

# **Long Island Power Authority and Subsidiaries**

**Approved Operating Budget-2007**  
**Approved Capital Budgets-2007 and 2008**  
**Five Year Financial Projections-2007-2011**



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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, 2007 and the approved capital budgets for the years ending December 31, 2007 and 2008. Also included are projected statements of revenues and expenses and sources and uses of funds for the five-year period 2007-2011.

The revenue budget incorporates actual and projected sales results for 2006, 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. It also reflects econometric forecasts as they relate to LIPA's service territory and their forecasted affect on retail sales of electricity. Expenditure forecasts contained in the budget incorporate those operation and maintenance and capital improvement programs, including initiatives planned for 2007, 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 2007 are forecasted at 20,130,617 MWH, which represents an increase of 228,033 MWH, or 1.1% over projected sales for 2006, as normalized for the effects of weather. Sales to both residential and commercial and industrial customers are estimated to grow by 1.1% compared with the normalized levels projected for 2006. Finally, other electric sales, mostly consisting of sales to other public authorities, are estimated to increase by 2.6% as compared with the level projected for 2006.

**Revenues for 2007** are forecasted at \$3.6 billion, or 1.6% lower than the level projected for 2006. The decrease reflects the Power Supply Charge that was lowered by 7.6% effective October 16, 2006 and that is projected to remain in effect throughout 2007. 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. Finally, budgeted revenues reflect \$35.9 million of recoveries from Suffolk County customers as provided for by the Shoreham Property Tax Settlement.

**Fuel and Purchased Power** costs for 2007, before the impact of accruals/amortizations relating to prior years' fuel costs, are budgeted at \$2.1 billion, or 14.4% over the comparable 2006 projected expense level. The budget is based on forecasted commodity (natural gas and fuel oil) prices using the ten day average of the forward price curve as of August 29, 2006 and the projected 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 costs; LIPA's share of Independent System Operators' costs; services received under the Energy Management Agreement; LIPA's fuel hedging program; a non-cash charge or credit 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, and a pass-back of 2006 excess fuel cost recovery. 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 2007 are budgeted at \$772.4 million, approximately the same as the projected level for 2006. O&M expenses are comprised primarily of costs related to the transmission and distribution system management and power supply agreements with KeySpan Corporation, which contain the management fees and other costs associated with operating LIPA's T&D system, and providing generated and purchased power. 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; LIPA's recently-announced Severe Storm Hardening Initiative; and retail and customer care related activities.

**General and Administrative** expenses for 2007 are budgeted at \$45 million. This represents an increase of 2.7% as compared with the projected level for 2006. General and Administrative expenses consist primarily of outside engineering, financial, legal and other professional services and LIPA salaries, benefits and other LIPA employee-related costs. Also included are expenses for insurance, public liability damage claims, office rent, communications, and other general and administrative activities.

LIPA's staffing level for 2007 is budgeted at 104 full-time equivalent employees ("FTE's"). This compares with 96 FTE's projected for 2006.

**Depreciation and Amortization** in 2007 is budgeted to increase to \$248.5 million, or 2% versus the projected expense level for 2006. 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 2007 are budgeted at \$57.7 million, remaining relatively flat as compared with the 2006 projected level. 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 year-to-year expense levels are reflective of the composition of sales revenues in each year.

**Payments in-lieu-of Taxes**, or PILOTs, for 2007 are budgeted at \$175 million, an increase of 3% as compared with the projected level for 2006. 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 include the real property-based taxes being passed through to LIPA pursuant to its purchase power agreements. Real property taxes associated with the generating assets under contract through the Power Supply Agreement with KeySpan (budgeted at \$156 million) are included in Operations and Maintenance expense.

**Other Income and Deductions** for 2007 are budgeted at \$48.6 million. This represents a reduction of 23.3% as compared with the projected 2006 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 and miscellaneous sources of revenues and expenses, such as income from certain customer-requested work not included in basic electric rates.

**Interest Expense** for 2007 is budgeted at \$346 million, a 4% increase as compared with the level projected for 2006. 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 variable interest rates projected for 2007. The effects of these factors have been partially offset by savings LIPA has been able to achieve by restructuring its debt and the use of debt derivative instruments. The average level of debt outstanding during 2007 is forecasted at \$6.9 billion. The effective interest rate is 5.0%. This debt level and interest rate compare with a projected debt level of \$7 billion and an effective interest rate of 4.6% for 2006.

**Excess of Revenues Over Expenses** of \$76.1 million for 2007 is consistent with LIPA's tariff which provides for the recovery of LIPA's fuel and purchased power costs up to the level sufficient to achieve a targeted financial reserve within a specified tolerance band.

**Cash Flow from Operations** for 2007 is budgeted at \$252.6 million and reflects cash generated from LIPA's budgeted operating results.

**Capital** expenditures, which are funded by a combination of cash generated by LIPA's operations and from external sources, are budgeted at \$317 million for 2007. This represents an increase of \$31 million, or 11% versus the expenditure level projected for 2006. The capital expenditure budget for 2008 is \$291 million, a decrease of \$26 million or 8% as

compared with the expenditure level approved for 2007. 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 \$280 million for 2007 and \$269 million in 2008, net of cost-sharing and other contributions, include the construction of new supply transmission interconnections and related substation and transmission system upgrades of \$53 million and \$56 million in 2007 and 2008, respectively. The remaining T&D system projects, budgeted at \$227 million in 2007 and \$213 million in 2008, 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 \$19 million in 2007 and \$7 million in 2008, reflecting the schedule of nuclear fuel reloading. These expenditure levels represent an increase of \$12 million in 2007 and a decrease of the same amount in 2008 as compared to the respective prior years’ projections. 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 and allocations.

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.

**Five-Year Projections of Revenues and Expenses and Sources and Uses of Cash** are presented to give the reader an indication of LIPA’s longer-term financial position. The information contained therein is based on assumptions, particularly with respect to fuel and purchased power commodity costs, which may or may not occur. The projections also assume no change with respect to the contractual relationship with KeySpan/National Grid, how costs are determined under the service agreements or the use of any benefits which may accrue from the 2006 settlement with KeySpan or future agreements on merger-related or other issues between LIPA and KeySpan/National Grid. Therefore, actual results may differ from those presented herein.

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**Statements of Revenues and Expenses**  
 (Thousands of Dollars)

	2005	2006		<b>Approved 2007</b>	% Chg. From Projected 2006	Ref.
	<u>Actual</u>	<u>Approved</u>	<u>Projected <sup>(1)</sup></u>			
<b>Revenues</b>	<b>\$ 3,281,186</b>	<b>\$ 3,735,331</b>	<b>\$ 3,679,455</b>	<b>\$ 3,620,707</b>	<b>(1.60)</b>	A-2
<b>Expenses</b>						
Fuel and Purchased Power Costs	1,750,208	2,073,042	2,000,224	1,948,729	(2.57)	A-5
Operations and Maintenance Expenses	723,774	761,293	770,027	772,413	0.31	A-6
General and Administrative Expenses	43,567	47,232	43,792	44,972	2.69	A-7
Depreciation and Amortization	237,863	246,495	243,625	248,452	1.98	A-8
Revenue Taxes	54,122	58,885	57,718	57,727	0.02	A-9
Payments in Lieu of Taxes (PILOTS)	168,487	177,043	169,941	174,978	2.96	A-9
<b>Total Operating Expenses</b>	<b>2,978,021</b>	<b>3,363,990</b>	<b>3,285,327</b>	<b>3,247,271</b>	<b>(1.16)</b>	
<b>Operating Income</b>	<b>303,165</b>	<b>371,341</b>	<b>394,128</b>	<b>373,436</b>	<b>(5.25)</b>	
Other Income and Deductions	49,193	48,185	63,447	48,643	(23.33)	A-10
Interest Expense	332,358	344,526	332,575	345,984	4.03	A-11
<b>Excess of Revenues Over Expenses</b>	<b>\$ 20,000</b>	<b>\$ 75,000</b>	<b>\$ 125,000</b>	<b>\$ 76,095</b>	<b>(39.12)</b>	
<b>Debt Service Coverage Ratios (x):</b>						
Senior Lien Debt	2.23	2.36	2.76	2.09	(0.67)	
Senior Lien and Subordinated Debt	1.95	2.06	2.54	1.81	(0.73)	
Total Debt	1.92	2.03	2.50	1.79	(0.71)	

Note: (1) Projection as of September 30, 2006

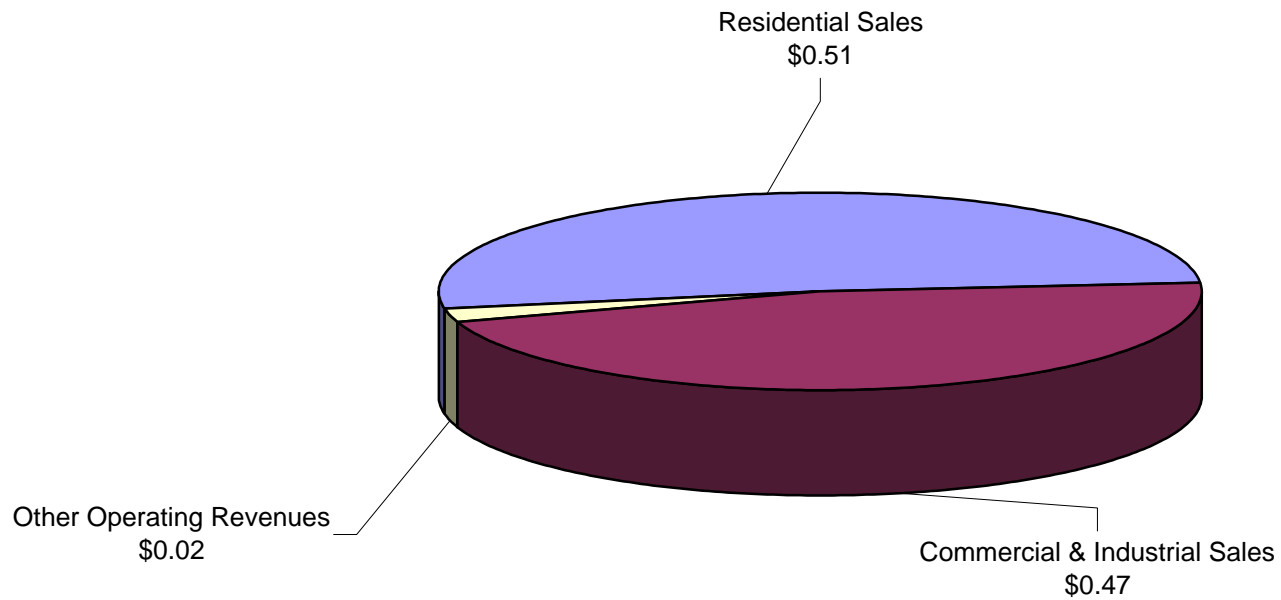
**Sales and Revenues**

	2005 <u>Actual</u>	2006 <u>Approved</u> <u>Projected</u> <sup>(1)</sup>		<b>Approved 2007</b>	% Chg. From Projected <u>2006</u>
<b><u>Sales of Electricity (MWh)</u></b>					
Residential Sales	9,705,753	9,515,358	9,384,558	9,548,128	1.74
Commercial & Industrial Sales	10,106,947	9,945,165	9,965,275	10,137,376	1.73
Other Sales to Public Authorities/Street Lighting	437,368	459,472	433,689	445,112	2.63
<b>Total Sales of Electricity</b>	<b>20,250,068</b>	<b>19,919,995</b>	<b>19,783,522</b> <sup>(2)</sup>	<b>20,130,617</b>	<b>1.75</b>
<b><u>Revenues (\$ thousands)</u></b>					
Residential Sales	\$ 1,717,866	\$ 1,939,243	\$ 1,900,361	\$ 1,870,791	(1.56)
Commercial & Industrial Sales	1,514,895	1,731,981	1,722,620	1,690,195	(1.88)
Other Sales to Public Authorities/Street Lighting	60,513	77,171	68,581	73,438	7.08
Sales for Resale	4,352	2,945	3,955	2,911	(26.40)
Recovery of Deferred Shoreham Property Settlement Costs	(36,128)	(35,251)	(35,557)	(35,936)	1.07
Wheeling Revenues	6,080	6,483	6,178	6,113	(1.05)
Pole Attachment Fees	4,418	3,584	4,194	3,467	(17.33)
Late Payment and Dishonored Check Charges	5,096	5,003	5,203	5,718	9.90
Service Initiation Charges	-	1,000	250	1,392	456.80
Miscellaneous Revenues	4,094	3,172	3,670	2,618	(28.66)
<b>Total Revenues</b>	<b>\$ 3,281,186</b>	<b>\$ 3,735,331</b>	<b>\$ 3,679,455</b>	<b>\$ 3,620,707</b>	<b>(1.60)</b>

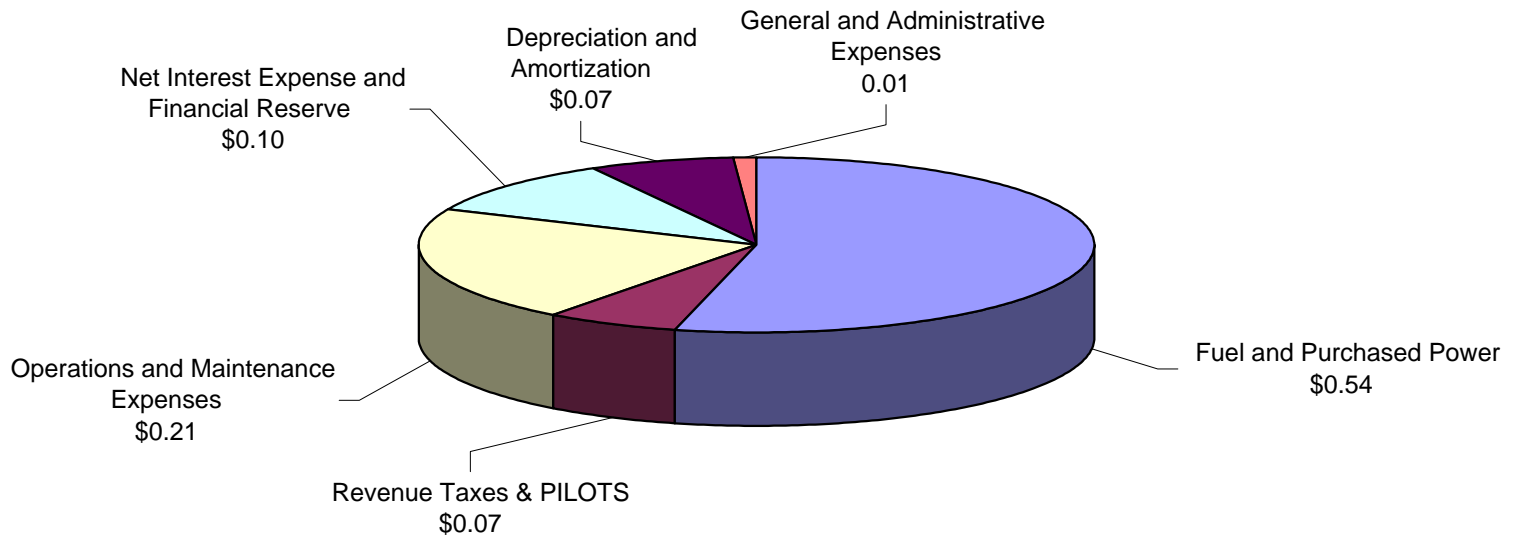
Note: (1) Projection as of September 30, 2006

(2) Projected weather-normalized sales of electricity as of September 30, 2006: 19,902,584 MWh.

### Source of 2007 Revenue Dollar



### Use of 2007 Revenue Dollar



**Fuel and Purchased Power Costs**  
 (Thousands of Dollars)

	2005	2006		<b>Approved 2007</b>	% Chg. From Projected 2006
	<u>Actual</u>	<u>Approved</u>	<u>Projected</u> <sup>(1)</sup>		
Fuel Oil	\$ 534,848	\$ 743,593	\$ 233,785	\$ 380,817	62.89
Natural Gas	294,489	327,463	701,536	532,678	(24.07)
Purchased Power	467,824	475,384	444,165	636,127	43.22
Wheeling Charges	6,772	16,479	15,889	16,973	6.82
Capacity Charges	227,150	246,831	245,628	305,754	24.48
Nine Mile Nuclear Fuel (incl. Disposal and Decomm. Costs)	7,652	8,399	7,861	9,119	16.00
Y-49 and Y-50 Cable Operating Costs	26,856	27,651	27,946	28,966	3.65
Fuel Hedging Program Costs	3,236	13,725	11,123	17,500	57.33
ESCO Bill Credit Adjustment Payments	81,703	111,605	67,225	85,953	27.86
Energy Management Agreement	10,001	10,563	16,392	12,633	(22.93)
ISO-Related Service Costs	72,412	50,461	35,963	41,651	15.82
Energy Efficiency/Public Policy Programs	188	4,388	1,537	500	(67.47)
Other-One-Time Adjustments	(19,957)	-	-	-	-
	\$ 1,713,174	\$ 2,036,542	\$ 1,809,050	\$ 2,068,671	14.35
Recovery of 2003 Deferred Fuel and Purchased Power Costs	37,034	36,500	34,732	36,500	5.09
Accrual/Amortization of 2006 Excess Fuel Cost Recovery	-	-	156,442	(156,442)	(200.00)
<b>Total Fuel and Purchased Power Costs</b>	<b>\$ 1,750,208</b>	<b>\$ 2,073,042</b>	<b>\$ 2,000,224</b>	<b>\$ 1,948,729</b>	<b>(2.57)</b>

N/M=Not meaningful

Note: (1) Projection as of September 30, 2006

**Operations and Maintenance Expenses**  
(Thousands of Dollars)

	2005	2006		<b>Approved 2007</b>	% Chg. From Projected	Ref
	<u>Actual</u>	<u>Approved</u>	<u>Projected</u> <sup>(1)</sup>		<u>2006</u>	
KeySpan Management Services Agreement (2)	\$274,292	\$ 272,262	\$ 272,262	\$ 262,750	(3.49)	A-6.1
KeySpan Power Supply Agreement	341,107	358,732	367,629	370,540	0.79	A-6.1
Clean Energy Program	33,156	47,861	36,387	52,404	44.02	A-6.4
Storm Damage Reserve	10,000	15,000	33,600	24,000	(28.57)	(3)
Nine Mile Point 2 O&M	28,860	31,472	27,745	23,079	(16.82)	A-6.2
Uncollectible Accounts	17,559	16,717	16,073	16,441	2.29	(3)
Storm Hardening Initiative	-	-	-	5,000	N/M	(3)
Accretion of Asset Retirement Obligation	6,296	4,345	4,345	4,902	12.82	(3)
Assessments	2,289	2,669	2,553	2,924	14.53	(3)
Postage-Paid Remittance Envelopes	2,501	2,760	2,594	2,685	3.50	(3)
Research & Development	3,039	4,025	2,000	2,440	22.00	A-6.3
Retail and Customer Care Programs	1,295	2,094	302	1,412	368.32	(3)
O & M-Y49 and Y-50 Cables	268	400	385	100	(74.03)	(3)
Miscellaneous	3,112	2,956	4,152	3,736	(10.01)	(3)
<b>Total Operations and Maintenance Expenses</b>	<b>\$ 723,774</b>	<b>\$ 761,293</b>	<b>\$ 770,027</b>	<b>\$ 772,413</b>	<b>0.31</b>	

N/M=Not meaningful

Notes: (1) Projection as of September 30, 2006.

(2) Excludes expenditures related to the R&D and Clean Energy programs.

(3) Not detailed on separate schedule.

**KeySpan Contracts-Operating Expenses**  
 (Thousands of Dollars)

	2005	2006		<b>Approved 2007</b>	% Chg. From Projected 2006
	<u>Actual</u>	<u>Approved</u>	<u>Projected <sup>(1)</sup></u>		
<b>Management Services Agreement (2)</b>					
T&D System Operating Costs (3)	306,769	\$ 305,410	\$ 272,262	\$ 262,750	(3.49)
Management Fee (3)	10,000	10,000	N/A	N/A	N/A
Synergy Savings (3)	(49,877)	(50,548)	N/A	N/A	N/A
Non-Cost Performance Incentives	7,400	7,400	N/A	N/A	N/A
<b>Total Management Services Agreement</b>	<b>274,292</b>	<b>\$ 272,262</b>	<b>\$ 272,262</b>	<b>\$ 262,750</b>	<b>(3.49)</b>
<b>Power Supply Agreement (2)</b>					
Operation and Maintenance Expenses	360,675	\$ 372,618	\$ 381,515	\$ 384,426	0.76
Synergy Savings	(23,567)	(17,886)	(17,886)	(17,886)	-
Non-Cost Performance Incentives	3,999	4,000	4,000	4,000	-
<b>Total Power Supply Agreement</b>	<b>341,107</b>	<b>\$ 358,732</b>	<b>\$ 367,629</b>	<b>\$ 370,540</b>	<b>0.79</b>
<b>Energy Management Agreement (4)</b>					
Operating Expenses	3,050	\$ 3,502	\$ 4,462	\$ 3,484	(21.92)
Management Fees	1,772	1,500	1,500	1,500	-
Synergy Savings	(1,742)	(1,700)	(1,700)	(1,700)	-
Non-Cost Performance Incentives	5,000	5,000	5,000	5,000	-
<b>Total Energy Management Agreement</b>	<b>8,080</b>	<b>\$ 8,302</b>	<b>\$ 9,262</b>	<b>\$ 8,284</b>	<b>(10.56)</b>
<b>Total Contracts with KeySpan</b>	<b>623,479</b>	<b>\$ 639,296</b>	<b>\$ 649,153</b>	<b>\$ 641,574</b>	<b>(1.17)</b>

N/A-Not applicable

Notes: (1) Projection as of September 30, 2006.

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

(3) Under the Amended and Restated Management Services Agreement, the mechanism by which the service charge is set does not specifically identify this component.

(4) 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)

	2005 <u>Actual</u>	2006 <u>Approved</u> <u>Projected</u> <sup>(1)</sup>		<b>Approved 2007</b>	% Chg. From Projected <u>2006</u>
Refueling Outage Amortization	5,568	\$ 3,149	\$ 3,257	\$ 2,504	(23.12)
Non-Outage Operating Expenses	22,714	27,716	24,396	20,484	(16.04)
Insurance	87	92	92	91	(1.09)
Nine Mile Oversight	491	515	-	-	-
<b>Total Nine Mile Point 2 O&amp;M Expenses</b>	<b>\$ 28,860</b>	<b>\$ 31,472</b>	<b>\$ 27,745</b>	<b>\$ 23,079</b>	<b>(16.82)</b>

Note: (1) Projection as of September 30, 2006.

**Research & Development Expenses**

(Thousands of Dollars)

	2005	2006		<b>Approved 2007</b>	% Chg. From Projected 2006
	<u>Actual</u>	<u>Approved</u>	<u>Projected <sup>(1)</sup></u>		
T&D and Customer Utilization Projects	1,277	\$ 2,215	\$ 1,400	\$ 1,840	31.43
NYSERDA	1,600	1,600	1,600	1,600	-
Clean Energy/Energy Efficiency Projects	2,214	3,500	1,500	4,000	166.67
Base KeySpan Labor Included in MSA Budget	1,162	1,210	-	-	-
<b>Total Research and Development Budget</b>	<b>6,253</b>	<b>8,525</b>	<b>4,500</b>	<b>7,440</b>	<b>65.33</b>
Less: R&D Projects Included in Clean Energy Program	(3,214)	(4,500)	(2,500)	(5,000)	100.00
<b>Total Research &amp; Development Expenses</b>	<b>\$ 3,039</b>	<b>\$ 4,025</b>	<b>\$ 2,000</b>	<b>\$ 2,440</b>	<b>22.00</b>

Note: (1) Projection as of September 30, 2006.

### Clean Energy Program Expenses

(Thousands of Dollars)

	2005	2006		<b>Approved 2007</b>	% Chg. From Projected 2006
	<u>Actual</u>	<u>Approved</u>	<u>Projected <sup>(1)</sup></u>		
Energy Efficiency Programs	21,099	\$ 32,543	(3)	\$ 38,290	N/A
Peak Load Reduction Program <sup>(2)</sup>	157	150	(3)	150	N/A
Low Income Conservation	2,511	2,700	(3)	3,290	N/A
Research & Development	2,214	3,500	(3)	4,000	N/A
NYSERDA-Clean Energy Research Programs	1,000	1,000	(3)	1,000	N/A
Advertising and Promotion	2,004	1,950	(3)	2,208	N/A
Program Administration	829	2,544	(3)	3,466	N/A
Base KeySpan Labor Included in MSA Budget	3,342	3,474	(3)	-	N/A
<b>Total Clean Energy Program Expenses</b>	<b>\$ 33,156</b>	<b>\$ 47,861</b>	<b>\$ 36,387</b>	<b>\$ 52,404</b>	<b>44.02</b>

N/A=Not applicable

Notes: (1) Projection as of September 30, 2006.

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

(3) Projections are rolled up to the Clean Energy Program level.

**General and Administrative Expenses**  
 (Thousands of Dollars)

	2005 <u>Actual</u>	2006 <u>Approved</u> <u>Projected <sup>(1)</sup></u>		<b>Approved 2007</b>	% Chg. From Projected 2006
Employee Salaries	\$ 9,993	\$ 10,720	\$ 10,292	\$ 11,255	9.36
Overtime	20	48	48	28	(41.67)
Medical, Dental and Vision Care Insurance	732	711	711	962	35.30
Employee Pensions	867	1,345	1,941	1,019	(47.50)
Other Employee Benefits	1,910	1,826	1,871	1,979	5.77
Professional Services	22,904	24,459	20,896	20,776	(0.57)
Insurance	1,472	1,666	1,666	2,455	47.36
Injuries and Damages Reserve	2,150	2,250	2,250	2,050	(8.89)
Office Rent	1,435	1,472	1,472	1,562	6.11
Telephone	223	216	214	201	(6.07)
Office Supplies and Equipment	350	635	637	618	(2.91)
Meetings, Conferences and Seminars	283	424	419	445	6.21
Dues/Memberships/Subscriptions	136	94	104	101	(2.88)
Communications	398	698	698	750	7.45
Board of Trustees and Other Public Meetings	15	56	56	42	(25.00)
Community Relations	4	73	73	156	113.70
Sponsorships/Special Events	369	378	403	415	2.98
Miscellaneous	306	161	41	158	285.37
<b>Total Administrative and General Expenses</b>	<b>\$ 43,567</b>	<b>\$ 47,232</b>	<b>\$ 43,792</b>	<b>\$ 44,972</b>	<b>2.69</b>

Note: (1) Projection as of September 30, 2006.

Long Island Power Authority and Subsidiaries  
 Approved Budget-2007

**Professional Services** <sup>(1) (2)</sup>  
 (Thousands of Dollars)

	2005 <u>Actual</u>	2006 <u>Approved</u>	2006 <u>Projected</u> <sup>(3)</sup>	<b>Approved 2007</b>	% Chg. From Projected <u>2006</u>
Engineering	10,251	11,249	8,977	9,220	2.71
Legal	3,831	6,324	6,324	5,020	(20.62)
Financial Advisor/Cash Management	5,804	3,075	1,735	1,872	7.90
Accounting and Audit Services	1,020	1,847	1,784	1,645	(7.79)
Rates and Tariffs	255	180	330	780	136.36
Information Technology	533	385	435	710	63.22
Risk Management-Fuel	832	677	677	708	4.58
Communications	119	190	145	200	37.93
Telecommunications	7	150	150	120	(20.00)
Risk Management-Insurance	141	178	141	164	16.61
Miscellaneous	111	204	198	337	70.20
<b>Total Consulting Expenses</b>	<b>\$ 22,904</b>	<b>\$ 24,459</b>	<b>\$ 20,896</b>	<b>\$ 20,776</b>	<b>(0.57)</b>

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.

(3) Projection as of September 30, 2006.

Long Island Power Authority and Subsidiaries  
 Approved Budget-2007

**Depreciation and Amortization**

(Thousands of Dollars)

	2005 <u>Actual</u>	2006 <u>Approved</u> <u>Projected</u> <sup>(1)</sup>		<b>Approved 2007</b>	% Chg. From Projected <u>2006</u>
Amortization of Acquisition Adjustment	112,681	\$ 112,681	\$ 112,681	\$ 112,681	-
Depreciation Expense-Plant-in-Service	125,182	133,814	130,944	135,771	3.69
<b>Total Depreciation and Amortization</b>	<b>\$ 237,863</b>	<b>\$ 246,495</b>	<b>\$ 243,625</b>	<b>\$ 248,452</b>	<b>1.98</b>

Note: (1) Projection as of September 30, 2006.

**Taxes and Payments in-lieu-of Taxes**

(Thousands of Dollars)

	2005 <u>Actual</u>	2006 <u>Approved</u> <u>Projected<sup>(1)</sup></u>		<b>Approved 2007</b>	% Chg. From Projected 2006
<b>Revenue Taxes</b>	54,122	\$ 58,885	\$ 57,718	\$ 57,727	0.02
<b>Payments in-lieu-of Taxes (PILOTS)</b>					
Long Island and New York City	156,076	\$ 164,290	\$ 156,407	\$ 161,987	3.57
Nine Mile PILOTS	3,060	3,553	3,602	3,631	0.81
Merchant Power Plants	9,351	9,200	9,367	9,360	(0.07)
Other	-	-	565	-	(100.00)
<b>Total PILOTS</b>	<b>\$ 168,487</b>	<b>\$ 177,043</b>	<b>\$ 169,941</b>	<b>\$ 174,978</b>	<b>2.96</b>

Note: (1) Projection as of September 30, 2006.

**Other Income and Deductions <sup>(1)</sup>**  
 (Thousands of Dollars)

	2005	2006		<b>Approved 2007</b>	% Chg. From Projected 2006
	<u>Actual</u>	<u>Approved</u>	<u>Projected <sup>(2)</sup></u>		
Short-Term Investment Income	16,215	\$ 10,616	\$ 27,411	\$ 21,619	(21.13)
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	32,345	32,439	32,439	32,178	(0.80)
Income on Nuclear Decommissioning Trust Fund	1,672	2,143	1,722	1,606	(6.74)
Miscellaneous Income and Deductions	(1,039)	2,987	1,875	(6,760)	(460.55)
<b>Total Other Income and Deductions</b>	<b>\$ 49,193</b>	<b>\$ 48,185</b>	<b>\$ 63,447</b>	<b>\$ 48,643</b>	<b>(23.33)</b>

Note: (1) Gains on the sales of emission credits have been reclassified to Fuel and Purchased Power Costs.

(2) Projection as of September 30, 2006.

**Interest Expense**  
 (Thousands of Dollars)

	2005 Actual	2006 Approved	2006 Projected <sup>(1)</sup>	Approved 2007	% Chg. From Projected 2006
<b>Interest Expense on Debt Securities from Page A-12</b>	<b>\$ 299,749</b>	<b>\$ 321,880</b>	<b>\$ 316,663</b>	<b>\$ 323,634</b>	<b>2.20</b>
<b>Other Interest Expense</b>					
NYSERDA	8,075	\$ 8,075	\$ 8,075	\$ 8,075	-
Promissory Note due from KeySpan	(8,075)	(8,075)	(8,075)	(8,075)	-
Amortization of Deferred Debt Issue Costs	5,761	5,053	2,512	5,862	133.37
Amortization of Deferred Losses (Gains) on Debt Redemptions	9,097	5,245	3,019	9,489	214.28
Letter of Credit Fees	6,264	6,964	4,942	4,992	1.01
Broker/Dealer Fees on Auction Rate Bonds	2,517	2,704	2,539	2,639	3.94
Interest on Customer Security Deposits	701	1,200	695	533	(23.31)
Bond Administration Costs and Bank Fees	1,333	640	1,111	739	(33.48)
Remarketing Fees	948	844	852	938	10.09
Carrying Charges on Deferred Credits	2,694	-	-	-	-
Other	5,724	2,996	4,941	558	(88.71)
<b>Total Other Interest Expense</b>	<b>\$ 35,039</b>	<b>\$ 25,646</b>	<b>\$ 20,611</b>	<b>\$ 25,750</b>	<b>24.93</b>
<b>Less: Capitalized Interest</b>	<b>2,431</b>	<b>3,000</b>	<b>4,699</b>	<b>3,400</b>	<b>(27.64)</b>
<b>Total Interest Expense</b>	<b>\$ 332,358</b>	<b>\$ 344,526</b>	<b>\$ 332,575</b>	<b>\$ 345,984</b>	<b>4.03</b>

N/M=Not meaningful

Note: (1) Projection as of September 30, 2006.

**2007 Cost of Debt**

Series	Type	Maturity	Year-End Principal	Average Principal	Effective	Interest Expense
			Outstanding	Outstanding	Interest	
			(\$Thousands)	(\$Thousands)	Rate	(\$Thousands)
<b>Senior Lien Debt</b>						
1998 A	Serial Bonds	2006-2016	\$ 303,045	\$ 363,673	5.241%	19,059
1998 A	Capital Appreciation Bonds (1)	2006-2028	140,510	148,930	5.072%	7,553
1998 B	Serial Bonds (2)	2006-2016	474,865	502,703	4.752%	23,887
1998 B	Term Bonds (2), (5)	2018	57,145	57,145	4.455%	2,546
2000 A	Capital Appreciation Bonds (3)	2006-2028	366,060	356,766	5.628%	20,077
2001A	Serial Bonds (2), (5)	2013-2021	13,870	13,870	4.795%	665
2001 A	Term Bonds (2)	2025-2029	202,395	202,395	4.883%	9,883
2001 (B-K) (M-P)	Auction Rate Bonds (4)	2033	700,000	700,000	4.500%	31,500
2001 L	Term Bonds (5)	2033	116,000	116,000	5.288%	6,135
2003 A	Serial Bonds	2006-2009	37,675	44,256	3.697%	1,636
2003 B	Serial Bonds	2006-2014	279,850	285,292	4.499%	12,835
2003 C	Serial Bonds (2), (5)	2013-2033	101,915	101,915	5.026%	5,122
2003 C	Term Bonds (2), (5)	2033	185,520	185,520	4.631%	8,591
2003 D-H	Variable Rate Debt (6)	2029	293,625	293,625	4.481%	13,158
2003 I-O	Auction Rate Debt (6)	2029	293,600	293,600	4.481%	13,156
2004A	Serial Bonds	2013-2025	33,900	33,900	4.268%	1,447
2004A	Term Bonds	2029-2034	166,100	166,100	5.084%	8,444
2006A	Serial Bonds	2006-2026	839,245	839,245	4.572%	38,373
2006B	Serial Bonds	2035	4,240	4,240	4.500%	191
2006B	Term Bonds	2035	92,715	92,715	4.883%	4,528
2006C	Term Bonds	2035	198,020	198,020	4.948%	9,797
2006D	Serial Bonds	2006-2025	328,180	328,573	4.334%	14,241
2006E	Serial Bonds	2006-2022	507,600	507,600	4.424%	22,454
2007	Serial Bonds	2037	102,500	76,875	5.500%	4,228
Total Senior Lien Debt			\$ 5,838,575	\$ 5,912,958	4.727%	\$ 279,506
<b>Subordinate Debt</b>						
Series 7A & 7B	Variable Rate (5)	2025	\$ 250,000	\$ 250,000	3.979%	\$ 9,948
Series 8	Mandatory Purchase	2006-2010	131,925	138,750	4.364%	\$ 6,055
Series 2001 1A-3B	Variable Rate (4)	2033	525,000	525,000	4.500%	\$ 23,625
Commercial Paper	Variable Rate (4)	Various	100,000	100,000	4.500%	\$ 4,500
Total Subordinated Debt			\$ 1,006,925	\$ 1,013,750	4.353%	\$ 44,128
<b>Total Debt Securities</b>			<b>\$ 6,845,500</b>	<b>\$ 6,926,708</b>	<b>4.672%</b>	<b>\$ 323,634</b>
<b>Other Debt-Related Interest Expense (7)</b>						<b>24,660</b>
<b>Total Average Debt Outstanding</b>			<b>\$ 6,845,500</b>	<b>\$ 6,926,708</b>	<b>5.028%</b>	<b>\$ 348,294</b>

- (1) Represents accreted value of original proceeds of \$145.793 million, adjusted for principal maturities and 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) Projected variable rate of 4.50% .
- (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) Excludes Interest on customer deposits and other carrying charges.

**Cash Flow from Operations**  
 (Thousands of Dollars)

	2005 <u>Actual</u>	2006 <u>Approved</u> <u>Projected <sup>(1)</sup></u>		<b>Approved 2007</b>	% Chg. From Projected 2006
<b>Excess Of Revenues Over Expenses</b>	<b>\$ 20,000</b>	<b>\$ 75,000</b>	<b>\$ 125,000</b>	<b>\$ 76,095</b>	<b>(39.12)</b>
<b>Add Back (Deduct) Non-Cash Items:</b>					
Recovery of Deferred Shoreham Property Tax Settlement Costs	35,603	35,251	35,557	35,936	1.07
Recovery of Deferred Fuel and Purchased Power Costs	37,034	36,500	34,732	36,500	5.09
Accrual/ (Amortization) of 2006 Excess Fuel Cost Recovery	-	-	156,442	(156,442)	(200.00)
FPPCA Customer Refunds	(19,957)	-	-	-	-
Prepaid Fuel Hedging Program Costs-Net of Amortization	(12,712)	(275)	(2,877)	5,500	(291.18)
Prepaid Nine Mile Point 2 Refueling Outage Costs-Net of Amortization	5,513	(1,891)	(1,352)	2,504	(285.17)
Prepaid Nuclear Fuel Expense	(11,133)	(1,813)	(1,680)	(12,544)	646.62
Amortization of Nine Mile Nuclear Fuel Costs	5,806	6,744	6,058	7,294	20.40
Amortization of Mobile Generating Units	10,167	10,044	10,046	10,044	-
Prepaid Insurance-Net of Amortization	193	-	-	-	-
PSA Plant and Property Tax True-Ups-Accrual Net of Payment	5,300	(2,047)	3,597	(2,113)	(158.74)
Depreciation and Amortization	237,863	246,495	243,625	248,452	1.98
Decommissioning Trust Fund Contribution-Nine Mile Point 2	(3,245)	(4,000)	(4,000)	(970)	(75.75)
Accretion of Asset Retirement Obligation	6,296	4,345	4,345	4,902	12.82
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	(32,345)	(32,439)	(32,439)	(32,178)	(0.80)
Amortization of Deferred Debt Issue Costs (Premiums)	5,761	(3,272)	2,512	5,862	133.37
Amortization of Deferred Losses (Gains) on Debt Redemptions	9,097	5,245	3,019	9,489	214.28
Interest on Capital Appreciation Bonds	25,896	26,743	26,744	27,631	3.32
Capitalized Interest and MSA Management Fees	(12,431)	(3,000)	(14,699)	(13,400)	(8.84)
<b>Total Non-Cash Items</b>	<b>292,705</b>	<b>322,630</b>	<b>469,630</b>	<b>176,467</b>	<b>(62.42)</b>
<b>Excess of Revenues Over Expenses-Cash Basis</b>	<b>312,705</b>	<b>397,630</b>	<b>594,630</b>	<b>252,562</b>	<b>(57.53)</b>

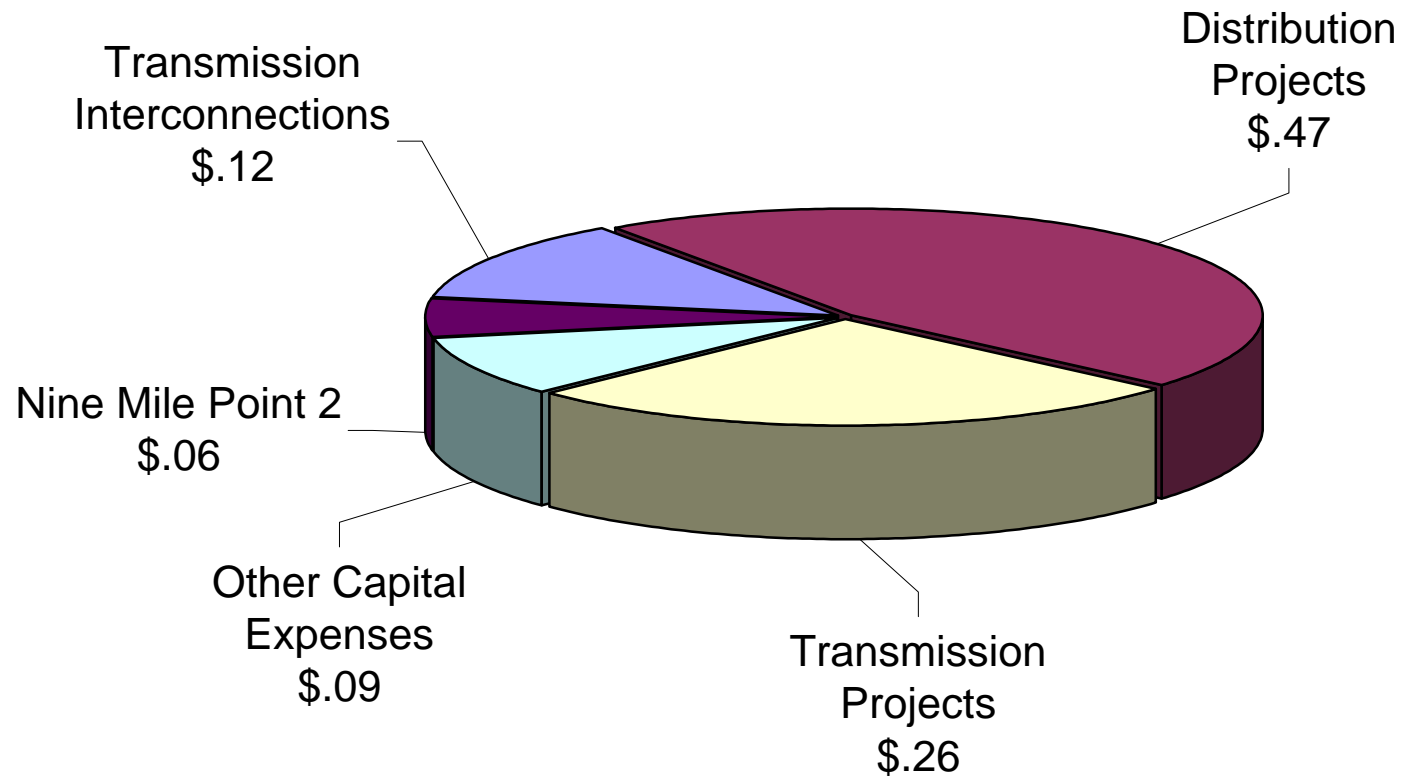
Note: (1) Projection as of September 30, 2006

**Capital Expenditures**  
 (Thousands of Dollars)

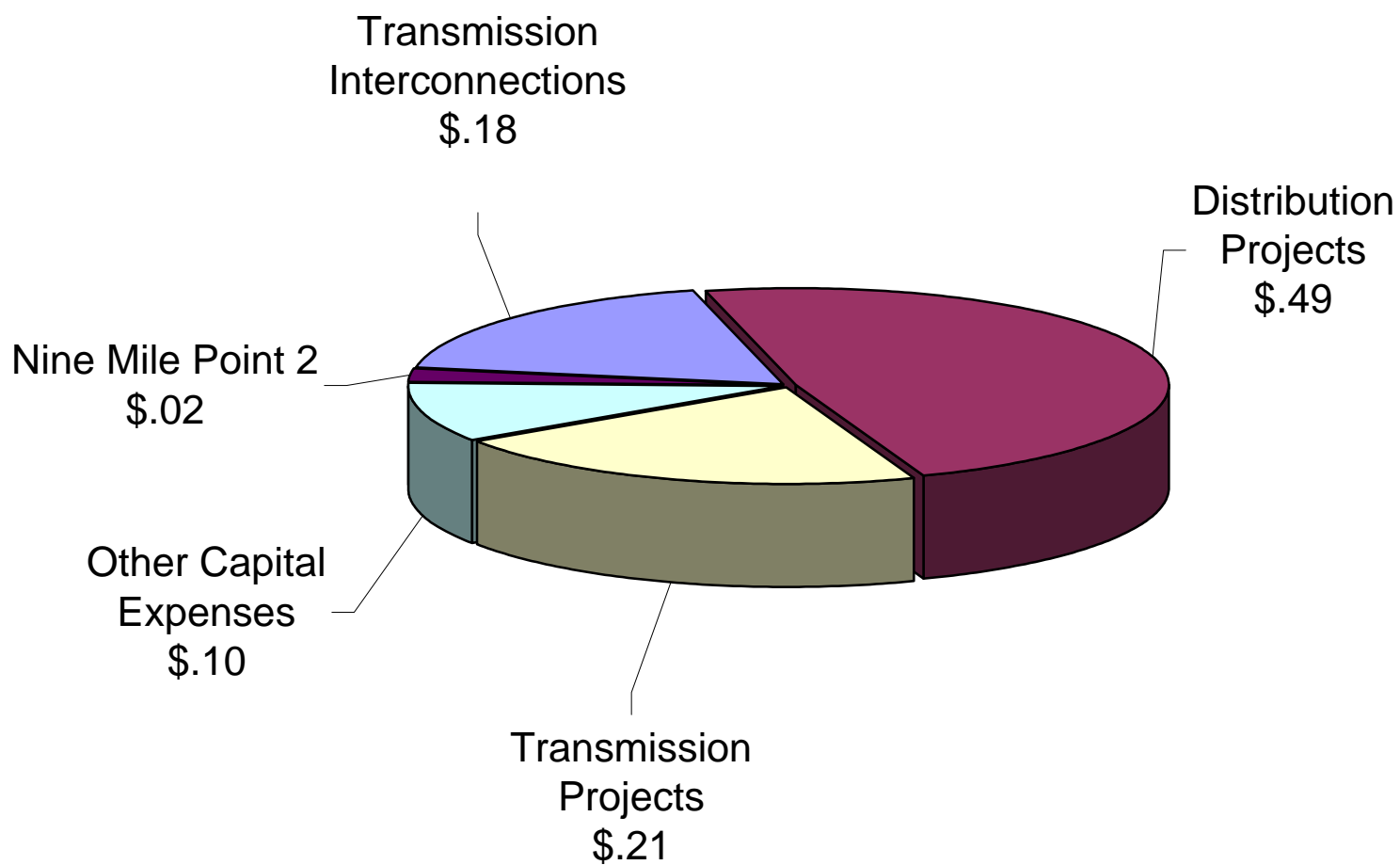
	Actual 2005	2006		Approved 2007	% Chg. From Projected 2006	Approved 2008	% Chg.
		Approved	Projected <sup>(1)</sup>				
<b>Transmission Projects</b>							
Transmission Interconnections-New Power Plants (Major Capital)	\$ 10,166	\$ 595	\$ -	\$ 1,000	N/M	\$ 3,750	275.00
Transmission Interconnections-Offshore Wind Projects (Major Capital)	916	500	682	1,000	46.63	25,000	2,400.00
Transmission Interconnections-Neptune Cable (Major Capital)	15,277	58,713	75,207	10,000	(86.70)	-	(100.00)
Transmission Interconnections-NUSCO Cable (Major Capital)	3,907	8,500	9,352	28,500	204.75	26,500	(7.02)
Transmission Interconnections - Other (Major Capital)	-	4,500	-	-	-	-	-
Queens Substations and Lines (Major Capital)	116	-	-	-	-	400	N/M
Nassau Substations and Lines (Major Capital)	8,650	12,946	11,516	17,680	53.53	15,192	(14.08)
Western Suffolk Substations and Lines (Major Capital)	9,387	18,917	18,859	24,960	32.35	15,255	(38.88)
Eastern Suffolk Northfork Substation and Lines (Major Capital)	19,544	23,461	17,490	31,750	81.53	28,200	(11.18)
Other Transmission (Routine Capital)	11,352	15,638	15,434	10,128	(34.38)	3,773	(62.75)
Other Transmission (Major Capital)	5,425	1,000	2,687	1,500	(44.18)	500	(66.67)
<b>Total Transmission Projects</b>	<b>84,740</b>	<b>144,770</b>	<b>151,227</b>	<b>126,518</b>	<b>(16.34)</b>	<b>118,570</b>	<b>(6.28)</b>
<b>Distribution Projects</b>							
Substations (Major Capital)	11,207	12,315	11,386	26,976	136.92	25,313	(6.16)
Substations (Routine Capital)	2,291	1,709	1,343	2,596	93.31	3,570	38.00
Electric Lines-New Customer Load (Routine Capital)	30,292	31,792	26,082	29,750	14.06	26,835	(9.80)
Electric Lines-Other (Routine Capital)	62,810	55,365	54,342	55,461	2.06	52,713	(4.95)
Purchase and Install Meters/Transformers (Routine Capital)	20,258	19,316	20,849	22,180	6.38	19,984	(9.90)
Public Works	3,506	2,453	2,743	4,700	71.35	4,230	(10.00)
Other Distribution (Routine Capital)	2,087	2,505	2,915	9,793	235.95	12,679	29.47
<b>Total Distribution Projects</b>	<b>132,451</b>	<b>125,455</b>	<b>119,660</b>	<b>151,456</b>	<b>26.57</b>	<b>145,324</b>	<b>(4.05)</b>
<b>Project Funding for Emerging Work and Land Acquisitions</b>	<b>N/A</b>	<b>5,000</b>	<b>N/A</b>	<b>12,000</b>	<b>N/A</b>	<b>15,000</b>	<b>25.00</b>
<b>Additional Public Works Projects (beyond MSA)</b>	<b>N/A</b>	<b>1,000</b>	<b>N/A</b>	<b>-</b>	<b>N/A</b>	<b>-</b>	<b>-</b>
<b>Total Transmission and Distribution Projects</b>	<b>217,191</b>	<b>276,225</b>	<b>270,887</b>	<b>289,974</b>	<b>7.05</b>	<b>278,894</b>	<b>(3.82)</b>
<b>Cost-Sharing and Other Contributions</b>	<b>N/A</b>	<b>(13,700)</b>	<b>(7,937)</b>	<b>(10,191)</b>	<b>28.40</b>	<b>(9,500)</b>	<b>(6.78)</b>
<b>Capitalized Interest and Allocations</b>	<b>12,431</b>	<b>3,000</b>	<b>14,699</b>	<b>13,400</b>	<b>(8.84)</b>	<b>13,100</b>	<b>(2.24)</b>
<b>Nine Mile Point Two Plant Additions/Replacements/Capitalized Nuclear Fuel</b>	<b>14,714</b>	<b>7,676</b>	<b>6,652</b>	<b>18,770</b>	<b>182.18</b>	<b>6,740</b>	<b>(64.09)</b>
<b>LIPA Information Systems, Equipment and Other Capitalized Expenditures</b>	<b>2,422</b>	<b>2,780</b>	<b>1,547</b>	<b>5,150</b>	<b>232.90</b>	<b>1,765</b>	<b>(65.73)</b>
<b>Total Capital Expenditures</b>	<b>\$ 246,758</b>	<b>\$ 275,981</b>	<b>\$ 285,848</b>	<b>\$ 317,103</b>	<b>10.93</b>	<b>\$ 290,999</b>	<b>(8.23)</b>

N/M=Not Meaningful  
 N/A=Included in individual project categories, above  
 Note: (1) Projection as of September 30, 2006

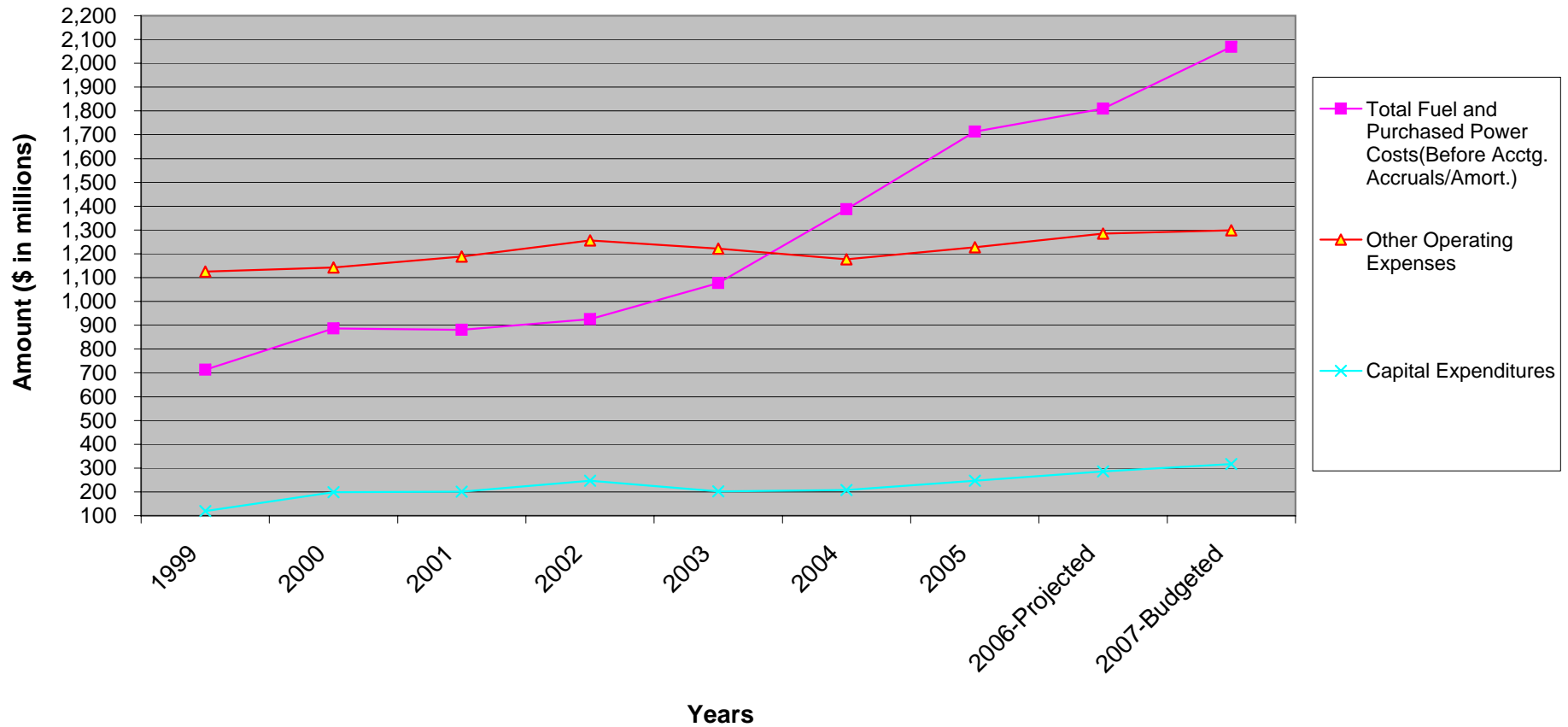
### Use of 2007 Capital Dollar



### Use of 2008 Capital Dollar



**Cost Comparisons  
 1999 Through 2007  
 (based on actual and budgeted values)**



## Statements of Revenues and Expenses

(Thousands of Dollars)

	Approved Budget <u>2007</u>	Projected			
		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Revenues</b>	<b>\$ 3,620,707</b>	<b>\$ 3,956,665</b>	<b>\$ 3,909,613</b>	<b>\$ 3,792,167</b>	<b>\$ 3,845,907</b>
<b>Expenses</b>					
Fuel and Purchased Power Costs	1,948,729	2,262,441	2,185,658	2,034,035	2,045,479
Operations and Maintenance Expenses	772,413	784,056	799,831	827,213	856,027
General and Administrative Expenses	44,972	46,338	47,728	49,161	50,636
Depreciation and Amortization	248,452	253,324	261,167	268,628	276,033
Revenue Taxes	57,727	61,643	61,340	60,265	61,153
Payments in Lieu of Taxes (PILOTS)	174,978	183,044	190,042	199,266	209,112
<b>Total Operating Expenses</b>	<b>3,247,271</b>	<b>3,590,846</b>	<b>3,545,766</b>	<b>3,438,568</b>	<b>3,498,440</b>
<b>Operating Income</b>	<b>373,436</b>	<b>365,819</b>	<b>363,847</b>	<b>353,599</b>	<b>347,467</b>
Other Income and Deductions	48,643	52,567	50,181	52,933	52,031
Interest Expense	345,984	343,386	339,028	331,532	324,498
<b>Excess of Revenues Over Expenses</b>	<b>\$ 76,095</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>
<b>Debt Service Coverage Ratios (x):</b>					
Senior Lien Debt	2.09	2.53	2.92	3.01	2.98
Senior Lien and Subordinated Debt	1.81	2.21	2.41	2.63	2.61
Total Debt	1.79	2.18	2.37	2.59	2.57
<b>Change in typical residential bill from prior year</b>	<b>0.0%</b>	<b>7.4%</b>	<b>-2.0%</b>	<b>-3.9%</b>	<b>0.0%</b>

**Statements of Sources and Uses of Funds**

(Thousands of Dollars)

	Approved	Projected			
	Budget <u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>FUNDS PROVIDED FROM :</b>					
<b>Excess Of Revenues Over Expenses</b>	\$ 76,095	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
<b>Plus (Minus) Non-Cash Items:</b>					
Accrual/ (Amortization) of 2006 Excess Fuel Cost Recovery	(156,442)	-	-	-	-
Amortization of Deferred Shoreham Property Tax Settlement Credits	35,936	36,725	37,335	38,093	38,930
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	(32,178)	(31,829)	(31,383)	(30,856)	(30,254)
Deferred Fuel Cost Reconciliation	36,500	36,500	36,500	36,500	36,500
NMP2 Amortized Nuclear Fuel Expense	7,294	7,094	7,724	8,776	9,810
Amortization of Prepaid NMP2 Refueling Outage Costs	2,504	2,353	2,303	2,160	2,113
Amortization of Prepaid Fuel Hedging Program Costs	17,500	15,555	11,500	10,000	10,000
Asset Retirement Obligation Accretion - FASB 143	4,902	4,984	5,283	5,600	5,936
Amortization of Prepaid Mobile Generating Units	10,044	-	-	-	-
Depreciation and Amortization	248,452	253,324	261,167	268,628	276,033
Other	387	458	(2,848)	(2,394)	287
Debt Service Interest Expense	352,856	350,257	345,899	338,403	331,370
Proceeds of Bonds and Notes	100,000	140,000	80,000	40,000	75,000
<b>Total Sources of Funds before Interest Expense</b>	<b>\$703,850</b>	<b>\$890,421</b>	<b>\$828,480</b>	<b>\$789,910</b>	<b>\$830,725</b>
<b>FUNDS USED FOR :</b>					
Prepaid Fuel Hedging Program Costs	12,000	15,555	11,500	10,000	10,000
Prepaid NMP2 Refueling Outage Costs	-	4,426	-	4,426	-
Funding for NMP2 Plant Decommissioning	970	970	970	970	970
Bank and Related Fees	9,868	9,900	9,900	9,900	9,900
Debt Service Payments	561,580	566,672	552,729	531,944	537,766
Capital Expenditures	291,159	277,204	245,801	235,591	247,850
Capitalized MSA Management Fees	10,000	10,000	10,000	10,000	10,000
NMP2 Cash Fuel Expense Capital Expenditures	12,544	695	16,813	748	16,778
Change in cash position due to Operating, Financing and Investing Activities	(194,271)	4,999	(19,233)	(13,669)	(2,539)
<b>Total Uses of Funds</b>	<b>\$703,850</b>	<b>\$890,421</b>	<b>\$828,480</b>	<b>\$789,910</b>	<b>\$830,725</b>

**Certification**

I hereby certify that, to the best of my knowledge and belief after reasonable inquiry, the budget information and financial projections contained herein for the years ending December 31, 2007 through December 31, 2011 have been developed based on reasonable assumptions and methods of estimation and that the requirements of 2 NYCRR Part 203 have been satisfied.

A handwritten signature in black ink, appearing to read 'S D Hulkower', with a long horizontal flourish extending to the right.

**Seth D. Hulkower  
Chief Operating Officer  
Long Island Power Authority**

Dated: December 7, 2006