

Long Island Power Authority and Subsidiaries
Approved Operating Budget - 2008
Five Year Financial Projections-2008-2012



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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, 2008. Also included are projected statements of revenues and expenses and sources and uses of funds for the five-year period 2008-2012.

The revenue budget incorporates actual and projected sales results for 2007, as normalized for the effects of weather, and forecasts of electric load additions and the expected effects of LIPA's retail choice and energy efficiency programs and its demand side management/renewable energy 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 2008, which are designed to accommodate system growth and to further improve the levels of reliable service provided to LIPA's customers.

The approved 2008 budget totals \$3.7 billion. Electric sales for 2008 are forecasted at 20,444,311 MWH, which represents an increase of 1.6% over the budgeted sales level for 2007. The resultant revenues for 2008 are budgeted at \$3.7 billion, or 1.7% higher than the approved level for 2007. The increase reflects the forecasted sales growth and a restoration of the February 2007 Power Supply Charge reduction for 2008, in accordance with the provisions of LIPA's Tariff for Electric Service. This restores LIPA's Power Supply Charge to the rate in effect at the beginning of 2007, which will add approximately \$3.00 to the typical residential customer's monthly bill. The last time LIPA increased its Power Supply Charge was in October, 2005, when hurricanes Katrina and Rita pushed crude oil and natural gas prices to historic levels at that time. Since that time, LIPA has lowered its Power Supply Charge by 12%.

Fuel and Purchased Power costs for 2008, after the impact of accruals and amortizations relating to prior years' fuel costs, are budgeted at \$2.0 billion, or 3.6% over the comparable 2007 approved 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 October 24, 2007 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, estimated at \$29 million. Over the last decade, fuel and purchased power costs have nearly tripled from \$719.3 million in 1999 to over \$2.1 billion for the approved 2008 budget.

Expenses for Operations and Maintenance are budgeted at \$789 million for 2008, an increase of 2.2% as compared with the approved level for 2007. O&M expenses are comprised primarily of costs related to the transmission and distribution system management and power supply agreements with National Grid USA, which contain the management fees and other costs associated with operating LIPA's transmission and distribution system, and providing generated and purchased power. The management and power supply agreements with National Grid USA total in excess of \$650 million, or 83% of all O&M expenses. Other major costs included in Operations and Maintenance expenses are those for LIPA's Efficiency and Renewables Program (\$48 million), and the operation and maintenance activities associated with LIPA's 18% ownership interest in the Nine Mile Point 2 nuclear power generating plant (\$24 million).

Salaries and Benefits constitute less than ½ of 1% of the total approved budget for 2008. They are budgeted at \$16.1 million, an increase of 2.6% over the approved level for 2007. This increase is driven primarily by the requirement to recognize expenses related to Post-Employment Benefits other than Pensions on a current basis in accordance with GASB 45, which results in an increase of \$1.5 million, and a cost of living increase in base salaries of 3%. Offsetting this increase is the elimination of LIPA's incentive compensation program, resulting in a decrease of \$1.3 million. The staffing level for 2008 is budgeted at 103 employees; a decrease of one employee from 2007's approved level.

Professional Services and General expenses for 2008 are budgeted at \$23.9 million. This represents a decrease of 19.4% as compared with the approved level for 2007. Professional Services and General expenses consist primarily of outside engineering, financial, legal and other professional services. Also included are expenses for insurance, public liability damage claims, office rent, computer software upgrades and licenses, communications, and other administrative activities.

Taxes constitute 11% of the total approved 2008 budget. Real property taxes associated with the generating assets under contract through the Power Supply Agreement with National Grid are budgeted at \$171 million, (5% of the total overall budget), and are included in Operations and Maintenance expenses. Payments in-lieu-of Taxes, or PILOTs, are budgeted at \$181 million, an increase of \$6.1 million (3.5%) as compared with the approved budget for 2007. 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. Revenue taxes are budgeted at \$59.3 million, an increase of 2.8% as compared with the approved level for 2007. These taxes are based on gross revenues received from the sale of electricity and tax assessments on other sources of revenues. The year-to-year increase is due to higher taxable revenues budgeted for 2008.

Interest Expense is based on forecasted levels of outstanding debt, associated fees and the amortization of debt-related deferred charges and credits. The budgeted expense for 2008 is \$319.5 million, a decrease of 7.7% as compared with the level approved for 2007. The lower expense level reflects savings from the debt restructuring LIPA achieved in December, 2006, subsequent to the adoption of the 2007 budget, LIPA's ability to pay down debt in 2007 and 2008, and lower variable interest rates budgeted for 2008.

Capital expenditures for 2008 were approved by LIPA's Board of Trustees on December 14, 2006. This budget is presented for informational purposes only. LIPA will present an updated 2008, and proposed 2009 and 2010 capital budget to the Board of Trustees for their approval in the Spring of 2008.

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. Therefore, actual results may differ from those presented herein.

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Statements of Revenues and Expenses
 (Thousands of Dollars)

	2006 Actual	2007 <u>Approved</u> <u>Projected ⁽¹⁾</u>		Approved 2008	% Chg. From Approved 2007	Ref.
Revenues	\$ 3,664,976	\$ 3,620,707	\$ 3,543,890	\$ 3,681,064	1.67	A-2
Expenses						
Fuel and Purchased Power Costs	2,024,811	1,960,775	1,844,220	2,030,944	3.58	A-5
Operations and Maintenance Expenses	765,742	771,947	844,319	789,076	2.22	A-6
Salaries and Benefits Expense	14,443	15,709	16,074	16,118	2.60	A-7
Professional Services and General Expenses	28,350	29,729	26,652	23,957	(19.42)	A-8
Depreciation and Amortization	242,207	248,452	248,452	255,357	2.78	A-9
Revenue Taxes	57,414	57,727	58,988	59,320	2.76	A-10
Payments in Lieu of Taxes (PILOTS)	167,663	174,978	171,201	181,036	3.46	A-10
Prior Service Costs for OPEB's	-	-	10,009	-		
Total Operating Expenses	3,300,630	3,259,317	3,219,915	3,355,808	2.96	
Operating Income	364,346	361,390	323,975	325,256	(10.00)	
Other Income and Deductions	85,738	60,689	78,283	69,266	14.13	A-11
Interest Expense	331,914	345,984	322,688	319,522	(7.65)	A-12
Excess of Revenues Over Expenses	\$ 118,170	\$ 76,095	\$ 79,570	\$ 75,000	(1.44)	
Debt Service Coverage Ratios (x):						
Senior Lien Debt	2.77	2.09	2.22	2.18	0.09	
Senior Lien and Subordinated Debt	2.56	1.81	2.06	1.90	0.09	
Total Debt	2.52	1.79	2.02	1.87	0.08	

Note: (1) Projection as of October 31, 2007

Sales and Revenues

	2006 <u>Actual</u>	2007 <u>Approved</u> <u>Projected ⁽¹⁾</u>		Approved 2008	% Chg. From Approved <u>2007</u>
<u>Sales of Electricity (MWh)</u>					
Residential Sales	9,278,210	9,548,128	9,513,064	9,749,652	2.11
Commercial & Industrial Sales	9,887,704	10,137,376	10,182,612	10,238,948	1.00
Other Sales to Public Authorities/Street Lighting	430,148	445,112	451,900	455,711	2.38
Total Sales of Electricity	19,596,062	20,130,616	20,147,576 ⁽²⁾	20,444,311	1.56
<u>Revenues (\$ thousands)</u>					
Residential Sales	\$ 1,884,010	\$ 1,870,791	\$ 1,831,485	\$ 1,908,700	2.03
Commercial & Industrial Sales	1,725,983	1,690,195	1,659,825	1,709,296	1.13
Other Sales to Public Authorities/Street Lighting	66,797	73,438	65,803	77,555	5.61
Sales for Resale	3,764	2,911	3,389	2,851	(2.07)
Recovery of Deferred Shoreham Property Settlement Costs	(35,232)	(35,936)	(35,391)	(36,725)	2.20
Wheeling Revenues	5,964	6,113	6,019	6,303	3.10
Pole Attachment Fees	4,352	3,467	4,331	3,640	4.99
Late Payment and Dishonored Check Charges	5,365	5,718	4,551	5,305	(7.23)
Service Initiation Charges	-	1,392	232	1,286	(7.62)
Miscellaneous Revenues	3,973	2,618	3,646	2,853	8.97
Total Revenues	\$ 3,664,976	\$ 3,620,707	\$ 3,543,890	\$ 3,681,064	1.67

Note: (1) Projection as of October 31, 2007

(2) Projected weather-normalized sales of electricity as of October 31, 2007: 20,252,640 MWh.

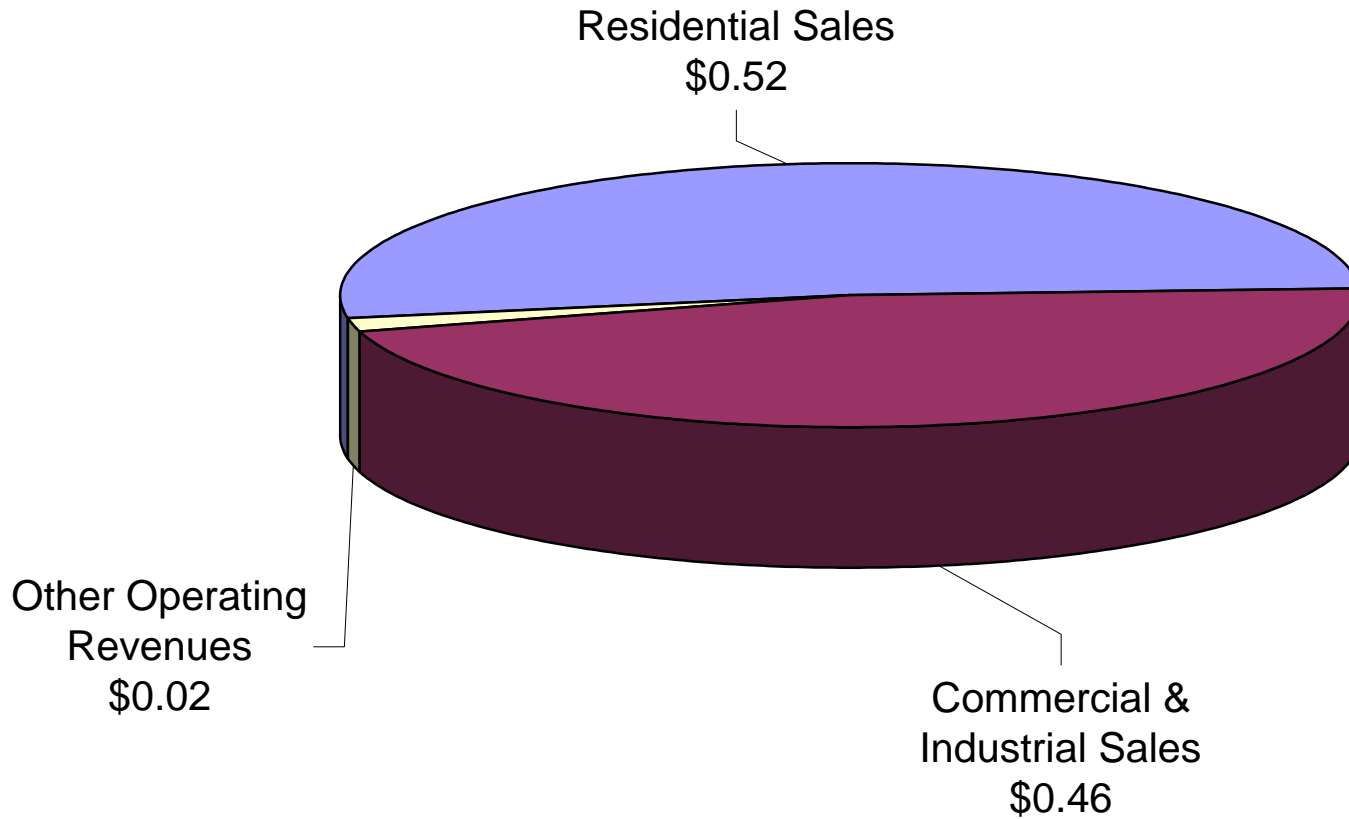
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Electric Sales and Revenues

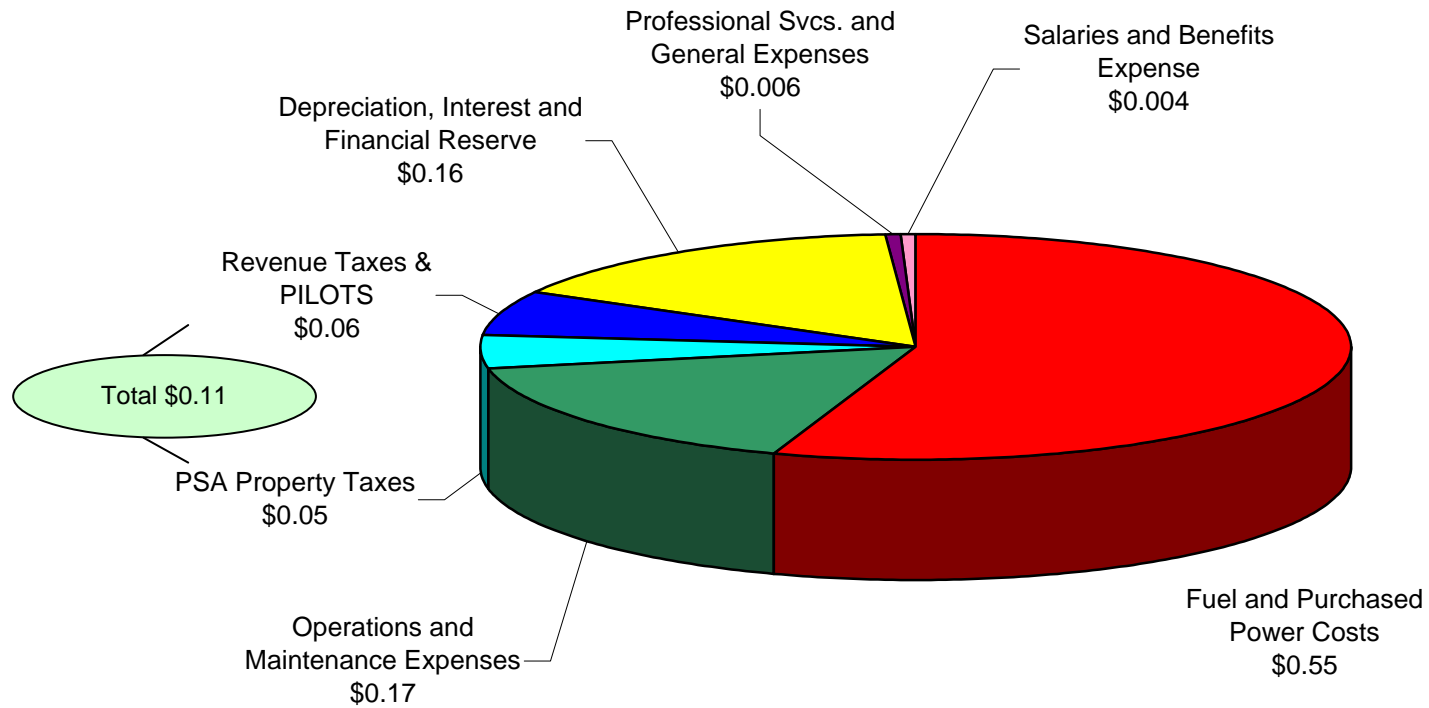
LIPA's load and energy forecast is prepared utilizing econometric regression models. These models are based on the relationship between historic levels of electric consumption and the variables that are considered to drive consumption including weather, changes in the number of customers, changes in the level of employment, income levels, the size of houses and facilities and the price of electricity. Electric sales for 2008 are budgeted at 20,444,311 MWH, which represents an increase of 1.6% over the budgeted sales level in 2007. Sales to residential customers are expected to grow by 2.1%, while commercial and industrial sales are expected to grow by 1% as compared with the prior year's budget. Other electric sales, mostly consisting of sales to other public authorities, are estimated to increase by 2.4% as compared with 2007's budgeted level.

Revenues are budgeted at \$3.7 billion, or 1.7% over the level budgeted for 2007. The increase reflects the forecasted sales growth, the continuation of the Delivery Charge at the current level and the restoration of the Power Supply Charge in 2008 to the level in place in January 2007. This change is in accordance with the provisions of LIPA's Tariff for Electric Service and will increase the typical residential monthly bill for 775 kwh by \$3.00, or 2%. Revenues are derived 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 from non-electric sources, such as pole attachments, late payment charges to non-residential customers 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 \$36.7 million of recoveries from Suffolk County customers as provided for by the Shoreham Property Tax settlement.

Source of 2008 Revenue Dollar



Use of 2008 Revenue Dollar



Fuel and Purchased Power Costs
(Thousands of Dollars)

	2006	2007		Approved 2008	% Chg. From Approved 2007
	<u>Actual</u>	<u>Approved</u>	<u>Projected ⁽¹⁾</u>		
Fuel Oil ⁽²⁾	\$ 258,506	\$ 392,863	\$ 315,467	166,870	(57.52)
Natural Gas	625,204	532,678	594,635	657,762	23.48
Purchased Power	452,571	636,127	495,214	747,224	17.46
Wheeling Charges	15,617	16,973	15,225	17,575	3.55
Capacity Charges	245,720	305,754	302,893	353,716	15.69
Nine Mile Nuclear Fuel (incl. Disposal and Decomm. Costs)	6,964	9,119	7,835	8,976	(1.57)
Y-49 and Y-50 Cable Operating Costs	28,035	28,966	27,315	25,880	(10.65)
Fuel Hedging Program Costs	10,376	17,500	21,374	13,088	(25.21)
ESCO Bill Credit Adjustment Payments	71,405	85,953	69,607	82,318	(4.23)
Energy Management Agreement	18,872	12,633	14,252	13,726	8.65
ISO-Related Service Costs	25,268	41,651	41,681	40,233	(3.40)
Demand Side Management/Renewables Programs	500	500	261	3,076	515.20
Other-One-Time Adjustments	31,913	-	-	-	-
	\$ 1,790,951	\$ 2,080,717	\$ 1,905,759	\$ 2,130,444	2.39
Recovery of 2003 Deferred Fuel and Purchased Power Costs	35,942	36,500	36,715	36,500	-
Accrual of Excess Fuel Cost Recovery	197,918	-	100,000	-	-
Amortization of Excess Fuel Cost Recovery	-	(156,442)	(198,254)	(100,000)	(36.08)
Utilization of Settlement Benefits	-	-	-	(36,000)	N/M
Total Fuel and Purchased Power Costs	\$ 2,024,811	\$ 1,960,775	\$ 1,844,220	\$ 2,030,944	3.58

N/M=Not meaningful

Notes: (1) Projection as of October 31, 2007

(2) Gains on the sales of emissions credits, previously included in this cost category, have been reclassified to Other Income and Deductions

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Fuel and Purchased Power Costs

The fuel and purchased power cost projections are prepared utilizing a generation economic dispatch model that considers among other variables, the availability and heat rates of generating resources and delivered fuel prices. 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 October 24, 2007 and the projected cost of purchased power and nuclear fuel in accordance with agreements to be in effect during 2008.

Fuel and purchased power costs for 2008, before the effect of accounting accruals and amortizations relating to prior years' fuel costs, are budgeted at \$2.1 billion, or 2.4% over the expense level budgeted for 2007. Partially offsetting the effect of the higher commodity and power costs is the impact of projected financial settlements to be derived under LIPA's fuel hedging program. This benefit is forecasted at \$28.9 million and is embedded in 2008's budgeted commodity and power costs. Also included in fuel and purchased power costs are expenditures related to: generation and transmission cable capacity added by contract since 2002; LIPA's share of costs incurred by the New York, New England and PJM Independent System Operators; electric power wheeling; services received under the Energy Management Agreement; LIPA's fuel hedging program; and 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 the pass-back of 2007's projected 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 congestion credits. Also reflected as an offset to these costs is the utilization of a portion of the settlement benefits related to certain contract disputes with KeySpan.

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Major variances from the 2007 budgeted level include:

- **Fuel Oil, Natural Gas and Purchased Power Costs:** These costs are projected to increase by \$10.2 million, or .7%, and are reflective of forecasted commodity and power prices, net of hedge program settlements. When compared to the level currently projected for 2007, however, Fuel Oil, Natural Gas and Purchased Power Costs are projected to increase by 11.8%
- **Capacity Charges:** The increase of \$48 million, or 15.7%, is primarily due to the full year of operation of the Neptune transmission cable, which began operation in mid-2007.
- **Y-49 and Y-50 Cable Operating Costs:** The decrease of \$3.1 million, or 10.7% reflects the terms of the present agreement with the New York Power Authority on the operation of the Y-49 cable.
- **Fuel Hedging Program Costs:** The projected decrease of \$4.4 million, or 25.2% reflects changes in premiums associated with the financial hedge portfolio LIPA expects to be in place under its fuel and purchased power risk management program.
- **Energy Efficiency/Renewables Programs:** The increase of \$2.6 million reflects the estimated “Green Premium” related to LIPA’s implementation of the Renewable Portfolio Standards program in 2008.

Operations and Maintenance Expenses

(Thousands of Dollars)

	2006	2007		Approved 2008	% Chg. From Approved 2007	Ref
	<u>Actual</u>	<u>Approved</u>	<u>Projected</u> ⁽¹⁾			
KeySpan/National Grid Management Services Agreement (2)	\$ 255,091	\$ 262,750	\$ 307,033	\$ 268,232	2.09	A-6.1
KeySpan/National Grid Power Supply Agreement	367,192	370,540	396,910	389,762	5.19	A-6.1
Efficiency and Renewables Program	38,489	51,938	42,684	48,375	(6.86)	A-6.4
Storm Damage Restoration	41,050	24,000	28,500	24,000	-	(3)
Nine Mile Point 2 O&M	27,659	23,079	26,309	24,024	4.09	A-6.2
Uncollectible Accounts	17,486	16,441	18,060	16,821	2.31	(3)
Storm Hardening Initiative	-	5,000	4,500	4,000	(20.00)	(3)
Accretion of Asset Retirement Obligation	4,625	4,902	4,902	4,984	1.67	(3)
Assessments	2,598	2,924	2,843	3,214	9.92	(3)
Postage-Paid Remittance Envelopes	2,542	2,685	2,518	2,641	(1.64)	(3)
Research & Development	3,072	2,440	2,440	750	(69.26)	A-6.3
Retail and Customer Care Programs	941	1,412	1,448	881	(37.60)	(3)
O & M-Y49 and Y-50 Cables	(9)	100	100	110	10.00	(3)
Miscellaneous	5,006	3,736	6,072	1,282	(65.69)	(3)
Total Operations and Maintenance Expenses	\$ 765,742	\$ 771,947	\$ 844,319	\$ 789,076	2.22	

Notes: (1) Projection as of October 31, 2007.

(2) Expense level for 2006 excludes expenditures related to the R&D and Clean Energy programs. For subsequent years, in accordance with the terms of the Amended and Restated Management Services Agreement, these costs are no longer separately defined.

(3) Not detailed on separate schedule.

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Operations and Maintenance Expenses

Operations and maintenance expenses are budgeted at \$789.1 million. This represents an increase of 2.2% over the expense level budgeted for 2007. O&M expenses are comprised primarily of costs related to the transmission and distribution system management and power supply agreements with National Grid, which contain management fees and other costs associated with operating LIPA's T&D system and providing generated and purchased power. Other major costs included in O&M expenses are those for: LIPA's Efficiency and Renewables Program; the operation and maintenance activities associated with LIPA's 18% ownership interest in the Nine Mile Point 2 nuclear power generating plant; research and development activities, reserve accruals for potential losses related to bad debts; the cost of storm damage restoration; LIPA's Severe Storm Hardening Initiative; and retail and customer care related activities.

Major variances from the 2007 projected level include:

- National Grid Power Supply Agreement: See page A-6.1 (a)
- Efficiency and Renewables Program: See page A-6.4 (a)
- Storm Hardening Initiative: The decrease of \$1 million, or 20%, reflects a cost-sharing arrangement with National Grid USA in accordance with an agreement that became effective in August 2007.
- Research & Development: See page A-6.3 (a)
- Retail and Customer Care Programs: The \$0.5 million or 38% decrease is due to a redirection of the focus of these programs on LIPA's Efficiency and Renewables Programs.
- Miscellaneous: The decrease of \$2.5 million, or 65.7% is due to a one-time major cable remediation project that was budgeted in 2007.

National Grid Contracts-Operating Expenses

(Thousands of Dollars)

	2006 <u>Actual</u>	2007 <u>Approved</u> <u>Projected ⁽¹⁾</u>		Approved 2008	% Chg. From Approved <u>2007</u>
Management Services Agreement (2)					
Operation and Maintenance Expenses	\$ 255,091	\$ 262,750	\$ 307,033	\$ 274,706	4.55
Synergy Savings	-	-	-	(6,474)	N/M
Total Management Services Agreement	\$ 255,091	\$ 262,750	\$ 307,033	\$ 268,232	2.09
Power Supply Agreement (2)					
Operation and Maintenance Expenses	236,815	\$ 228,647	\$ 247,574	\$ 234,849	2.71
Property Taxes	149,944	155,779	163,222	171,422	10.04
Synergy Savings	(23,567)	(17,886)	(17,886)	(20,509)	14.67
Non-Cost Performance Incentives	4,000	4,000	4,000	4,000	-
Total Power Supply Agreement	\$ 367,192	\$ 370,540	\$ 396,910	\$ 389,762	5.19
Energy Management Agreement (3)					
Operating Expenses	\$ 2,802	\$ 2,884	\$ 3,608	\$ 2,965	2.81
Management Fees	2,100	2,100	2,100	2,120	0.95
Synergy Savings	(1,700)	(1,700)	(1,700)	(709)	(58.29)
Non-Cost Performance Incentives	5,000	5,000	5,000	5,000	-
Total Energy Management Agreement	\$ 8,202	\$ 8,284	\$ 9,008	\$ 9,376	13.18
Total Contracts with KeySpan	\$ 630,485	\$ 641,574	\$ 712,951	\$ 667,370	4.02

N/M-Not meaningful

Notes: (1) Projection as of October 31, 2007.

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

(3) Expenses incurred under the Energy Management Agreement are included as Fuel and Purchased Power costs. Excludes sales commissions associated with off-system sales.

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National Grid Contracts-Operating Expenses

Expenses included in this category are comprised primarily of costs related to the transmission and distribution system management and power supply agreements with National Grid USA, which contain the management fees and other costs associated with operating LIPA's T&D system and providing generated and purchased power. Management Services Agreement ("MSA") O&M costs are based on the terms of the 2006 amended agreement with KeySpan Corporation, as modified in June 2007 to reflect the acquisition of KeySpan by National Grid. Power Supply Agreement ("PSA") O&M expenses are based on the cost of projected capital additions/improvements to National Grid's generating facilities that serve LIPA and other related operating costs, including property taxes assessed on the facilities. Energy Management Agreement costs, which are included in Fuel and Purchased Power expense, are based on cost escalation provisions contained in the present agreement.

MSA O&M costs are budgeted at 274.7 million, an increase of \$12 million, or 4.6% as compared with the budgeted level for 2007. The increase reflects the higher sales level budgeted for 2008 as well as cost escalation based on general inflation provisions contained in the MSA. The effects of these factors are partially offset by LIPA's share of synergy savings that are contained in the agreement with National Grid as part of its acquisition of KeySpan.

PSA O&M costs are budgeted at \$234.8 million, an increase of \$6.2 million, or 2.7% as compared with the 2007 budgeted level. The increase reflects the return on capital additions and improvements budgeted for National Grid's generating plants that serve LIPA and inflationary cost escalation provisions contained in the PSA. PSA property taxes assessed on National Grid's generating facilities are budgeted at \$171.4 million, an increase of \$15.6 million, or 10% as compared with last year's budget. The budget for 2008 reflects the level of taxes presently in place, as adjusted for assessment increases.

The effects of these increased PSA costs are partially offset by LIPA's share of synergy savings that are contained in the agreement with National Grid as part of its combination with KeySpan.

Nine Mile Point 2 Operations and Maintenance Expenses

(Thousands of Dollars)

	2006 <u>Actual</u>	2007 <u>Approved</u> <u>Projected</u> ⁽¹⁾		Approved 2008	% Chg. From Approved <u>2007</u>
Refueling Outage Amortization	\$ 3,084	\$ 2,504	\$ 2,489	\$ 2,428	(3.04)
Non-Outage Operating Expenses	24,490	20,484	23,733	21,508	5.00
Insurance	85	91	87	88	(3.30)
Total Nine Mile Point 2 O&M Expenses	\$ 27,659	\$ 23,079	\$ 26,309	\$ 24,024	4.09

Note: (1) Projection as of October 31, 2007

Research & Development Expenses

(Thousands of Dollars)

	2006	2007		Approved 2008	% Chg. From Approved 2007
	<u>Actual</u>	<u>Approved</u>	<u>Projected ⁽¹⁾</u>		
T&D and Customer Utilization Projects	\$ 1,905	\$ 1,840	\$ 1,840	\$ 750	(59.24)
NYSERDA	1,167	600	600	-	-
Total Research & Development Budget	3,072	2,440	2,440	750	(69.26)

Note: (1) Projection as of October 31, 2007

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Research & Development Expenses

This category of expense is comprised of costs related to LIPA's participation in industry-sponsored research, development and demonstration projects. These projects are involved in the development and testing of new technologies relating to the efficient transmission, distribution and use of electric energy. The budget of \$750,000 for 2008 is a 69% decrease from the prior year and reflects the reallocation of funding to those projects related to energy efficiency and renewables. The NYSERDA fee is now provided for in the Efficiency and Renewables Program budget.

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Efficiency and Renewables Program Expenses

(Thousands of Dollars)

	2006	2007		Approved	% Chg.
	<u>Actual</u>	<u>Approved</u>	<u>Projected</u> ⁽¹⁾	2008	From
					Approved
					<u>2007</u>
Energy Efficiency Programs	\$ 19,252	\$ 20,810	\$ 17,550	\$ 23,000	10.52
Photovoltaics Program	6,923	5,980	6,400	8,000	33.78
75 MW Energy Efficiency Program	1,718	11,500	7,500	5,000	(56.52)
LIPA Edge Program	-	2,500	2,600	1,900	(24.00)
Low Income Conservation	2,926	3,290	3,600	4,000	21.58
Clean Energy - Research, Development and Demonstration	552	4,000	1,100	1,400	(65.00)
NYSERDA-Clean Energy Research Programs	1,167	1,000	1,000	1,600	60.00
Peak Load Reduction Program ⁽²⁾	-	150	-	25	(83.33)
Advertising and Promotion	2,796	2,208	2,450	2,100	(4.89)
Professional Services	3,155	500	484	900	80.00
Evaluation and Audit	-	-	-	450	N/M
Total Efficiency and Renewables Program Expenses	\$ 38,489	\$ 51,938	\$ 42,684	\$ 48,375	(6.86)

N/M=Not meaningful

Notes: (1) Projection as of October 31, 2007.

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

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2008
Five Year Financial Projections-2008-2012

Efficiency and Renewables Program Expenses

This category includes the costs of programs designed to promote the efficient use of electric energy and the development and expanded use of technologies to reduce reliance on fossil fuels. To accomplish its objectives, the program relies on end-use subsidies to promote utilization of efficient equipment and other conservation measures as well as the expansion of renewables and distributed generation technologies. The program also relies on industry and government-sponsored research and development programs and participates in related demonstration projects.

The approved budget for the program is \$48.4 million, a decrease of 7% from the level budgeted for 2007 but an increase of 13% over projected 2007 spending. The primary reason for the reduction from the 2007 budget is the lower than expected results of the 75 MW Energy Efficiency Program which is currently phasing out.

Long Island Power Authority and Subsidiaries
 Approved Budget-2008

Salaries and Benefits

(Thousands of Dollars)

	2006 <u>Actual</u>	2007 <u>Approved</u>	2007 <u>Projected ⁽¹⁾</u>	Approved 2008	% Chg. From Approved <u>2007</u>
Employee Salaries	\$ 9,276	\$ 10,342	\$ 9,558	\$ 10,530	1.82
Incentive Compensation	1,409	1,379	1,379	-	(100.00)
Key Staff Attraction and Retention	-	-	-	250	N/M
Overtime	1	28	28	7	(75.00)
Medical, Dental and Vision Care Insurance	805	962	962	1,112	15.59
Employee Pensions/Other Post-Employment Benefits	1,459	1,019	2,019	2,560	151.23
Other Employee Benefits	1,493	1,979	2,128	1,659	(16.17)
				-	
Total Salaries & Benefits Expenses	\$ 14,443	\$ 15,709	\$ 16,074	\$ 16,118	2.60

N/M-Not meaningful

Note: (1) Projection as of October 31, 2007

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2008
Five Year Financial Projections-2008-2012

Salaries and Benefits

This category consists of costs for the salaries, benefits and other related expenses of LIPA employees. The approved budget of \$16.1 million relates to the staffing level of 103 as shown on page A-7.1. The increase of 2.6% over the budgeted level for 2007 is driven by a cost of living increase in base salaries of 3% and the requirement to recognize expenses related to Post-Employment Benefits other than Pensions on a current basis in accordance with GASB 45. Offsetting this increase is the elimination of LIPA's incentive compensation program.

**Approved Staffing Budget versus Approved 2007
 Number of Employees at Year End**

<u>Department</u>	<i>Approved 2007</i>	<i>Approved 2008</i>	Variation		
	<u>Unit (#)</u>	<u>Unit (#)</u>	From Approved 07		
			Units (#)	(%)	
Office of the President	3	3	-	-	
Administration*	4	1	(3)	(75%)	Eliminates Chief of Staff and two Asst Chief of Staff positions and adds VP-Administration
Communications	7	7	-	-	
Customer Relations	7	7	-	-	
Environmental Affairs *	1	2	1	100%	Adds VP-Environmental Affairs
Efficiency and Renewable Program	5	10	5	100%	Adds Internal Staff for Program Management
Finance*	21	21	-	-	Includes addition of Director of Regulatory Rates
Government Relations	3	4	1	33%	Adds VP-Governmental Relations
Human Resources	8	7	(1)	(13%)	Eliminates vacant administrative position
IS&T	3	3	-	-	
Legal	10	10	0	0%	Includes addition of Compliance Officer
Operations	8	7	-	-	Eliminates COO position at year end
Power Markets*	15	14	(1)	(7%)	Eliminates vacant field specialist position
Retail Services	9	7	(2)	(22%)	Transfers staff to Efficiency and Renewables Program and eliminates vacant administrative positions.
Total Number of Employees	104	103	(1)	(1%)	

* Approved 2007 Budget restated to reflect transfer of Fuel Management Activity from the Power Markets Department to the Finance Department, Director of Environmental Affairs to Environmental Affairs, Project Manager from Administration to Power Markets and Director of Security to Operations.

Professional Services and General Expenses

(Thousands of Dollars)

	2006 <u>Actual</u>	2007 <u>Approved</u> <u>Projected</u> ⁽¹⁾		Approved 2008	% Chg. From Approved <u>2007</u>
Professional Services	19,848	20,776	17,786	15,268	(26.51)
Insurance	1,748	2,455	2,455	1,888	(23.10)
Injuries and Damages Reserve	2,250	2,050	2,050	1,830	(10.73)
Office Rent	1,532	1,562	1,562	1,644	5.25
Telephone	180	201	201	225	11.94
Office Supplies and Equipment	523	618	618	1,288	108.41
Meetings, Conferences and Seminars	315	445	443	388	(12.81)
Dues/Memberships/Subscriptions	249	101	101	192	90.10
Communications	1,083	750	750	645	(14.00)
Board of Trustees and Other Public Meetings	11	42	42	60	42.86
Community Relations	51	156	156	72	(53.85)
Sponsorships/Special Events	438	415	415	280	(32.53)
Miscellaneous	122	158	73	177	12.03
Total Professional Services and General Expenses	\$ 28,350	\$ 29,729	\$ 26,652	\$ 23,957	(19.42)

Note: (1) Projection as of October 31, 2007

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2008
Five Year Financial Projections-2008-2012

Professional Services and General Expenses

Professional services and general expenses for 2008 are approved at \$24 million. This represents a decrease of \$5.8 million, or 19.4% as compared with the budgeted level for 2007. This expense category consists primarily of outside engineering, financial, legal and other professional services, expenses for insurance, public liability damage claims, office rent, communications, and other administrative activities.

Major variances from the 2007 budgeted level include:

- Professional Services: See page A-8.1 (a)
- Insurance: The decrease of \$0.6 million or 23.1% versus 2007's budgeted level reflects current premiums in effect.
- Injuries and Damages Reserve: The decrease of \$0.2 million or 10.7% versus last year's budgeted level reflects current loss experience.
- Office Supplies and Equipment: The increase of \$0.7 million or 108.4% over the 2007 budgeted level reflects software upgrades and licenses.
- Dues/Memberships/Subscriptions: The \$0.1 million increase reflects the reclassification of certain expenses from Efficiency and Renewables Program to this resource category.
- Communications, Community Relations, Sponsorships/Special Events: The reductions approved for 2008 reflect LIPA cost cutting measures.

Long Island Power Authority and Subsidiaries
 Approved Budget-2008

Professional Services Expenses ⁽¹⁾
 (Thousands of Dollars)

	2006 <u>Actual</u>	2007 <u>Approved</u> <u>Projected ⁽²⁾</u>		Approved 2008	% Chg. From Approved <u>2007</u>
Engineering	\$ 9,880	\$ 9,220	\$ 9,406	\$ 7,405	(19.69)
Legal	4,835	5,020	3,031	2,644	(47.33)
Financial Advisor/Cash Management	1,823	1,872	1,947	1,792	(4.27)
Accounting and Audit Services	1,139	1,645	895	1,409	(14.35)
Rates and Tariffs	343	780	280	175	(77.56)
Information Technology	588	710	710	435	(38.73)
Risk Management-Fuel	685	708	708	708	-
Communications	166	320	320	190	(40.63)
Risk Management-Insurance	141	164	152	162	(1.22)
Miscellaneous	248	337	337	348	3.26
Total Professional Services Expenses	\$ 19,848	\$ 20,776	\$ 17,786	\$ 15,268	(26.51)

Notes: (1) Professional services related to the Efficiency and Renewables Program have been included under the Efficiency and Renewables Program budget.

(2) Projection as of October 31, 2007.

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2008
Five Year Financial Projections-2008-2012

Professional Services Expenses

This category consists primarily of outside engineering, financial, legal and other professional services. The approved budget for 2008 is \$15.3 million, a decrease of \$5.5 million, or 26.5% from the budgeted level for 2007. The reduction reflects the non-recurrence of certain one-time projects as well as greater reliance to be placed on internal staff to perform projects and studies formerly outsourced.

Long Island Power Authority and Subsidiaries
 Approved Budget-2008

Depreciation and Amortization

(Thousands of Dollars)

	2006 <u>Actual</u>	2007 <u>Approved</u> <u>Projected</u> ⁽¹⁾		Approved 2008	% Chg. From Approved <u>2007</u>
Amortization of Acquisition Adjustment	\$ 112,681	\$ 112,681	\$ 112,681	\$ 112,681	-
Depreciation Expense-Plant-in-Service	129,526	135,771	135,771	142,676	5.09
Total Depreciation and Amortization	\$ 242,207	\$ 248,452	\$ 248,452	\$ 255,357	2.78

Note: (1) Projection as of October 31, 2007

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2008
Five Year Financial Projections-2008-2012

Depreciation and Amortization

Depreciation and amortization is budgeted at \$255.4 million, an increase of 2.9% versus the budgeted expense level for 2007. This cost category is comprised of the 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. The increased expense level versus the budget for 2007 is attributable to normal plant additions and Neptune Cable interconnection related assets being placed into service in mid-2007.

Taxes and Payments in-lieu-of Taxes
 (Thousands of Dollars)

	2006 <u>Actual</u>	2007 <u>Approved</u> <u>Projected ⁽¹⁾</u>		Approved 2008	% Chg. From Approved 2007
Revenue Taxes	\$ 57,414	\$ 57,727	\$ 58,988	\$ 59,320	2.76
Payments in-lieu-of Taxes (PILOTS)					
Long Island and New York City	\$ 154,256	\$ 161,987	\$ 158,190	\$ 168,078	3.76
Nine Mile PILOTS	3,600	3,631	3,659	3,632	0.03
Merchant Power Plants	9,242	9,360	9,352	9,326	(0.36)
Other	565	-	-	-	-
Total Payments in-lieu-of Taxes	\$ 167,663	\$ 174,978	\$ 171,201	\$ 181,036	3.46

Note: (1) Projection as of October 31, 2007

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2008
Five Year Financial Projections-2008-2012

Taxes and Payments-in-Lieu of Taxes

Revenue taxes are budgeted at \$59.3 million, an increase of 2.8% as compared with the approved level for 2007. These taxes are based on gross revenues received from the sale of electricity and tax assessments on other sources of revenues. The year-to-year increase is due to higher taxable revenues budgeted for 2008.

Payments-in-lieu of taxes, or PILOTs, are budgeted at \$181 million, an increase of \$6.1 million, or 3.5% as compared with the expense level budgeted for 2007. The approved expense levels reflect forecasts of real property-based PILOTs incurred by LIPA from its various taxing jurisdictions. 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 National Grid (budgeted at \$171.4 million) are included in Operations and Maintenance expense. The increased expense level for 2008 is primarily attributable to the increase in Nassau County school taxes incurred in late-2007 and increases projected for 2008.

Other Income and (Deductions)

(Thousands of Dollars)

	2006 <u>Actual</u>	2007 <u>Approved</u>	2007 <u>Projected ⁽¹⁾</u>	Approved 2008	% Chg. From Approved <u>2007</u>
Short-Term Investment Income	\$ 30,007	\$ 21,619	\$ 35,457	\$ 21,000	(2.86)
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	32,438	32,178	32,178	31,829	(1.08)
Gains on Sales of Emissions Credits	20,248	12,046	12,275	13,138	9.07
Income on Nuclear Decommissioning Trust Fund	1,630	1,606	2,458	2,199	36.92
Charitable Contributions	(115)	(125)	(66)	-	(100.00)
Miscellaneous Income and Deductions	1,530	(6,635)	(4,019)	1,100	N/M
Total Other Income and Deductions	\$ 85,738	\$ 60,689	\$ 78,283	\$ 69,266	14.13

()=Income deduction

N/M-Not meaningful

Note: (1) Projection as of October 31, 2007

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2008
Five Year Financial Projections-2008-2012

Other Income and Deductions

Other income and deductions are budgeted at \$69.3 million for 2008, an increase of \$8.6 million, or 14.1% when compared with the level budgeted for 2007. This category consists of non-cash carrying charges accrued on deferred balances related to the Shoreham property tax settlement, earnings on LIPA's 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 electric rates.

Major variances from the 2007 budgeted level include:

- **Gains on Sales of Emissions Credits:** The approved increase of \$1.1 million, or 9.1% reflects the greater availability of SO2 credits for sale based on LIPA's fuel burn mix.
- **Charitable Contributions:** The 2008 budget reflects LIPA's policy ending charitable contributions.
- **Miscellaneous Income and Deductions:** The increase of \$7.7 million from the 2007 budgeted level is due to the reduction in community benefit payments related to the Caithness generating plant scheduled for 2008 and the interest income portion of the reimbursement to LIPA of a portion of the interconnection costs associated with the Neptune transmission cable.

Interest Expense

(Thousands of Dollars)

	2006 <u>Actual</u>	2007 <u>Approved</u>	2007 <u>Projected ⁽¹⁾</u>	Approved 2008	% Chg. From Approved 2007
Interest Expense on Debt Securities from Page A-13	\$ 306,099	\$ 323,634	\$ 307,831	\$ 296,524	(8.38)
Other Interest Expense					
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	5,826	5,862	3,994	6,358	8.46
Amortization of Deferred Losses (Gains) on Debt Redemptions	10,092	9,489	6,864	11,434	20.50
Letter of Credit Fees	5,881	4,992	4,617	5,524	10.66
Broker/Dealer Fees on Auction Rate Bonds	2,519	2,639	2,538	2,625	(0.53)
Interest on Customer Security Deposits	532	533	636	750	40.71
Bond Administration Costs and Bank Fees	1,301	739	1,122	567	(23.27)
Remarketing Fees	853	938	1,002	840	(10.45)
Other	4,396	558	1,519	900	61.29
Total Other Interest Expense	\$ 31,400	\$ 25,750	\$ 22,292	\$ 28,998	12.61
Less: Capitalized Interest	5,586	3,400	7,435	6,000	76.47
Total Interest Expense	\$ 331,914	\$ 345,984	\$ 322,688	\$ 319,522	(7.65)

Note: (1) Projection as of October 31, 2007

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2008
Five Year Financial Projections-2008-2012

Interest Expense

Interest expense is approved at \$319.5 million, a decrease of \$26.5 million, or 7.7% as compared with the level budgeted for 2007. The budgeted expense for 2008 is based on forecasted levels of outstanding debt, associated fees and the amortization of debt-related deferred charges and credits. The assumed rate of interest on LIPA's variable rate date is 4.00%. Interest expense to be incurred on debt securities is detailed by issue on page A-13.

The lower expense level for 2008 reflects the debt restructuring LIPA achieved in December, 2006, subsequent to the adoption of the 2007 budget by LIPA's Board of Trustees. Also contributing to the lower cost is LIPA's ability to pay down debt in 2007 and 2008 and lower variable interest rates contained in the 2008 approved budget. The average level of debt outstanding for 2008 is forecasted at \$6.7 billion. The effective interest rate is 4.8%. This debt level and interest rate compare with the budgeted debt level of \$6.9 billion and an effective interest rate of 5.0% for 2007.

2008 Cost of Debt

Series	Type	Maturity	Year-End Principal	Average Principal	Effective	Interest Expense (1)
			Outstanding	Outstanding	Interest	
			(\$Thousands)	(\$Thousands)	Rate	(\$Thousands)
Senior Lien Debt						
1998 A	Serial Bonds	2006-2016	\$ 233,056	\$ 297,209	4.972%	\$ 14,778
1998 A	Capital Appreciation Bonds (2)	2006-2028	134,863	143,390	5.108%	7,324
1998 B	Serial Bonds (3)	2006-2016	154,485	183,666	5.052%	9,279
2000 A	Capital Appreciation Bonds (4)	2006-2028	387,306	377,473	5.628%	21,245
2001A	Serial Bonds (3)	2013-2021	745	745	1.208%	9
2001 A	Term Bonds (3)	2025-2029	164,430	164,430	4.762%	7,830
2001 (B-K) (M-P)	Auction Rate Bonds (5)	2033	700,000	700,000	4.000%	28,000
2003 A	Serial Bonds	2006-2009	19,895	27,303	3.871%	1,057
2003 B	Serial Bonds	2006-2014	271,355	277,017	4.538%	12,571
2003 C	Serial Bonds (3)	2013-2033	70,480	70,480	4.747%	3,346
2003 C	Term Bonds (3)	2033	185,520	185,520	4.809%	8,922
2003 D-H	Variable Rate Debt	2029	293,625	293,625	3.947%	11,589
2003 I-O	Auction Rate Debt	2029	293,600	293,600	3.947%	11,589
2004A	Serial Bonds	2013-2025	33,900	33,900	4.313%	1,462
2004A	Term Bonds	2029-2034	166,100	166,100	5.075%	8,429
2006A	Serial Bonds	2006-2026	839,245	839,245	4.572%	38,373
2006B	Serial Bonds	2035	4,240	4,240	4.399%	187
2006B	Term Bonds	2035	92,715	92,715	4.888%	4,532
2006C	Term Bonds	2035	198,020	198,020	4.948%	9,797
2006D	Serial Bonds	2006-2025	216,850	217,260	4.450%	9,667
2006D	Serial Bonds - Variable Rate	2015	110,715	110,715	4.110%	4,550
2006E	Serial Bonds	2006-2022	507,600	507,600	4.424%	22,455
2006F	Serial Bonds (3)	2007-2028	401,915	401,915	3.988%	16,029
2006F	Term Bonds	2033	112,580	112,580	3.589%	4,040
Total Senior Lien Debt			<u>\$ 5,593,240</u>	<u>\$ 5,698,748</u>	<u>4.511%</u>	<u>\$ 257,060</u>
Subordinate Debt						
Series 7A & 7B	Variable Rate	2025	\$ 250,000	\$ 250,000	3.979%	\$ 9,947
Series 8	Mandatory Purchase	2006-2010	104,725	104,725	4.313%	4,517
Series 2001 1A-3B	Variable Rate (5)	2033	525,000	525,000	4.000%	21,000
Commercial Paper	Variable Rate (5)	Various	100,000	100,000	4.000%	4,000
Total Subordinated Debt			<u>\$ 979,725</u>	<u>\$ 979,725</u>	<u>4.028%</u>	<u>\$ 39,464</u>
Total Debt Securities			<u>\$ 6,572,965</u>	<u>\$ 6,678,473</u>	<u>4.440%</u>	<u>\$ 296,524</u>
Other Debt-Related Interest Expense (6)						<u>27,348</u>
Total Average Debt Outstanding/Embedded Cost of Debt			<u>\$ 6,572,965</u>	<u>\$ 6,678,473</u>	<u>4.849%</u>	<u>\$ 323,872</u>

Notes:

- (1) Net of amortizations for (premium)/discount, insurance costs and swaption proceeds if applicable.
- (2) Represents accreted value of original proceeds of \$145.793 million, adjusted for principal maturities and partial refinancing in 2003.
- (3) Net of savings from fixed-to-floating/basis swap arrangement.
- (4) Represents accreted value of original proceeds of \$325.165 million, adjusted for partial refinancing in 2003.
- (5) Projected variable rate of 4.00% .
- (6) Excludes interest on customer deposits and other carrying charges.

Cash Flow from Operations
 (Thousands of Dollars)

	2006	2007		Approved 2008	% Chg. From Approved 2007
	<u>Actual</u>	<u>Approved</u>	<u>Projected ⁽¹⁾</u>		
Excess Of Revenues Over Expenses	\$ 118,170	\$ 76,095	\$ 79,569	\$ 75,000	(1.44)
Add Back (Deduct) Non-Cash Items:					
Recovery of Deferred Shoreham Property Tax Settlement Costs	35,232	35,936	35,391	36,725	2.20
Recovery of Deferred Fuel and Purchased Power Costs	35,942	36,500	36,715	36,500	0.00
Accrual/ (Amortization) of Excess Fuel Cost Recovery	197,918	(156,442)	(98,254)	(100,000)	(36.08)
Utilization of Settlement Benefits	-	-	-	(36,000)	N/M
Prepaid Fuel Hedging Program Costs-Net of Amortization	(3,164)	5,500	9,374	(2,324)	(142.25)
Prepaid Nine Mile Point 2 Refueling Outage Costs-Net of Amortization	(1,195)	2,504	2,284	(1,709)	(168.25)
Prepaid Nuclear Fuel Expense	(1,654)	(12,544)	(13,271)	(60)	(99.52)
Amortization of Nine Mile Nuclear Fuel Costs	5,259	7,294	6,032	7,423	1.77
Prepayment of Mobile Generating Units-Net of Amortization	(535)	10,044	11,090	(36,000)	(458.42)
Prepaid Insurance-Net of Amortization	(744)	-	-	-	-
PSA Plant and Property Tax True-Ups-Accrual Net of Payment	12,852	(2,113)	4,448	(10,126)	379.22
Depreciation and Amortization	242,206	248,452	248,452	255,357	2.78
Decommissioning Trust Fund Contribution-Nine Mile Point 2	(2,831)	(970)	(970)	(1,000)	3.09
Accretion of Asset Retirement Obligation	4,625	4,902	4,902	4,984	1.67
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	(32,438)	(32,178)	(32,178)	(31,829)	(1.08)
Amortization of Deferred Bond Discounts (Premiums)	(13,409)	(12,298)	(7,868)	(14,922)	21.34
Amortization of Deferred Debt Issue Costs	5,826	5,862	3,994	6,358	8.46
Amortization of Deferred Losses (Gains) on Debt Redemptions	10,092	9,489	6,864	11,434	20.50
Interest on Capital Appreciation Bonds	26,744	27,631	27,631	28,568	3.39
Capitalized Interest and MSA Management Fees	(15,587)	(13,400)	(17,435)	(16,000)	19.40
Reversal of Previously-Deferred Mark-to-Market Hedge Program Results	31,913	-	-	-	-
Other Prepayments and Accruals-Net of Amortizations	7,751	2,500	2,500	2,500	-
Total Non-Cash Items	544,803	166,669	229,701	139,879	(16.07)
Excess of Revenues Over Expenses-Cash Basis	662,973	242,764	309,270	214,879	(11.49)

N/M-Not meaningful

Note: (1) Projection as of October 31, 2007

Capital Expenditures
 (Thousands of Dollars)

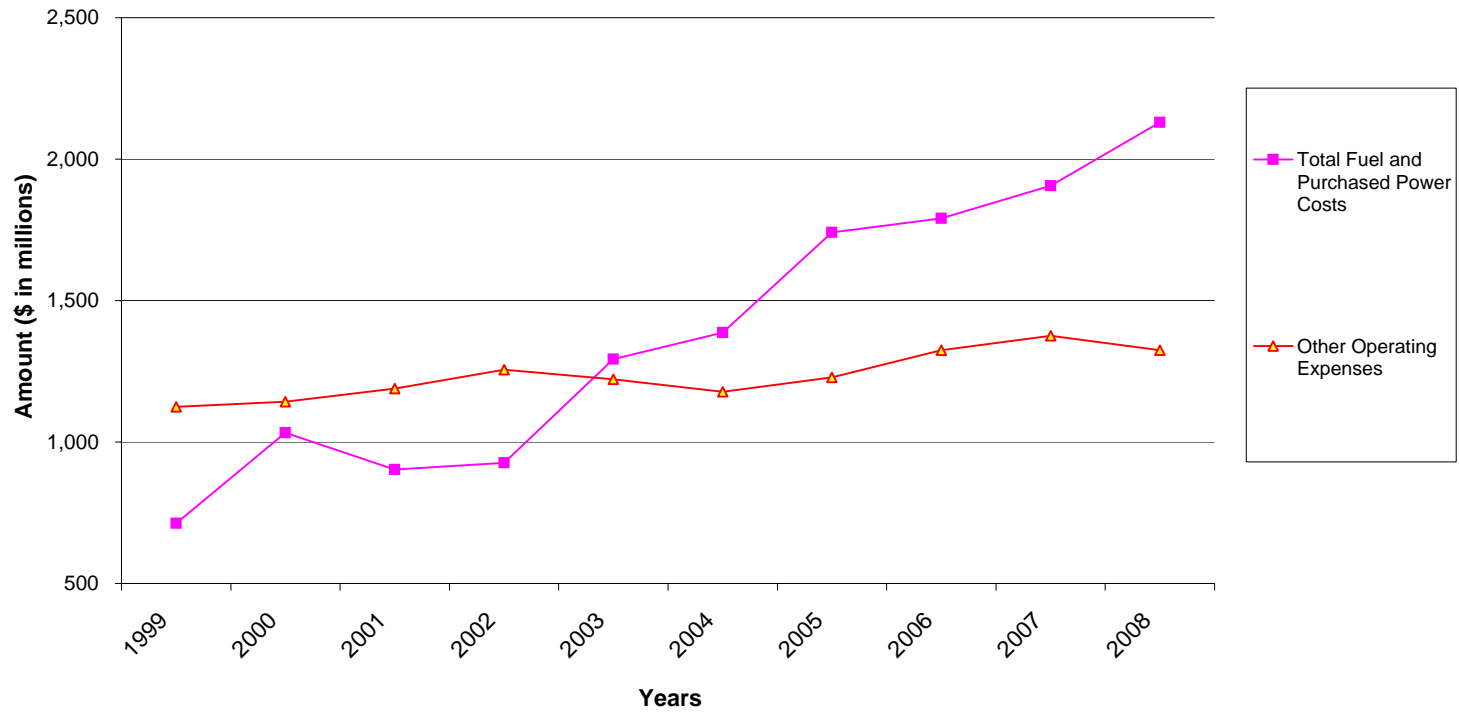
	Actual 2006	2007		Approved 2008	% Chg. From Approved 2007
		Approved	Projected ⁽¹⁾		
Transmission Projects					
Transmission Interconnections-New Power Plants (Major Capital)	\$ 200	\$ 1,000	\$ 2,622	\$ 3,750	275.00
Transmission Interconnections-Offshore Wind Projects (Major Capital)	591	1,000	97	25,000	2,400.00
Transmission Interconnections-Neptune Cable (Major Capital) ⁽²⁾	79,090	10,000	23,077	-	(100.00)
Transmission Interconnections-NUSCO Cable (Major Capital)	1,952	28,500	31,260	26,500	(7.02)
Transmission Line-Southampton to Bridgehampton (Major Capital)	-	-	-	-	-
Nassau Substations and Lines (Major Capital)	10,145	17,680	24,254	15,192	(14.07)
Western Suffolk Substations and Lines (Major Capital)	19,068	24,960	17,747	15,255	(38.88)
Eastern Suffolk Substation and Lines (Major Capital)	17,467	31,750	18,650	28,200	(11.18)
Other Transmission (Routine Capital)	15,983	10,128	7,028	3,773	(62.75)
Other Transmission (Major Capital)	4,173	1,500	2,443	900	(40.00)
Total Transmission Projects	148,669	126,518	127,178	118,570	(6.28)
Distribution Projects					
Substations (Major Capital)	11,857	26,976	14,224	25,313	(6.16)
Substations (Routine Capital)	1,407	2,596	2,790	3,570	37.52
Electric Lines-New Customer Load (Routine Capital)	28,824	29,750	27,887	26,835	(9.80)
Electric Lines-Other (Routine Capital)	57,809	55,461	74,303	52,713	(4.95)
Storm Hardening Initiative (Routine Capital)	-	-	-	-	-
Purchase and Install Meters/Transformers (Routine Capital)	20,786	22,180	27,460	19,984	(9.90)
Public Works	2,516	4,700	3,592	4,230	(10.00)
Other Distribution (Routine Capital)	1,930	9,793	5,172	12,679	29.47
Total Distribution Projects	125,129	151,456	155,428	145,324	(4.05)
Project Funding for Emerging Work	N/A	12,000	N/A	15,000	25.00
Total Transmission and Distribution Projects	273,798	289,974	282,606	278,894	(3.82)
Cost-Sharing and Other Contributions	(9,734)	(10,191)	(6,980)	(9,500)	(6.78)
Capitalized Interest and Allocations	15,587	13,400	17,435	13,100	(2.24)
Nine Mile Point Two Plant Additions/Replacements/Capitalized Nuclear Fuel	6,538	18,770	18,303	6,740	(64.09)
LIPA Information Systems, Equipment and Other Capitalized Expenditures	1,493	5,150	9,184	1,765	(65.73)
Total Capital Expenditures	\$ 287,682	\$ 317,103	\$ 320,548	\$ 290,999	(8.23)

N/A=Included in individual project categories, above

Notes: (1) Projection as of October 31, 2007.

(2) Actual Neptune Cable related expenditures net of cost reimbursement.

**Cost Comparisons
1999 Through 2008
(based on actual and budgeted values)**



Statements of Revenues and Expenses

(Thousands of Dollars)

	Approved Budget 2008	Projected			
		2009	2010	2011	2012
Revenues	\$ 3,681,064	\$ 3,950,581	\$ 4,209,091	\$ 4,277,006	\$ 4,337,145
Expenses					
Fuel and Purchased Power Costs	2,030,944	2,239,169	2,440,005	2,451,705	2,461,565
Operations and Maintenance Expenses	789,076	821,325	859,628	900,455	944,271
Salaries & Benefits Expense	16,118	16,159	16,644	17,143	17,657
Administrative & Professional Services Expense	23,957	21,921	22,769	23,649	24,563
Depreciation and Amortization	255,357	267,401	274,462	282,320	290,467
Revenue Taxes	59,320	62,549	65,956	67,105	68,239
Payments in Lieu of Taxes (PILOTS)	181,036	187,933	197,135	207,882	210,087
Total Operating Expenses	3,355,808	3,616,457	3,876,599	3,950,259	4,016,849
Operating Income	325,256	334,124	332,492	326,747	320,296
Other Income and Deductions	69,266	67,213	66,393	65,818	65,369
Interest Expense	319,522	326,337	323,885	317,565	310,665
Excess of Revenues Over Expenses	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
Debt Service Coverage Ratios (x):					
Senior Lien Debt	2.18	2.62	2.93	2.92	2.62
Senior Lien and Subordinated Debt	1.90	2.15	2.55	2.55	2.44
Total Debt	1.87	2.11	2.51	2.51	2.40
Change in typical residential bill from prior year	2.0%	6.1%	5.0%	0.3%	0.0%

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

	Approved	Projected			
	Budget <u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
FUNDS PROVIDED FROM :					
Excess Of Revenues Over Expenses	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
Plus (Minus) Non-Cash Items:					
Accrual/(Amortization) of 2006 Excesss Fuel Cost Recovery	(100,000)	-	-	-	-
Benefit of Fuel Cost Protection Plan	(36,000)	(100,000)	-	-	-
Amortization of Deferred Shoreham Property Tax Settlement Credits	36,725	37,335	38,093	38,930	39,918
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	(31,829)	(31,383)	(30,857)	(30,254)	(29,577)
Deferred Fuel Cost Reconciliation	36,500	36,500	36,500	36,500	36,500
NMP2 Amortized Nuclear Fuel Expense	7,423	8,038	9,889	10,415	10,600
Amortization of Prepaid NMP2 Refueling Outage Costs	2,428	2,408	2,375	2,365	2,229
Amortization of Prepaid Fuel Hedging Program Costs	15,412	14,925	14,310	13,916	12,200
Asset Retirement Obligation Accretion - FASB 143	4,984	5,175	5,486	5,815	6,163
Amortization of Prepaid Mobile Generating Units	-	-	-	-	-
Depreciation and Amortization	255,357	267,401	274,462	282,320	290,467
PSA Plant and Property Tax True-Ups-Accruals	12,417	12,515	14,053	15,018	17,129
Other	9,371	9,371	9,371	9,371	9,371
Debt Service Interest Expense	319,522	326,337	323,885	317,565	310,665
Proceeds of Bonds and Notes	-	90,000	40,000	85,000	75,000
Total Sources of Funds before Interest Expense	\$607,310	\$753,622	\$812,567	\$861,961	\$855,666
FUNDS USED FOR :					
Prepaid Fuel Hedging Program Costs	15,412	14,925	14,310	13,916	12,200
Prepaid NMP2 Refueling Outage Costs	4,451	180	4,451	180	4,451
Funding for NMP2 Plant Decommissioning	1,000	1,000	1,000	1,000	1,000
Bank and Related Fees	10,456	10,456	10,456	10,456	10,456
Debt Service Payments	527,532	538,143	516,097	521,058	555,669
Capital Expenditures	306,983	245,207	236,207	248,564	237,414
Capitalized MSA Management Fees	10,000	10,000	10,000	10,000	10,000
PSA Plant and Property Tax True-Ups-Payments	22,400	14,895	17,568	18,445	19,367
NMP2 Cash Fuel Expense Capital Expenditures	61	22,384	65	23,297	83
Change in cash position due to Operating, Financing and Investing Activities	(290,985)	(103,568)	\$2,413	15,045	\$5,026
Total Uses of Funds	\$607,310	\$753,622	\$812,567	\$861,961	\$855,666

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, 2008 through December 31, 2012 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 "Seth D. Hulkower". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Seth D. Hulkower
Chief Operating Officer
Long Island Power Authority

Dated: December 13, 2007