% over the projected level for 2005. The increase is reflective of the projected higher sales and the recovery of the significantly higher fuel and purchased power costs that LIPA still experiences. Despite those higher costs, LIPA's approved budget includes a reduction in the Fuel and Purchased Power Cost Adjustment (FPPCA) of 1%, or \$24 million, to become effective January 1, 2006.

Revenues are primarily from retail sales of electricity to residential, commercial and industrial customers. 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 2003 excess fuel and purchased power costs over a ten-year amortization period. In addition to the 1% reduction in the FPPCA, the approved operating budget reflects modifications LIPA plans to make to its tariff to provide for the recovery of the portion of LIPA's excess fuel and purchased power costs sufficient to achieve a targeted level of revenues over expenses of \$75 million, plus or minus a tolerance band of \$50 million. The present targeted level is \$20 million with no tolerance band. Finally, budgeted revenues reflect \$35.3 million of recoveries from Suffolk County customers as provided for by the Shoreham Property Tax Settlement.

Fuel and Purchased Power costs for 2006, before the impact of prior year deferrals, are budgeted at \$2.0 billion, or 19% over the comparable 2005 projected expense level. The budget is based on forecasted commodity (natural gas and fuel oil) prices and the cost of purchased power and nuclear fuel. Partially offsetting the effect of the higher commodity costs is 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 and associated operations and maintenance costs; LIPA's share of the New York and New England Independent System Operator operating and administrative costs; services received under the Energy Management Agreement; 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 2006 are budgeted at \$761.3 million, an increase of 6.1% as compared with the projected level for 2005. O&M expenses are comprised primarily of costs related to the transmission and distribution system management and power supply agreements with KeySpan Corporation. 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 for: 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 and market research programs and other customer service related activities.

General and Administrative expenses for 2006 are budgeted at \$47.2 million. This represents an increase of 4.8% as compared with the projected level for 2005. General and Administrative expenses consist primarily of outside engineering, financial, legal and other professional services and salaries, benefits and other LIPA employee-related costs. Also included are expenses for public liability damage claims, office rent, communications, and other general and administrative activities.

Depreciation and Amortization in 2006 is budgeted to increase to \$246.5 million, or 4.2% versus the projected expense level for 2005. 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.

Revenue Taxes for 2006 are budgeted at \$58.9 million. This represents an increase of 8.4% 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 program. The year-to-year increase is reflective of higher revenues projected in 2006.

Payments in-lieu-of Taxes, or PILOTs, for 2006 are budgeted at \$177 million, an increase 4.7% as compared with the projected level for 2005. 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 (budgeted at \$149 million) are included in Operations and Maintenance expense.

Other Income and Deductions for 2006 are budgeted at \$60.9 million. This represents an increase of 5.2% as compared with the projected 2005 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 from certain customer-requested work not included in basic electric rates. The higher 2006 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 and higher sales of emissions allowances.

Interest Expense for 2006 is budgeted at \$344.5 million, a 3.8% increase as compared with the level projected for 2005. The budgeted expense is based on forecasted levels of outstanding debt, associated fees and the amortization of debt related deferred charges and credits. The modestly higher expense level reflects the higher interest rates projected for 2006. 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 2006 is forecasted at \$6.9 billion. The effective interest rate is 4.9%. This debt level and interest rate compare with a projected debt level of \$7.0 billion and an effective interest rate of 4.6% for 2005.

Excess of Revenues Over Expenses of \$75 million for 2006 is consistent with modifications LIPA plans to make to its tariff providing for the recovery of LIPA's excess fuel and purchased power costs up to the level sufficient to achieve a targeted level of net income. As previously noted, this budget reflects LIPA's plans to reduce its present Fuel and Purchased Power Cost Adjustment by 1% effective January 1, 2006.

Cash Flow from Operations for 2006 is budgeted at \$397.6 million and reflects cash generated from LIPA's budgeted operating results and the recovery of excess fuel and purchased power costs in an amount sufficient to achieve revenues over expenses of \$75 million.

Capital expenditures, comprised primarily of construction and removal projects, are budgeted at \$276 million for 2006. This represents a decrease of \$1.4 million, or .5% versus the expenditure level approved for 2005. The capital expenditure budget for 2007 is \$276.6 million, an increase of \$.7 million or .2% as compared with the expenditure level approved for 2006. The approved expenditure levels reflect the funding requirements for new power supply projects planned for Long Island for the budget years and beyond. Transmission and distribution ("T&D") system projects, which total \$262.5 million for 2006 and \$249.9 million in 2007, net of cost-sharing and other contributions, include the construction of new supply transmission interconnections and related substation and transmission system upgrades of \$68.3 million and \$56.5 million in 2006 and 2007, 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 \$7.7 million in 2006 and \$18.7 million in 2007, reflecting the schedule of nuclear fuel reloading. These expenditure levels represent a decrease of \$9 million in 2006 and an increase of \$11 million in 2007 as compared to the respective prior years. The remainder of the capital budget includes provisions for LIPA information systems, furniture, computer and other equipment, capitalized expenditures related to capacity additions 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 and where possible, reducing its controllable expenditure levels. At the same time, LIPA maintains its commitment to conservation, new technologies and other clean energy initiatives by allocating an additional 8% to this area in 2006 as compared with the budgeted expenditure level for 2005. 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.

Five-Year Projections of Revenues and Expenses and Sources and Uses of Cash reflect LIPA's focus on a longer-term financial planning horizon. These projections indicate that, assuming base rates remain unchanged in the five-year period, LIPA's FPPCA will require modest changes beyond the 1% reduction planned for 2006, reflecting the growing demand for energy and the cost of meeting that increased demand.

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2006
Approved Capital Budgets-2006 and 2007
Five Year Financial Projections-2006-2010

Table of Contents

Schedule

A-1	Statements of Revenues and Expenses
A-2	Sales and Revenues
A-3	Source of 2006 Revenue Dollar
A-4	Use of 2006 Revenue Dollar
A-5	Fuel and Purchased Power Costs
A-6	Operations and Maintenance Expenses
A-6.1	KeySpan Contracts-Operating Expenses
A-6.2	Nine Mile Point 2 Operations and Maintenance Expenses
A-6.3	Research and Development Expenses
A-6.4	Clean Energy Program Expenses
A-7	General and Administrative Expenses
A-7.1	Professional Services
A-8	Depreciation and Amortization

Schedule

A-9	Taxes and Payments in-lieu-of Taxes
A-10	Other Income and Deductions
A-11	Interest Expense
A-12	2006 Average Cost of Debt
A-13	Comparative Interest Rates
A-14	Cash Flow from Operations
B-1	Capital Expenditures
B-2	Use of 2006 Capital Dollar
B-3	Use of 2007 Capital Dollar
C-1	Cost Comparisons-1999 through 2006
D-1	Statements of Revenues and Expenses-Five Years
D-2	Statements of Sources and Uses of Funds-Five Years

Statements of Revenues and Expenses
 (Thousands of Dollars)

	2005		Approved 2006	% Chg. From Projected 2005	Ref.
	Approved	Projected (1)			
Revenues	\$ 3,028,136	\$ 3,276,725	\$ 3,735,331	14.00	A-2
Expenses					
Fuel and Purchased Power Costs	1,537,435	1,760,005	2,085,748	18.51	A-5
Operations and Maintenance Expenses	703,038	717,707	761,293	6.07	A-6
General and Administrative Expenses	43,966	45,084	47,232	4.76	A-7
Depreciation and Amortization	233,692	236,528	246,495	4.21	A-8
Revenue Taxes	51,433	54,339	58,885	8.37	A-9
Payments in Lieu of Taxes (PILOTS)	164,354	169,081	177,043	4.71	A-9
Total Operating Expenses	2,733,918	2,982,744	3,376,696	13.21	
Operating Income	294,218	293,981	358,635	21.99	
Other Income and Deductions	52,184	57,909	60,891	5.15	A-10
Interest Expense	326,154	331,890	344,526	3.81	A-11
Excess of Revenues Over Expenses	\$ 20,248	\$ 20,000	\$ 75,000	275.00	
Debt Service Coverage Ratios (x):					
Senior Lien Debt	2.24	2.28	2.36	0.08	
Senior Lien and Subordinated Debt	2.08	1.99	2.06	0.07	
Total Debt	2.05	1.96	2.03	0.07	



Sales and Revenues

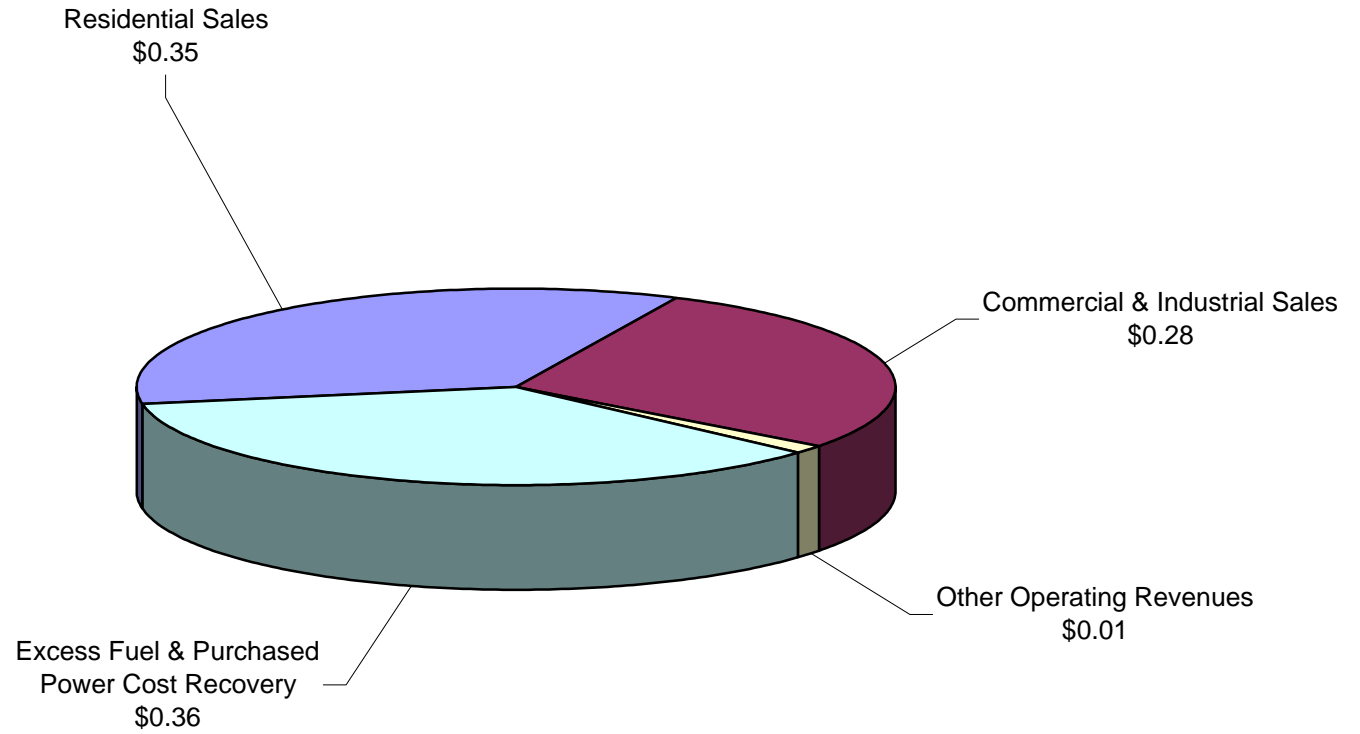
	2005		Approved 2006	% Chg. From Projected 2005
	<u>Approved</u>	<u>Projected (1)</u>		
<u>Sales of Electricity (MWh)</u>				
Residential Sales	9,318,776	9,577,625	9,515,358	(0.65)
Commercial & Industrial Sales	9,971,730	10,084,044	9,945,165	(1.38)
Other Sales to Public Authorities/Street Lighting	443,227	440,853	459,472	4.22
Total Sales of Electricity	19,733,733	20,102,522 (2)	19,919,995	(0.91)
<u>Revenues (\$ thousands)</u>				
Residential Sales	\$ 1,266,937	\$ 1,305,703	\$ 1,299,499	(0.48)
Commercial & Industrial Sales	1,085,779	1,099,723	1,067,266	(2.95)
Other Sales to Public Authorities/Street Lighting	40,581	39,905	46,325	16.09
Sales for Resale	725	3,350	2,945	(12.09)
Recovery of Deferred Shoreham Property Settlement Costs	(34,560)	(35,447)	(35,251)	(0.55)
Recovery of Deferred Fuel and Purchased Power Costs	36,911	37,803	36,909	(2.36)
Wheeling Revenues	7,360	6,171	6,483	5.06
Pole Attachment Fees	3,463	4,265	3,584	(15.97)
Late Payment and Dishonored Check Charges	4,785	5,010	5,003	(0.14)
Service Initiation Charges	941	234	1,000	327.35
Miscellaneous Revenues	1,706	3,465	3,172	(8.46)
Current Recovery of Excess Fuel and Purchased Power Costs	613,508	806,543	1,298,396	60.98
Total Revenues	\$ 3,028,136	\$ 3,276,725	\$ 3,735,331	14.00

Note: (1) Projection as of September 30, 2005

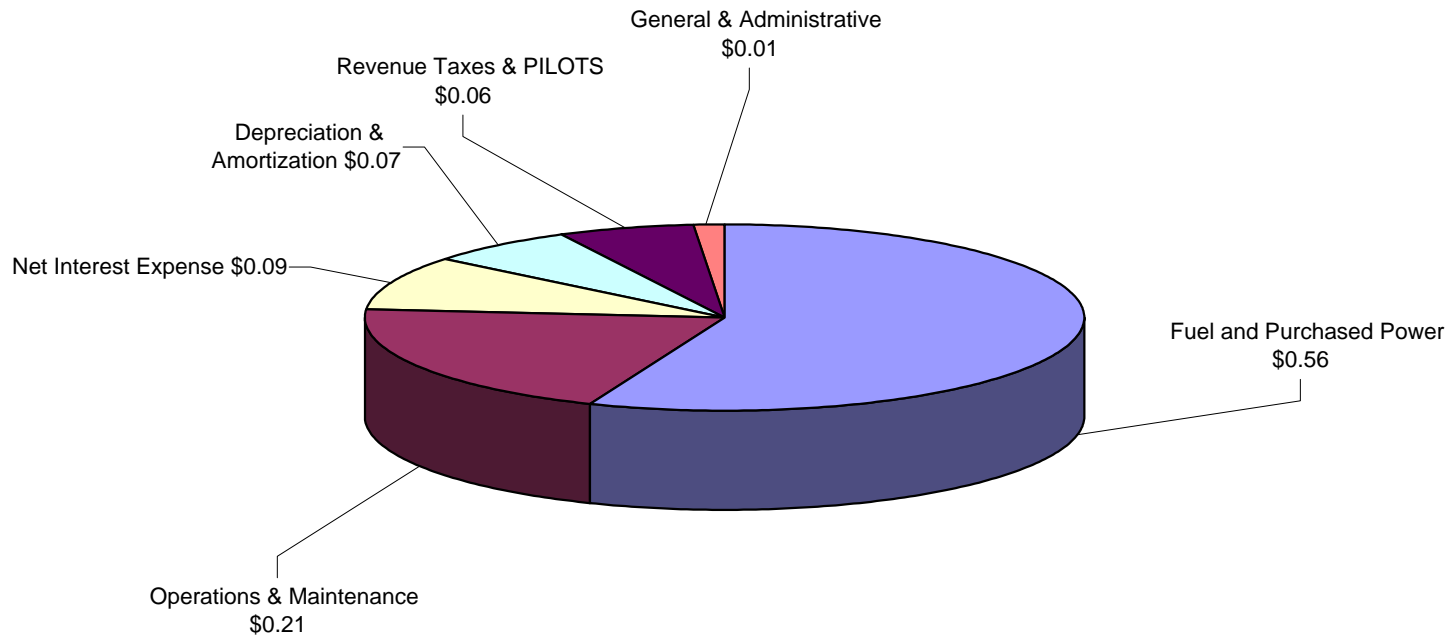
(2) Projected weather-normalized sales of electricity as of September 30, 2005: 19,757,067 MWh.



Source of 2006 Revenue Dollar



Use of 2006 Revenue Dollar



Fuel and Purchased Power Costs
 (Thousands of Dollars)

	2005		Approved	% Chg. From
	<u>Approved</u>	<u>Projected (1)</u>	<u>2006</u>	<u>Projected 2005</u>
Fuel Oil	\$ 511,128	\$ 709,190	\$ 886,394	24.99
Natural Gas	318,618	313,175	447,179	42.79
Purchased Power	359,981	501,112	475,384	(5.13)
Wheeling and Capacity Charges (excl. Nine Mile)	229,616	227,125	255,120	12.33
Nine Mile Nuclear Fuel (incl. Disposal and Decomm. Costs)	9,326	8,414	8,399	(0.18)
Nine Mile Wheeling Charges	7,823	6,919	8,189	18.36
Y-49 and Y-50 Cable Operating Costs	25,308	26,262	27,651	5.29
Fuel Hedging Program Costs	5,624	3,344	13,725	310.44
Fuel Hedging Program Financial Settlements	(61,682)	(208,286)	(249,934)	20.00
Emissions Allowances Purchases	660	-	124	N/M
ESCO Bill Credit Adjustment Payments	29,361	71,589	111,605	55.90
Ancillary Service Revenues-Net	(2,645)	(9,623)	(1,965)	(79.58)
Energy Management Agreement	8,040	9,105	8,302	(8.82)
ISO-Related Service Costs	45,100	71,706	43,980	(38.67)
NYPA Transmission Adjustment Charge	8,777	7,215	8,446	17.07
Cost of Off-System Sales	5,200	2,319	2,261	(2.51)
Barge Lease and Transportation Costs	200	50	-	(100.00)
Clean Energy Peak Load Reduction Rebates	500	490	500	2.04
Payments Under RPS Program	-	-	3,888	N/M
Other-One-Time Adjustments	-	(17,500)	-	(100.00)
	1,500,935	1,722,606	2,049,248	18.96
Recovery of Deferred Fuel and Purchased Power Costs	36,500	37,399	36,500	(2.40)
Total Fuel and Purchased Power Costs	\$ 1,537,435	\$ 1,760,005	\$ 2,085,748	18.51

N/M=Not meaningful

Note: (1) Projection as of September 30, 2005

Long Island Power Authority and Subsidiaries
 Approved Budget-2006

Operations and Maintenance Expenses

(Thousands of Dollars)

	<u>Approved 2005</u>	<u>Approved 2006</u>	<u>% Chg.</u>	<u>Ref</u>
KeySpan Management Services Agreement (1)	\$ 258,200	\$ 272,262	5.45	A-6.1
KeySpan Power Supply Agreement	335,752	358,732	6.84	A-6.1
Nine Mile Point 2 O&M	26,881	31,472	17.08	A-6.2
Research & Development	3,162	4,025	27.29	A-6.3
Clean Energy Program	44,326	47,861	7.98	A-6.4
Storm Damage Reserve	5,000	15,000	200.00	(2)
Uncollectible Accounts	12,496	16,717	33.78	(2)
Assessments	2,703	2,669	(1.26)	(2)
Long Island Choice Program	150	150	-	(2)
Customer Service Telephone Response Systems	178	178	-	(2)
Customer Care Services	200	325	62.50	(2)
Economic Development	195	130	(33.33)	(2)
Retail Programs and Market Research Activities	1,005	995	(1.00)	(2)
Load Research/Rates Tariffs	266	266	-	(2)
Power Quality Program	100	50	(50.00)	(2)
Postage-Paid Remittance Envelopes	2,258	2,760	22.23	(2)
O & M-Y49 Cable	240	200	(16.67)	(2)
O&M-Y50 Cable	500	200	(60.00)	(2)
Accretion of Asset Retirement Obligation	4,099	4,345	6.00	(2)
Miscellaneous	5,327	2,956	(44.51)	(2)
Total Operations and Maintenance Expenses	\$ 703,038	\$ 761,293	8.29	

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

(2) Not detailed on separate schedule.

KeySpan Contracts-Operating Expenses

(Thousands of Dollars)

	Approved <u>2005</u>	Approved <u>2006</u>	<u>% Chg.</u>
Management Services Agreement (1)			
T&D System Operating Costs	\$ 290,677	305,410	5.07
Management Fee	10,000	10,000	-
Synergy Savings	(49,877)	(50,548)	1.35
Non-Cost Performance Incentives	7,400	7,400	-
Total Management Services Agreement	\$ 258,200	\$ 272,262	5.45
Power Supply Agreement (1)			
Operation and Maintenance Expenses	\$ 355,319	\$ 372,618	4.87
Synergy Savings	(23,567)	(17,886)	(24.11)
Non-Cost Performance Incentives	4,000	4,000	-
Total Power Supply Agreement	\$ 335,752	\$ 358,732	6.84
Energy Management Agreement (2)			
Operating Expenses	\$ 3,282	\$ 3,502	6.70
Management Fees	1,500	1,500	-
Synergy Savings	(1,742)	(1,700)	(2.41)
Non-Cost Performance Incentives	5,000	5,000	-
Total Energy Management Agreement	\$ 8,040	\$ 8,302	3.26
Total Contracts with KeySpan	\$ 601,992	\$ 639,295	6.20

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

(2) Expenses incurred under the Energy Management Agreement are included as Fuel and Purchased Power costs.

Nine Mile Point 2 Operations and Maintenance Expenses

(Thousands of Dollars)

	Approved <u>2005</u>	Approved <u>2006</u>	<u>% Chg.</u>
Refueling Outage Amortization	\$ 5,559	\$ 3,149	(43.35)
Non-Outage Operating Expenses	20,725	27,716	33.73
Insurance	99	92	(7.07)
Nine Mile Oversight	498	515	3.41
Total Nine Mile Point 2 O&M Expenses	\$ 26,881	\$ 31,472	17.08

Long Island Power Authority and Subsidiaries
 Approved Budget-2006

Research & Development Expenses

(Thousands of Dollars)

	Approved <u>2005</u>	Approved <u>2006</u>	<u>% Chg.</u>
T&D and Customer Utilization Projects	\$ 1,400	\$ 2,215	58.21
NYSERDA	1,600	1,600	-
Clean Energy/Energy Efficiency Projects	2,490	3,500	40.56
Base KeySpan Labor Included in MSA Budget	1,162	1,210	4.13
Total Research and Development Budget	6,652	8,525	28.16
Less: R&D Projects Included in Clean Energy Program	(3,490)	(4,500)	28.94
Total Research & Development Expenses	\$ 3,162	\$ 4,025	27.29

Long Island Power Authority and Subsidiaries
 Approved Budget-2006

Clean Energy Program Expenses
 (Thousands of Dollars)

	Approved <u>2005</u>	Approved <u>2006</u>	<u>% Chg.</u>
Energy Efficiency Programs	\$ 28,209	\$ 32,543	15.36
Peak Load Reduction Program ⁽¹⁾	150	150	-
Low Income Conservation	2,400	2,700	12.50
Research & Development	2,490	3,500	40.56
NYSERDA-Clean Energy Research Programs	1,000	1,000	-
Advertising and Promotion	2,300	1,950	(15.22)
Program Administration	4,422	2,544	(42.47)
Base KeySpan Labor Included in MSA Budget	3,355	3,474	3.55
Total Clean Energy Program Expenses	\$ 44,326	\$ 47,861	7.98

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

Long Island Power Authority and Subsidiaries
 Approved Budget-2006

General and Administrative Expenses

(Thousands of Dollars)

	Approved <u>2005</u>	Approved <u>2006</u>	<u>% Chg.</u>
Employee Salaries and Benefits	\$ 12,174	\$ 14,448	18.68
Other Employee Expenses	154	202	31.17
Professional Services	24,072	24,459	1.61
Office Rent	1,394	1,472	5.60
Telephone	213	216	1.41
Office Supplies, Printing, Postage and Messenger	404	447	10.64
Meetings, Conferences and Seminars	412	424	2.91
Equipment Leases and Maintenance	157	188	19.75
Dues/Memberships/Subscriptions	228	94	(58.77)
Repairs and Maintenance	16	18	12.50
Insurance	1,500	1,666	11.07
Injuries and Damages Reserve	2,150	2,250	4.65
Communications	575	698	21.39
Board of Trustees and Other Public Meetings	30	56	86.67
Community Relations	72	73	1.39
Sponsorships/Special Events	288	378	31.25
Investor Relations/Bond Trustee Expense	6	5	(16.67)
Miscellaneous	121	138	14.05
Total Administrative and General Expenses	\$ 43,966	\$ 47,232	7.43

Long Island Power Authority and Subsidiaries
 Approved Budget-2006

Professional Services (1) (2)

(Thousands of Dollars)

	<u>Approved</u> <u>2005</u>	<u>Approved</u> <u>2006</u>	<u>% Chg.</u>
Accounting and Audit Services	\$ 1,765	\$ 1,847	4.65
Rates and Tariffs	550	180	(67.27)
Legal	6,050	6,324	4.53
Communications	175	190	8.57
Information Technology	756	385	(49.07)
Telecommunications	120	150	25.00
Engineering	8,383	11,249	34.19
Risk Management-Insurance	163	178	9.20
Risk Management-Fuel	600	677	12.83
Financial Advisor/Cash Management	4,950	3,075	(37.88)
Long Island Choice	15	30	100.00
Storm Review Panel	70	24	(65.71)
Business Continuity	75	-	(100.00)
Document Imaging	150	-	(100.00)
Records Management	100	-	(100.00)
Miscellaneous	150	150	-
Total Consulting Expenses	\$ 24,072	\$ 24,459	1.61

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.

Long Island Power Authority and Subsidiaries
 Approved Budget-2006

Depreciation and Amortization

(Thousands of Dollars)

	Approved <u>2005</u>	Approved <u>2006</u>	<u>% Chg.</u>
Amortization of Acquisition Adjustment	\$ 112,681	\$ 112,681	-
Depreciation Expense-Plant-in-Service	121,011	133,814	10.58
Total Depreciation and Amortization	\$ 233,692	\$ 246,495	5.48

Taxes and Payments in-lieu-of Taxes

(Thousands of Dollars)

	Approved 2005	Approved 2006	% Chg.
Revenue Taxes	\$ 51,433	\$ 58,885	14.49
Payments in-lieu-of Taxes (PILOTS)			
Long Island and New York City	\$ 150,939	\$ 164,290	8.85
Nine Mile PILOTS	3,215	3,553	10.51
Merchant Power Plants	10,200	9,200	(9.80)
Total PILOTS	\$ 164,354	\$ 177,043	7.72

Long Island Power Authority and Subsidiaries
 Approved Budget-2006

Other Income and Deductions

(Thousands of Dollars)

	Approved <u>2005</u>	Approved <u>2006</u>	<u>% Chg.</u>
Short-Term Investment Income	\$ 12,854	\$ 10,616	(17.41)
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	32,345	32,439	0.29
Gains on Sales of Emission Credits	3,082	12,706	312.26
Interest Income on Nuclear Decommissioning Trust Fund	2,701	2,143	(20.66)
Miscellaneous Income and Deductions	1,202	2,987	148.50
Total Other Income and Deductions	\$ 52,184	\$ 60,891	16.69

Long Island Power Authority and Subsidiaries
 Approved Budget-2006

Interest Expense
 (Thousands of Dollars)

	Approved <u>2005</u>	Approved <u>2006</u>	<u>% Chg.</u>
LIPA Interest Expense on Debt Securities from Page A-12	\$ 309,710	\$ 330,205	6.62
Other Interest Expense			
NYSERDA	\$ 8,075	\$ 8,075	-
Amortization of Deferred Debt Issue Costs/Discounts/ (Premiums)	(6,182)	(3,272)	(47.07)
Amortization of Deferred Losses (Gains) on Debt Redemptions	11,268	5,245	(53.45)
Letter of Credit Fees	7,320	6,964	(4.86)
Broker/Dealer Fees on Auction Rate Bonds	2,605	2,704	3.80
Interest on Customer Security Deposits	1,200	1,200	-
Bond Administration Costs and Bank Fees	783	640	(18.26)
Remarketing Fees	582	844	45.02
Promissory Note due from KeySpan	(8,075)	\$ (8,075)	-
Carrying Charges on Deferred Credits	2,768	-	(100.00)
Other	-	2,996	N/M
Total Other Interest Expense	\$ 20,344	\$ 17,321	(14.86)
Less: Capitalized Interest	3,900	3,000	(23.08)
Total Interest Expense	\$ 326,154	\$ 344,526	5.63

N/M=Not meaningful



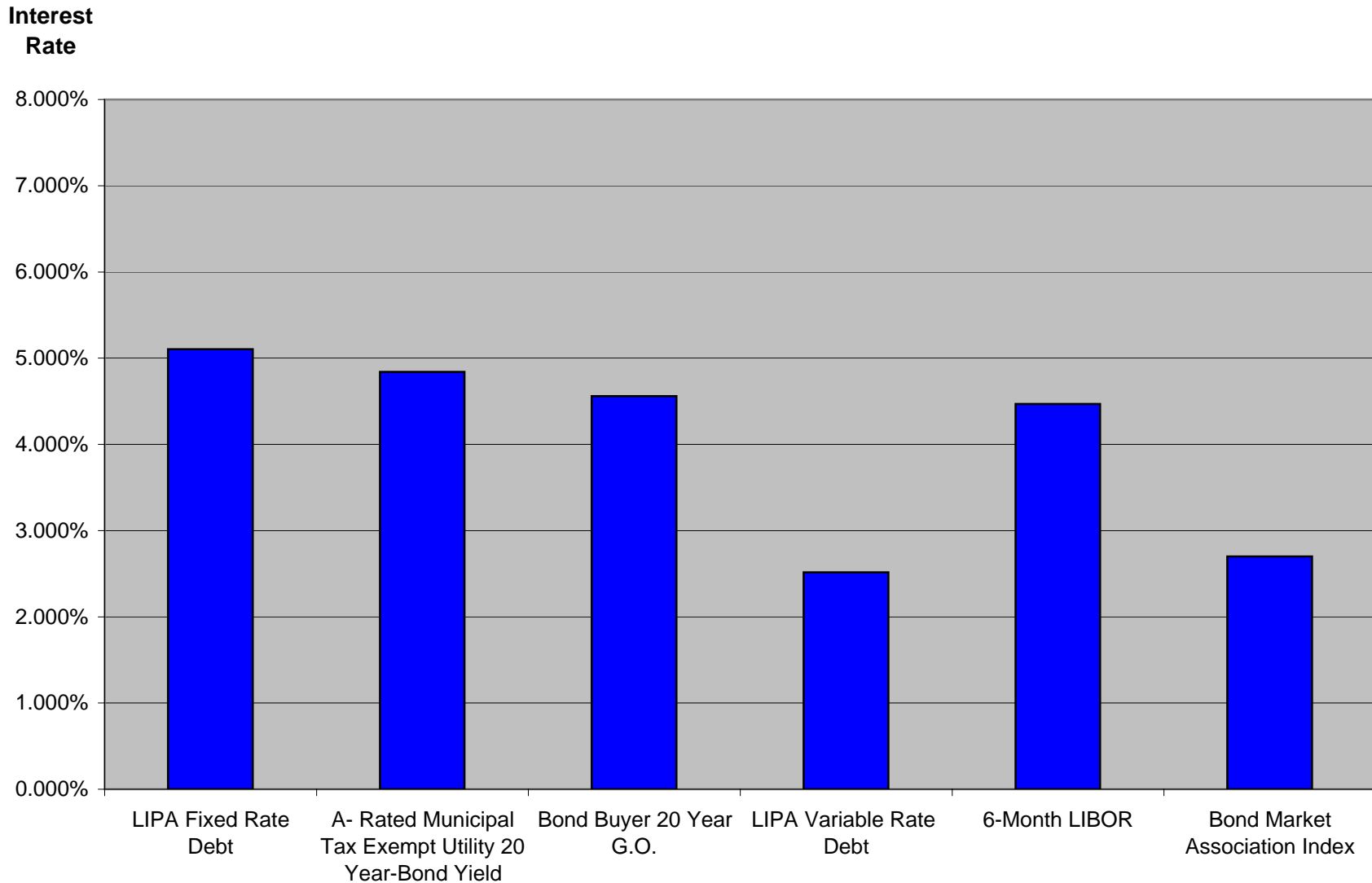
2006 Average Cost of Debt

<u>Series</u>	<u>Type</u>	<u>Maturity</u>	<u>Average Principal Outstanding</u> (\$Thousands)	<u>Effective Interest Rate</u>	<u>Interest Expense</u> (\$Thousands)
Senior Lien Debt					
1998 A	Serial Bonds	2005-2016	\$ 673,213	5.294%	35,640
1998 A	Term Bonds	2018-2029	1,263,350	5.235%	66,136
1998 A	Capital Appreciation Bonds (1)	2005-2028	154,247	5.036%	7,768
1998 B	Serial Bonds (2)	2005-2016	654,435	4.808%	31,463
1998 B	Term Bonds (2), (5)	2018	57,145	4.466%	2,552
2000 A	Capital Appreciation Bonds (3)	2005-2028	337,196	5.628%	18,976
2001A	Serial Bonds (2), (5)	2013-2021	21,960	4.832%	1,061
2001 A	Term Bonds (2)	2025-2029	278,040	4.983%	13,856
2001 (B-K) (M-P)	Auction Rate Bonds (4)	2033	700,000	3.558%	24,903
2001 L	Term Bonds (5)	2033	116,000	5.228%	6,064
2003 A	Serial Bonds	2005-2009	59,274	5.001%	2,964
2003 B	Serial Bonds	2005-2014	363,070	5.073%	18,419
2003 C	Serial Bonds (2), (5)	2013-2033	137,860	4.872%	6,716
2003 C	Term Bonds (2), (5)	2033	185,520	4.891%	9,074
2003 D-H	Variable Rate Debt (6)	2029	293,625	4.478%	13,148
2003 I-O	Auction Rate Debt (6)	2029	293,600	4.478%	13,147
2004A	Serial Bonds	2013-2025	33,900	4.265%	1,446
2004A	Term Bonds	2029-2034	166,100	5.021%	8,340
2006	New Issue-April 1, 2006-Fixed	2036	146,066	5.500%	8,034
Total Senior Lien Debt			<u>\$ 5,934,602</u>	<u>4.882%</u>	<u>\$ 289,706</u>
Subordinate Debt					
Series 7A & 7B	Variable Rate (5)	2025	\$ 250,000	3.991%	\$ 9,977
Series 8	Mandatory Purchase	2005-2010	139,570	4.958%	6,920
Series 2001 1A-3B	Variable Rate (4)	2033	525,000	3.558%	18,677
Commercial Paper	Variable Rate (7)	Various	100,000	4.925%	4,925
Total Subordinated Debt			<u>\$ 1,014,570</u>	<u>3.992%</u>	<u>\$ 40,499</u>
Other Debt-Related Interest Expense					<u>13,126</u>
Total Average Debt Outstanding			<u>\$ 6,949,172</u>	<u>4.941%</u>	<u>\$ 343,331</u>

- (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 3.33% to 3.61% for 2006 and 3.26% for 2007.
- (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) Variable rates ranging from 4.60% to 5.00% for 2006 and an average rate of 4.93% for 2007.



Comparative Interest Rates (As of 11/1/2005)



Long Island Power Authority and Subsidiaries
 Approved Budget-2006

Cash Flow from Operations
 (Thousands of Dollars)

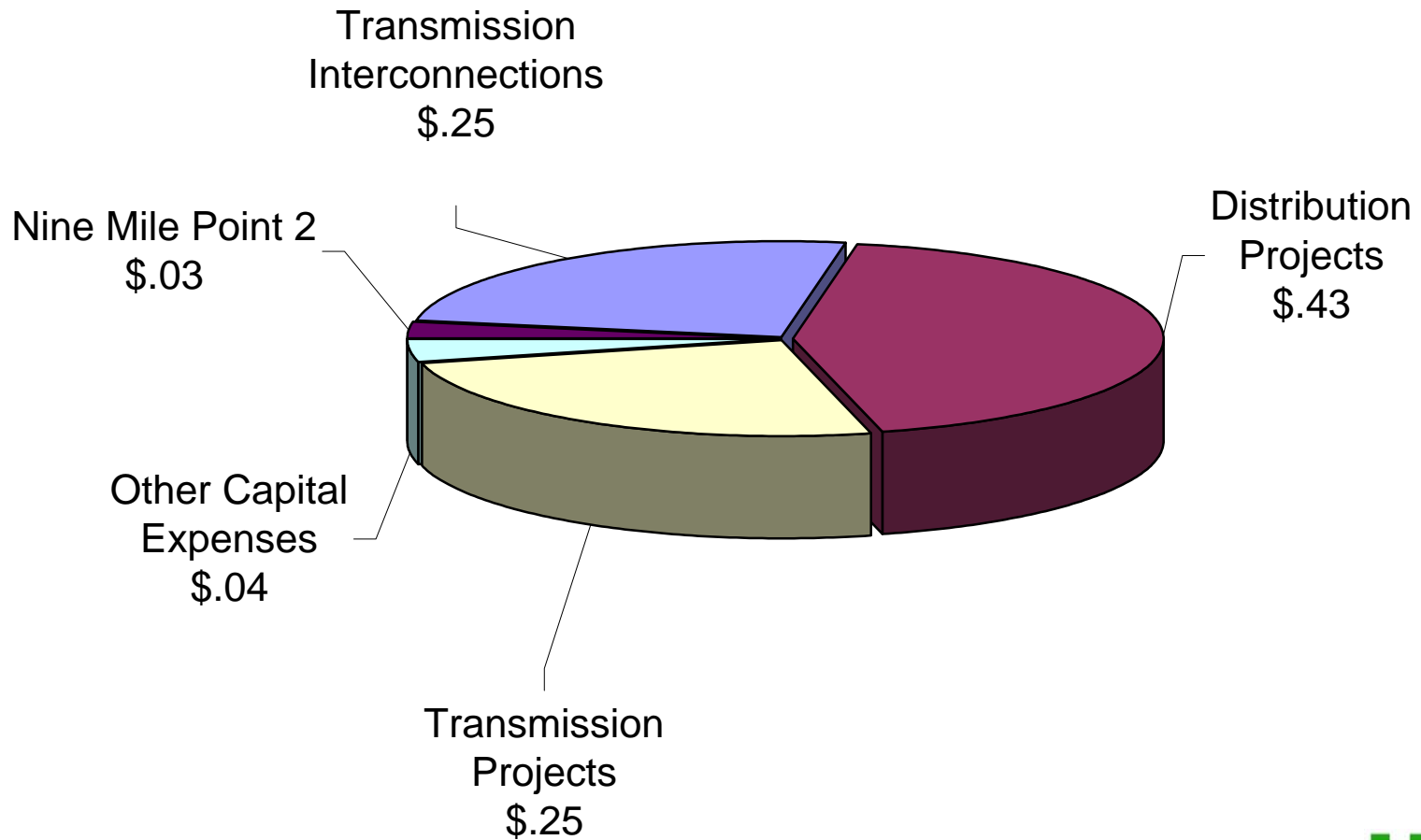
	Approved <u>2005</u>	Approved <u>2006</u>	<u>% Chg.</u>
Excess Of Revenues Over Expenses	\$ 20,248	\$ 75,000	270.41
Add Back (Deduct) Non-Cash Items:			
Recovery of Deferred Shoreham Property Tax Settlement Costs	34,560	35,251	2.00
Recovery of Deferred Fuel and Purchased Power Costs	36,500	36,500	-
Prepaid Fuel Hedging Program Costs-Net of Amortization	(10,576)	(275)	(97.40)
Prepaid Nine Mile Point 2 Refueling Outage Costs-Net of Amortization	5,365	(1,891)	N/M
Prepaid Nuclear Fuel Expense	(12,204)	(1,813)	(85.14)
Amortization of Nine Mile Nuclear Fuel Costs	7,502	6,744	(10.10)
Amortization of Mobile Generating Units-Net of Amortization	657	10,044	N/M
PSA Property Taxes-Accrual Net of True-Up for Prior Year	5,300	(2,047)	N/M
Depreciation and Amortization	233,692	246,495	5.48
Decommissioning Trust Fund Contribution-Nine Mile Point 2	(3,523)	(4,000)	13.54
Accretion of Asset Retirement Obligation	4,099	4,345	6.00
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	(32,345)	(32,439)	0.29
Amortization of Deferred Debt Issue Costs (Premiums)	(6,182)	(3,272)	(47.07)
Amortization of Deferred Losses (Gains) on Debt Redemptions	11,268	5,245	(53.45)
Interest on Capital Appreciation Bonds	25,896	26,743	3.27
Capitalized Interest	(3,900)	(3,000)	(23.08)
Total Non-Cash Items	296,109	322,630	8.96
Excess of Revenues Over Expenses-Cash Basis	\$ 316,357	\$ 397,630	25.69

N/M=Not meaningful

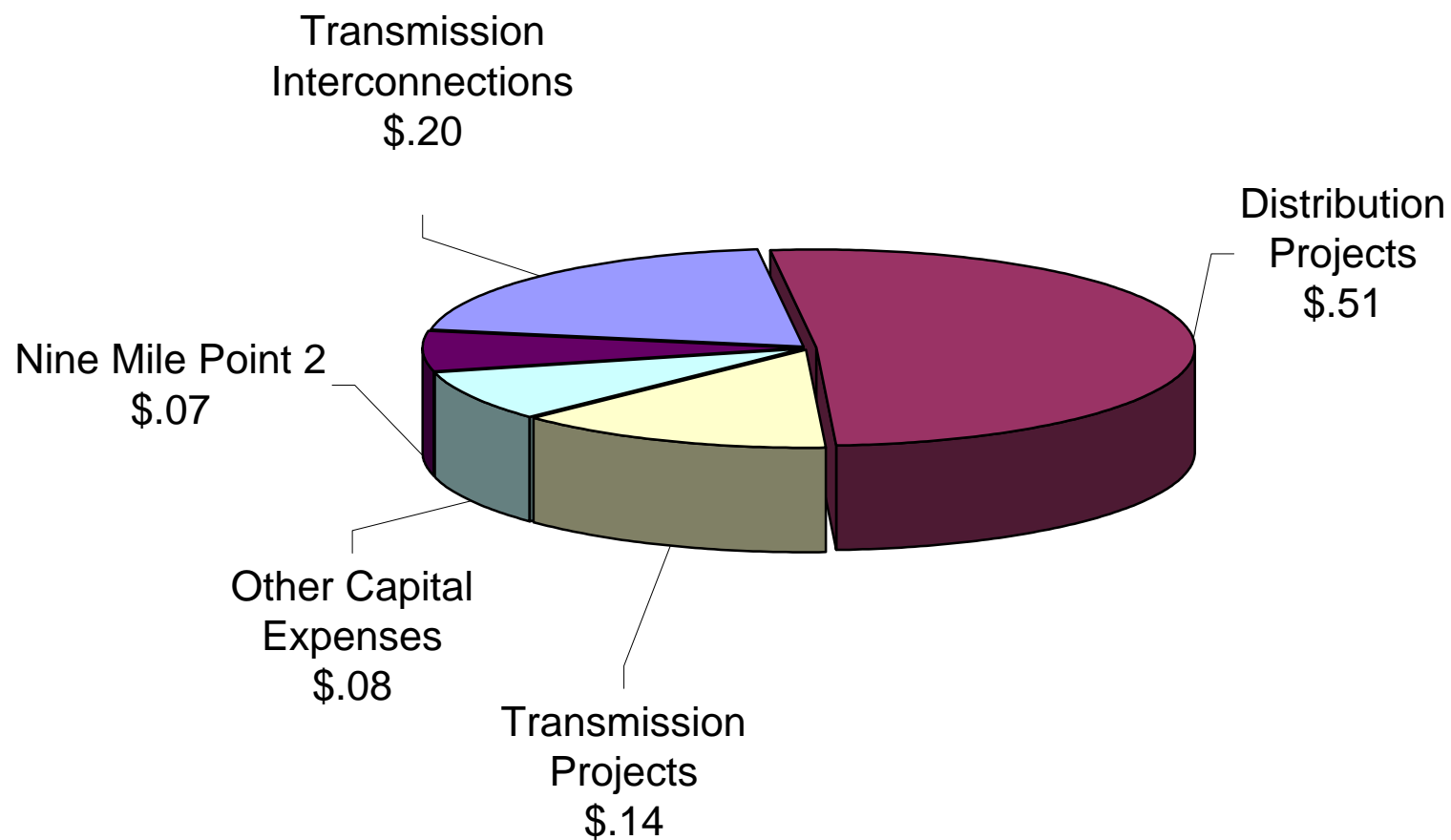
Capital Expenditures
 (Thousands of Dollars)

	Approved 2005	Approved 2006	% Chg.	Approved 2007	% Chg.
Transmission Projects					
Transmission Interconnections-New Power Plants (Major Capital)	\$ 4,550	\$ 595	(86.92)	\$ 13,600	N/M
Transmission Interconnections-Offshore Wind Projects (Major Capital)	2,550	500	(80.39)	13,600	N/M
Transmission Interconnections-Neptune Cable (Major Capital)	22,400	58,713	162.11	11,900	(79.73)
Transmission Interconnections-NUSCO Cable (Major Capital)	30,000	8,500	(71.67)	17,425	105.00
Transmission Interconnections - Other (Major Capital)	4,903	4,500	(8.22)	1,700	(62.22)
Queens Substations and Lines (Major Capital)	150	-	(100.00)	-	-
Nassau Substations and Lines (Major Capital)	5,950	12,946	117.58	17,748	37.09
Western Suffolk Substations and Lines (Major Capital)	15,515	18,917	21.93	4,480	(76.32)
Eastern Suffolk Northfork Substation and Lines (Major Capital)	21,000	23,461	11.72	8,439	(64.03)
Other Transmission (Routine Capital)	13,457	15,638	16.21	7,705	(50.73)
Other Transmission (Major Capital)	5,000	1,000	(80.00)	1,000	-
Total Transmission Projects	125,475	144,770	15.38	97,597	(32.59)
Distribution Projects					
Substations (Major Capital)	17,277	12,315	(28.72)	16,071	30.50
Substations (Routine Capital)	3,100	1,709	(44.87)	991	(42.00)
Electric Lines-New Customer Load (Routine Capital)	31,027	31,792	2.47	30,503	(4.05)
Electric Lines-Other (Routine Capital)	57,856	55,365	(4.31)	74,505	34.57
Purchase and Install Meters/Transformers (Routine Capital)	20,931	19,316	(7.72)	19,316	-
Public Works	2,453	2,453	-	2,453	-
Other Distribution (Routine Capital)	3,090	2,505	(18.93)	2,505	-
Total Distribution Projects	135,734	125,455	(7.57)	146,344	16.65
Project Funding for Emerging Work and Land Acquisitions	7,739	5,000	(35.39)	15,000	200.00
Additional Public Works Projects (beyond MSA)	1,000	1,000	-	1,000	-
Total Transmission and Distribution Projects	269,948	276,225	2.33	259,941	(5.90)
Cost-Sharing and Other Contributions	(13,841)	(13,700)	(1.02)	(10,000)	(27.01)
Capitalized Interest	3,900	3,000	(23.08)	3,000	-
Nine Mile Point Two Plant Additions/Replacements/Capitalized Nuclear Fuel	16,631	7,676	(53.85)	18,723	143.92
LIPA Information Systems, Equipment and Other Capitalized Expenditures	715	2,780	288.81	4,980	79.14
Total Capital Expenditures	\$ 277,353	\$ 275,981	(0.49)	\$ 276,644	0.24

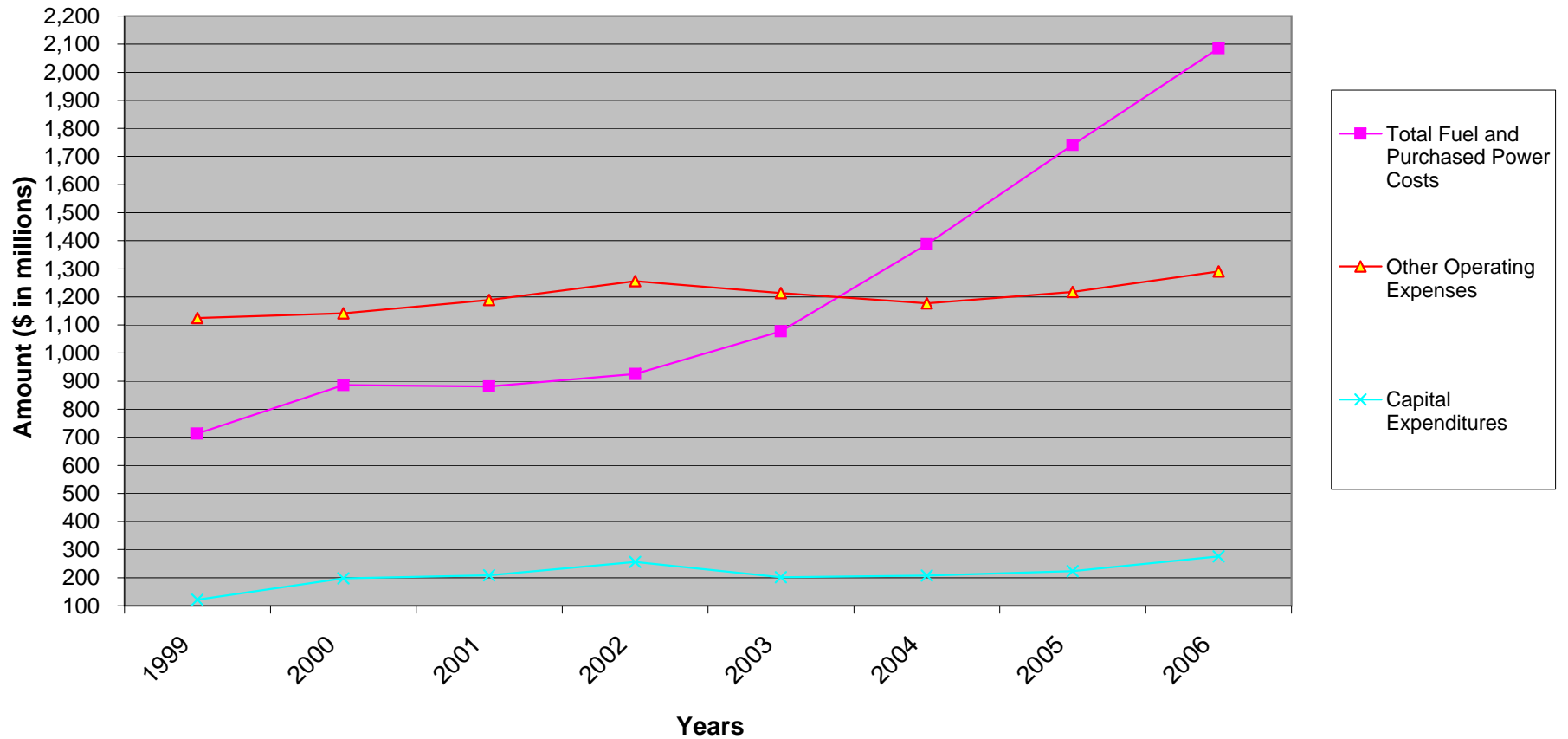
Use of 2006 Capital Dollar



Use of 2007 Capital Dollar



**Cost Comparisons
1999 Through 2006
(based on actual and budgeted values)**



Statements of Revenues and Expenses

(Thousands of Dollars)

	Approved Budget	Projected			
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues	\$ 3,735,331	\$ 3,808,223	\$ 3,884,200	\$ 3,758,642	\$ 3,665,374
Expenses					
Fuel and Purchased Power Costs	2,085,748	2,151,977	2,198,400	2,033,334	1,920,127
Operations and Maintenance Expenses	761,293	768,546	791,257	809,125	833,422
General and Administrative Expenses	47,232	46,984	48,628	50,330	52,092
Depreciation and Amortization	246,495	253,793	261,704	268,859	275,566
Revenue Taxes	58,885	59,969	61,100	60,021	59,323
Payments in Lieu of Taxes (PILOTS)	177,043	185,450	193,967	201,480	211,206
Total Operating Expenses	3,376,696	3,466,719	3,555,056	3,423,149	3,351,736
Operating Income	358,635	341,504	329,144	335,493	313,638
Other Income and Deductions	60,891	66,492	70,246	56,710	68,798
Interest Expense	344,526	332,996	324,390	317,203	307,436
Excess of Revenues Over Expenses	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
Debt Service Coverage Ratios (x):					
Senior Lien Debt	2.36	2.42	2.52	2.96	3.02
Senior Lien and Subordinated Debt	2.06	2.12	2.35	2.47	2.68
Total Debt	2.03	2.09	2.31	2.43	2.63
Change in FPPCA surcharge from prior year	-1.0%	1.4%	1.3%	-7.4%	-5.8%

Statements of Sources and Uses of Funds
(Thousands of Dollars)

	Approved	Projected			
	Budget 2006	2007	2008	2009	2010
FUNDS PROVIDED FROM :					
Excess Of Revenues Over Expenses	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
Plus (Minus) Non-Cash Items:					
Amortization of Deferred Shoreham Property Tax Settlement Credits	35,251	35,936	36,725	37,335	38,093
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	(32,439)	(32,178)	(31,829)	(31,383)	(30,856)
Deferred Fuel Cost Reconciliation	36,500	36,500	36,500	36,500	36,500
NMP2 Amortized Nuclear Fuel Expense	6,744	6,035	6,273	7,238	6,410
Amortization of Prepaid NMP2 Refueling Outage Costs	3,149	2,340	2,205	2,160	2,025
Amortization of Prepaid Fuel Hedging Program Costs	13,725	15,555	12,592	11,500	10,000
Asset Retirement Obligation Accretion - FASB 143	4,345	4,606	4,882	5,175	5,485
Amortization of Prepaid Mobile Generating Units	10,044	10,044	10,044	10,044	10,044
Depreciation and Amortization	246,495	253,793	261,704	268,859	275,566
Other	(2,046)	300	401	400	401
Debt Service Interest Expense	353,504	342,555	334,009	326,823	317,055
Proceeds of Bonds and Notes	190,000	95,000	50,000	35,000	10,000
Total Sources of Funds before Interest Expense	\$940,272	\$845,486	\$798,506	\$784,651	\$755,723
FUNDS USED FOR :					
Prepaid Fuel Hedging Program Costs	14,000	12,000	10,000	10,000	10,000
Prepaid NMP2 Refueling Outage Costs	5,040	180	5,040	180	5,040
Funding for NMP2 Plant Decommissioning	4,000	4,000	4,000	4,000	4,000
Bank and Related Fees	11,152	11,152	11,152	11,152	11,152
Debt Service Payments	540,672	547,500	526,238	534,872	510,297
Capital Expenditures	270,724	259,380	243,998	210,600	215,949
NMP2 Cash Fuel Expense Capital Expenditures	1,813	12,514	686	16,795	730
Change in cash position due to Operating, Financing and Investing Activities	92,871	(1,240)	(2,607)	(2,948)	(1,445)
Total Uses of Funds	\$940,272	\$845,486	\$798,506	\$784,651	\$755,723