

Long Island Power Authority

**Approved Operating Budget-2009
Approved Capital Budgets-2009 and 2010
Five Year Financial Projections-2009-2013**



Long Island Power Authority and Subsidiaries
Approved Operating Budget-2009
Approved Capital Budgets - 2009 and 2010
Five Year Financial Projections-2009-2013

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, 2009, and the approved capital budget for 2009 and 2010. Also included are projected statements of revenues and expenses and sources and uses of funds for the five-year period 2009-2013.

The revenue budget incorporates actual and projected sales results for 2008, as normalized for the effects of weather, and forecasts of electric load 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 2009, which are designed to accommodate system needs, promote energy efficiency and renewable energy and to further improve the levels of reliable service provided to LIPA's customers.

The approved 2009 budget totals \$3.845 billion. Electric sales for 2009 are forecasted at 20,106,902 MWH, which represents a 1.7% decrease from the budgeted sales level for 2008. The sales forecast reflects general economic conditions in the region. The resultant revenues for 2009 are budgeted at \$3.845 billion, or 4.5% higher than the approved level for 2008. This increase reflects, in part, the full-year impact of the increase in LIPA's Power Supply Charge, which was implemented in July 2008, as well as the adjustment in the Power Supply Charge that is necessary, pursuant to LIPA's tariff, based on the sales and fuel and purchased power cost forecasts presented herein. Therefore, revenues reflect an adjustment in LIPA's Power Supply Charge, effective January 1, 2009 that increases the typical residential customer's monthly bill approximately 3.2%, or \$4.98.

Fuel and Purchased Power costs for 2009 are budgeted at \$2.1 billion, an increase of 4.6% over the comparable 2008 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 November 28, 2008 and the projected cost of purchased power and nuclear fuel net of the impact of LIPA's commodity hedge positions for 2009. Also included in fuel and purchased power are the costs of LIPA's compliance with the Regional Greenhouse Gas Initiative which becomes effective in 2009 (\$39 million), and LIPA's voluntary compliance with the State's Renewable Portfolio Standard (\$24 million). In addition, the increase in fuel and purchased power costs for

2009 reflect the fact that 2008 costs were lowered by the refund of prior-year over recoveries of fuel and purchased power costs totaling \$114 million; offset in part by the utilization of \$100 million of KeySpan/National Grid settlement benefits (an increase of \$64 million over 2008) to mitigate the impact of cost increases; resulting in a net increase in fuel and purchased power costs of \$50 million.

Expenses for Operations and Maintenance are budgeted at \$815 million for 2009, an increase of 3.3% as compared with the approved level for 2008. 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 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 \$677 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 (\$53 million), storm restoration costs (\$30 million), and the operation and maintenance activities associated with LIPA's 18% ownership interest in the Nine Mile Point 2 nuclear power generating plant (\$25 million). The approved budget for Efficiency and Renewables reflects the introduction of LIPA's Efficiency Long Island initiative as well as a substantial increase in the support of customer based solar and wind distributed generation.

Salaries and Benefits constitute less than ½ of 1% of the total approved budget for 2009. They are budgeted at \$15.7 million, which represents a 2.6% decrease from the approved level for 2008. The staffing level for 2009 totals 101 positions, a decrease of 2 positions from the 2008 budgeted level of 103 employees.

Professional Services and General expenses for 2009 are budgeted at \$21.6 million. This represents a decrease of 9.6% as compared with the approved level for 2008. 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. The approved 2009 budget for professional services includes funding for an independent evaluation of LIPA's Power Supply Charge and preparation for the 2013 rebid of the transmission and distribution management contract.

Taxes constitute 11% of the total approved 2009 budget. Real property taxes associated with the generating assets under contract through the Power Supply Agreement with National Grid USA are increasing by 3% to a total of \$177 million, (4.6% of the total overall budget), and are included in Operations and Maintenance expenses. Payments in-lieu-of Taxes, or PILOTs, are budgeted at \$188 million, an increase of \$6.8 million (3.8 %) as compared with the approved budget for 2008. 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, which are based on gross revenues received, are budgeted at \$61.5 million, an increase of 3.7% as compared with the approved level for 2008. The year-to-year increase is due to higher taxable revenues budgeted for 2009.

Interest Expense is based on forecasted levels of outstanding debt and associated fees. The budgeted expense for 2009 is \$343.5 million, an increase of \$24 million or 7.5% as compared with the level approved for 2008. The increased expense level reflects the conversions to higher cost fixed rate debt resulting from the difficulties experienced in the financial markets in 2008, including the collapse of the auction rate securities and insured variable rate debt markets, coupled with new money issuances to fund LIPA's ongoing investment in the transmission and distribution system.

Capital expenditures for 2009 are projected to decrease by 16.7% from the budgeted 2008 level. This decrease results from the completion of major capital projects undertaken in 2008 including the NUSCO cable, the Southampton to Bridgehampton transmission line and interconnection costs associated with the Caithness Energy Center. Capital expenditures for 2010 are projected to increase 9.6% over the approved 2009 level.

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 sales levels and 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)

	2007	2008		Approved 2009	% Chg. From Approved 2008	Ref.
	<u>Actual</u>	<u>Approved</u>	<u>Projected ⁽¹⁾</u>		<u>2008</u>	
Revenues	\$ 3,542,555	\$ 3,681,064	\$ 3,644,863	\$ 3,845,480	4.47	A-2
Expenses						
Fuel and Purchased Power Costs	1,838,495	2,030,944	2,058,214	2,123,894	4.58	A-5
Operations and Maintenance Expenses	847,964	789,076	779,165	814,991	3.28	A-6
Salaries and Benefits Expense	14,993	16,118	14,919	15,693	(2.64)	A-7
Professional Services and General Expenses	22,724	23,957	21,475	21,648	(9.64)	A-8
Depreciation and Amortization	245,632	255,357	247,823	254,070	(0.50)	A-9
Revenue Taxes	59,297	59,320	59,559	61,506	3.69	A-10
Payments in Lieu of Taxes (PILOTS)	172,193	181,036	179,715	187,825	3.75	A-10
Prior Service Costs for OPEB's	11,128	-	-	-	-	
Total Operating Expenses	3,212,425	3,355,808	3,360,870	3,479,627	3.69	
Operating Income	330,130	325,256	283,993	365,853	12.48	
Other Income and Deductions	82,329	69,266	66,195	52,631	(24.02)	A-11
Interest Expense	319,413	319,522	319,202	343,484	7.50	A-12
Excess of Revenues Over Expenses	\$ 93,046	\$ 75,000	\$ 30,986	\$ 75,000	-	
Debt Service Coverage Ratios (x):						
Senior Lien Debt	2.33	2.18	1.91	2.43	0.25	
Senior Lien and Subordinated Debt	2.16	1.90	1.78	2.07	0.17	
Total Debt	2.12	1.87	1.75	2.04	0.17	

Note: (1) Projection as of September 30, 2008

Sales and Revenues

	2007 <u>Actual</u>	2008		Approved 2009	% Chg. From Approved <u>2008</u>
		<u>Approved</u>	<u>Projected</u> ⁽¹⁾		
<u>Sales of Electricity (MWh)</u>					
Residential Sales	9,508,341	9,749,652	9,574,103	9,676,402	(0.75)
Commercial & Industrial Sales	10,131,849	10,238,948	10,036,456	9,971,362	(2.61)
Other Sales to Public Authorities/Street Lighting	452,717	455,711	460,785	459,138	0.75
Total Sales of Electricity	20,092,907	20,444,311	20,071,343 ⁽²⁾	20,106,902	(1.65)
<u>Revenues (\$ thousands)</u>					
Residential Sales	\$ 1,832,464	\$ 1,908,700	\$ 1,893,854	\$ 2,014,287	5.53
Commercial & Industrial Sales	1,657,880	1,709,296	1,694,237	1,764,017	3.20
Other Sales to Public Authorities/Street Lighting	65,460	77,555	72,125	80,589	3.91
Sales for Resale	3,229	2,851	1,888	2,621	(8.07)
Recovery of Deferred Shoreham Property Settlement Costs	(35,358)	(36,725)	(36,390)	(37,335)	1.66
Wheeling Revenues	6,104	6,303	5,869	5,873	(6.82)
Pole Attachment Fees	4,474	3,640	4,396	3,723	2.28
Late Payment and Dishonored Check Charges	4,479	5,305	5,123	6,554	23.54
Service Initiation Charges	-	1,286	321	1,578	22.71
Miscellaneous Revenues	3,823	2,853	3,439	3,573	25.24
Total Revenues	\$ 3,542,555	\$ 3,681,064	\$ 3,644,863	\$ 3,845,480	4.47

Note: (1) Projection as of September 30, 2008

(2) Projected weather-normalized sales of electricity as of September 30, 2008: 20,306,218 MWh.

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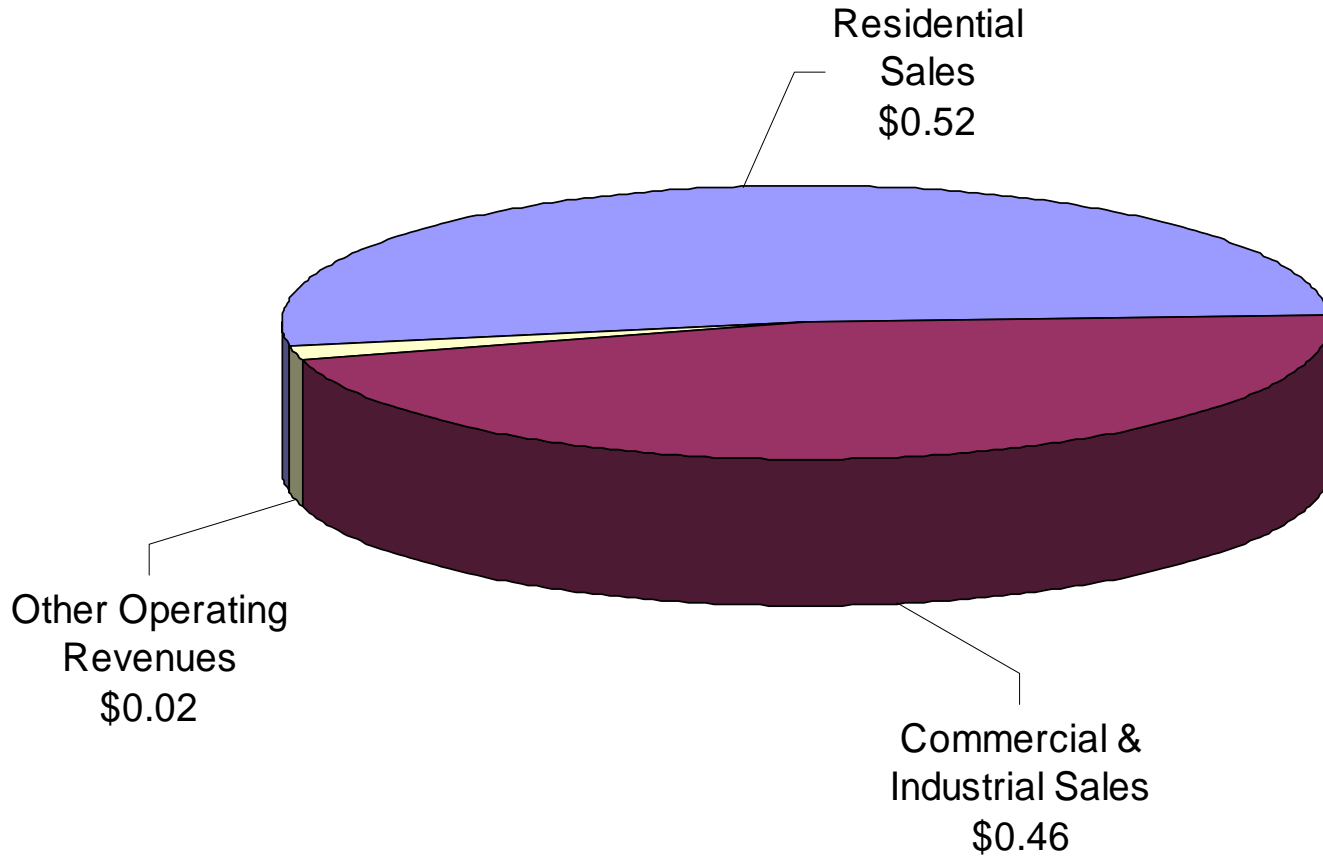
Electric Sales and Revenues

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, general economic conditions and the price of electricity. Electric sales for 2009 are budgeted at 20,106,902 MWH, which is 1.7% below the level included in the budget for 2008. Sales to residential customers are expected to decline by 0.75%, while commercial and industrial sales are expected to be 2.6% under last year's budgeted level. Other electric sales, mostly consisting of sales to other public authorities, are estimated to increase by 0.75% as compared with 2008's budgeted level.

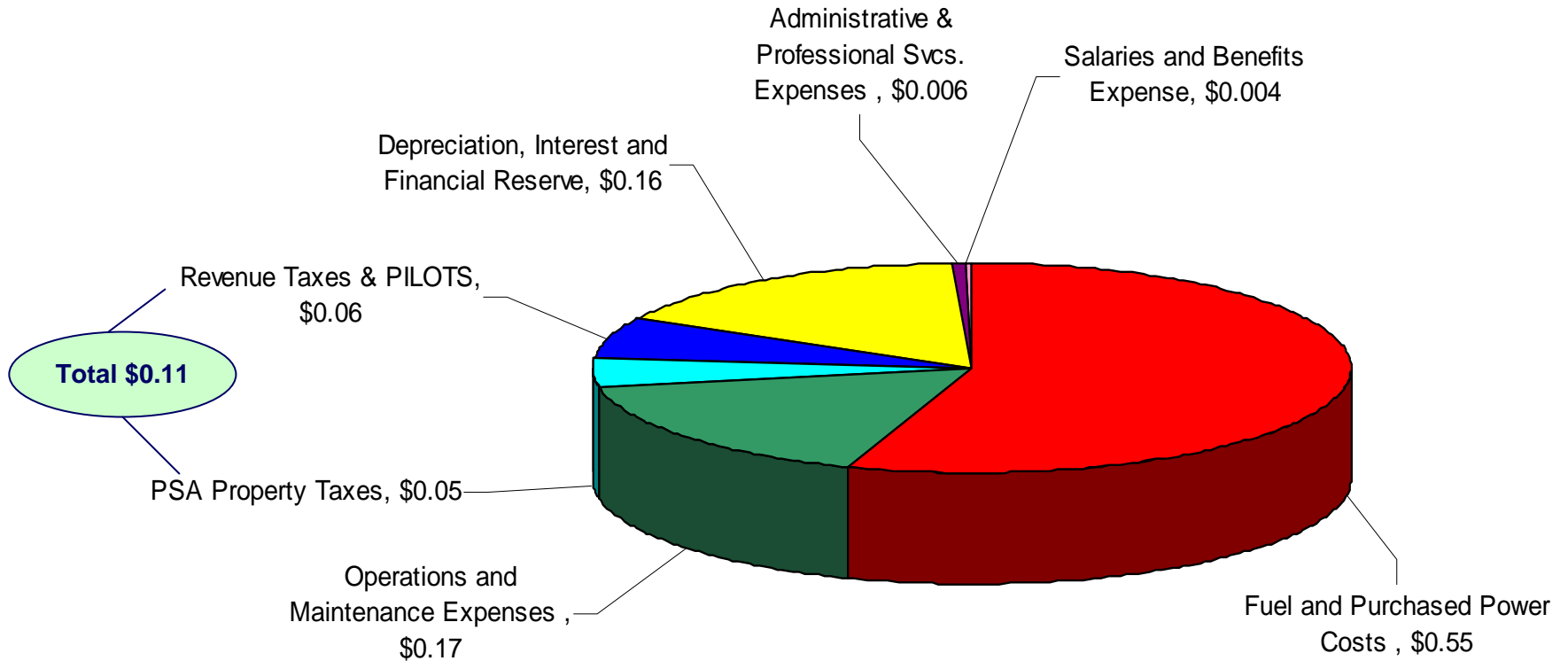
Revenues are derived primarily from retail sales of electricity to residential, commercial and industrial customers. Also included are revenues from electric sales to public authorities and for street lighting and from non-electric sources, such as pole attachments, late payment charges to non-residential customers and other miscellaneous service fees. Revenues are budgeted at \$3.846 billion, or 4.5% over the level budgeted for 2008. This increase reflects in part, the full year impact of the increase in the Power Supply Charge which was implemented in July 2008, as well as the increase in the Power Supply Charge that would be necessary, pursuant to LIPA's tariff, based on the sales and fuel and purchased power cost forecasts presented herein. Therefore, revenues reflect an increase to LIPA's Power Supply Charge effective January 1, 2009 which results in an increase to the typical residential customer's monthly bill of approximately 3.2%, or \$4.98.

Budgeted revenues also include the recovery of 2003 excess fuel and purchased power costs totaling \$36.5 million. Finally, budgeted revenues reflect \$37.3 million of recoveries from Suffolk County customers as provided for by the Shoreham Property Tax settlement.

Source of 2009 Revenue Dollar



Use of 2009 Revenue Dollar



Fuel and Purchased Power Costs
 (Thousands of Dollars)

	2007 <u>Actual</u>	2008 <u>Approved</u>	2008 <u>Projected ⁽¹⁾</u>	Approved 2009	% Chg. From Approved 2008
Fuel Oil	\$ 328,694	\$ 166,870	\$ 106,785	\$ 393,798	135.99
Natural Gas	542,926	657,762	739,018	427,033	(35.08)
Purchased Power	519,575	747,224	669,461	711,097	(4.83)
Regional Greenhouse Gas Initiative	-	-	-	39,458	N/M
Renewable Power	(31)	3,076	644	24,158	N/M
Wheeling Charges	14,795	17,575	15,535	8,573	(51.22)
Capacity Charges	299,954	353,716	372,557	383,912	8.54
Nine Mile Nuclear Fuel (incl. Disposal and Decomm. Costs)	7,188	8,976	7,822	10,351	15.32
Y-49 and Y-50 Cable Operating Costs	26,616	25,880	25,776	20,760	(19.78)
Fuel Hedging Program Costs	21,395	13,088	11,988	22,608	72.74
ESCO Bill Credit Adjustment Payments	72,574	82,318	117,047	89,052	8.18
Energy Management/Fuel and Power Supply Management Agreements	14,170	13,726	21,026	14,684	6.98
ISO-Related Service Costs	37,966	40,233	83,239	41,910	4.17
Other-One-Time Adjustments	(336)	-	-	-	-
	\$ 1,885,486	\$ 2,130,444	\$ 2,170,898	\$ 2,187,394	2.67
Recovery of 2003 Deferred Fuel and Purchased Power Costs	36,595	36,500	36,336	36,500	-
Amortization of Excess Fuel Cost Recovery	(83,586)	(100,000)	(113,020)	-	(100.00)
Utilization of Settlement Benefits	-	(36,000)	(36,000)	(100,000)	177.78
Total Fuel and Purchased Power Costs	\$ 1,838,495	\$ 2,030,944	\$ 2,058,214	\$ 2,123,894	4.58

N/M=Not meaningful

Note: (1) Projection as of September 30, 2008

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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 efficiency of generating resources, delivered fuel prices and environmental regulatory requirements. The budget is based on forecasted commodity (fuel oil and natural gas) prices using the ten day average of the forward price curve as of November 28, 2008 and the projected cost of purchased power and nuclear fuel in accordance with agreements to be in effect during 2009.

Fuel and purchased power costs for 2009, before the effect of accounting accruals and amortizations, are budgeted at \$2.187 billion, an increase of 2.7% over the expense level budgeted for 2008. In addition to the cost for generation fuels and purchased power, fuel and purchased power costs include expenditures related to: environmental compliance costs related to generation; generation and transmission cable capacity added by contract; LIPA's share of costs incurred by the New York, New England and PJM Independent System Operators; electric power wheeling; payments made to Energy Service Companies ("ESCO") in accordance with the Long Island Choice Program; services received under the Energy Management Agreement; fuel hedging program costs; the addition of renewable energy resources to LIPA's portfolio; and is net of revenues from the sale of ancillary services. The primary drivers of the \$68 million increase versus the budgeted level in 2008 are: \$39 million related to the compliance with the Regional Greenhouse Gas initiative; \$21 million related to additional renewable energy resources; \$10 million in higher fuel hedging program costs and \$7 million in higher bill credits to ESCO's due to higher participation in the Long Island Choice Program. The effects of these factors were partially offset by \$40 million of lower commodity costs, net of the impact of LIPA's commodity hedge positions for 2009, reflecting lower fuel prices. Total Fuel and Purchased Power Costs also reflect the impact of various accounting accruals and amortizations as set forth herein. The net impact of these adjustments is an increase in Total Fuel and Purchased Power Costs of \$50 million as compared to the projected level in 2008.

Operations and Maintenance Expenses

(Thousands of Dollars)

	2007	2008		Approved 2009	% Chg. From Approved 2008	Ref
	<u>Actual</u>	<u>Approved</u>	<u>Projected</u> ⁽¹⁾		<u>2008</u>	
National Grid Management Services Agreement	\$ 306,481	\$ 268,232	\$ 261,199	\$ 276,818	3.20	A-6.1
National Grid Power Supply Agreement	396,008	389,762	386,783	400,000	2.63	A-6.1
Efficiency & Renewables Program	43,921	48,375	41,138	52,938	9.43	A-6.3
Storm Restoration	38,500	24,000	31,000	30,000	25.00	(2)
Nine Mile Point 2 O&M	26,653	24,024	23,762	24,549	2.19	A-6.2
Uncollectible Accounts	17,352	16,821	17,071	18,814	11.85	(2)
Storm Hardening Initiative	4,694	4,000	3,900	2,000	(50.00)	(2)
Accretion of Asset Retirement Obligation	4,903	4,984	5,107	5,175	3.83	(2)
Assessments	2,446	3,214	3,022	2,635	(18.01)	(2)
Postage-Paid Remittance Envelopes	2,494	2,641	2,542	-	(100.00)	(2)
Research & Development	1,466	750	950	750	-	(2)
Retail and Customer Care Programs	717	881	1,151	702	(20.32)	(2)
O & M-Y49 and Y-50 Cables	345	110	260	110	-	(2)
Miscellaneous	1,984	1,282	1,280	500	(61.00)	(2)
Total Operations and Maintenance Expenses	\$ 847,964	\$ 789,076	\$ 779,165	\$ 814,991	3.28	

N/M=Not meaningful

Notes: (1) Projection as of September 30, 2008

(2) Not detailed on separate schedule.

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Operations and Maintenance Expenses

Operations and maintenance expenses are budgeted at \$815.0 million. This represents an increase of 3.3% over the expense level budgeted for 2008. O&M expenses are comprised primarily of costs associated with operating LIPA's T&D system and providing generated and purchased power through contracts with National Grid. 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 Storm Hardening Initiative; and retail and customer care related activities.

Major variances from the 2008 budgeted level include:

- National Grid Management Services and Power Supply Agreements (\$18.8 million): See page A-6.1 (a)
- Efficiency and Renewables Program (\$4.6 million): See page A-6.3 (a)
- Storm Restoration Costs: The increase of \$6 million, or 25%, reflects recent experience with respect to the frequency and severity of extreme weather occurrences and costs incurred to restore service to customers following such events.
- Uncollectible Accounts: The increase of \$2.0 million or 11.9% over last year's budgeted level is reflective of current bad debt loss experience of 0.5% of sales revenues.

National Grid Contracts-Operating Expenses
 (Thousands of Dollars)

	2007 <u>Actual</u>	2008 <u>Approved</u>	2008 <u>Projected ⁽¹⁾</u>	Approved 2009	% Chg. From Approved 2008
Management Services Agreement (2)					
Operation and Maintenance Expenses	\$ 306,481	\$ 268,232	\$ 261,199	\$ 276,818	3.20
Total Management Services Agreement	\$ 306,481	\$ 268,232	\$ 261,199	\$ 276,818	3.20
Power Supply Agreement (2)					
Operation and Maintenance Expenses	\$ 228,786	\$ 214,340	\$ 215,759	\$ 219,441	2.38
Property Taxes	163,222	171,422	168,159	176,559	3.00
Non-Cost Performance Incentives	4,000	4,000	2,866	4,000	-
Total Power Supply Agreement	\$ 396,008	\$ 389,762	\$ 386,783	\$ 400,000	2.63
Energy Management Agreement (3)					
Operating Expenses	\$ 1,195	\$ 2,256	\$ 3,293	\$ 3,047	35.06
Management Fees	2,100	2,120	2,120	2,287	7.88
Non-Cost Performance Incentives	5,000	5,000	5,000	5,000	-
Total Energy Management Agreement	\$ 8,295	\$ 9,376	\$ 10,413	\$ 10,334	10.22
Total Contracts with KeySpan	\$ 710,784	\$ 667,370	\$ 658,395	\$ 687,152	2.96

N/A-Not applicable

Notes: (1) Projection as of September 30, 2008.

(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. 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 \$276.8 million, an increase of \$8.6 million, or 3.2% as compared with the budgeted level for 2008. The increase reflects cost escalation based on general inflation provisions contained in the MSA. The effect of this factor is 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 costs are budgeted at \$400 million, an increase of \$10.2 million, or 2.6% as compared with the 2008 budgeted level. The increase reflects higher PSA property taxes assessed on National Grid’s generating facilities and higher operating expenses. Pursuant to contract terms, costs under the PSA are scheduled for reset in 2009.

Nine Mile Point 2 Operations and Maintenance Expenses

(Thousands of Dollars)

	2007 <u>Actual</u>	2008 <u>Approved</u> <u>Projected ⁽¹⁾</u>		Approved 2009	% Chg. From Approved 2008
Refueling Outage Amortization	\$ 2,501	\$ 2,428	\$ 2,889	\$ 3,081	26.89
Non-Outage Operating Expenses	24,068	21,508	20,785	21,380	(0.60)
Insurance	84	88	88	88	-
Total Nine Mile Point 2 O&M Expenses	\$ 26,653	\$ 24,024	\$ 23,762	\$ 24,549	2.19

Note: (1) Projection as of September 30, 2008

Efficiency and Renewables Program Expenses

(Thousands of Dollars)

	2007	2008		Approved 2009	% Chg. From Approved 2008
	<u>Actual</u>	<u>Approved</u>	<u>Projected ⁽¹⁾</u>		
Efficient Products Program ⁽²⁾	4,494	4,756	4,115	6,983	46.83
Commercial & Industrial New Construction Program ⁽²⁾	3,706	4,980	3,423	3,799	(23.71)
Commercial & Industrial Existing Structures Program ⁽²⁾	3,706	4,980	3,423	2,398	(51.85)
New Homes Program ⁽²⁾	2,487	2,462	1,611	2,179	(11.49)
Existing Homes Program ⁽²⁾	6,974	6,322	3,483	6,033	(4.57)
75 MW Energy Efficiency Program	7,860	4,500	5,500	3,374	(25.02)
Low Income Conservation	2,523	4,000	3,400	3,250	(18.75)
Advertising and Promotion	1,314	2,100	1,900	2,550	21.43
Professional Services	-	900	1,427	900	-
Evaluation and Audit-Efficiency Long Island Program ⁽²⁾	-	-	-	853	N/A
Evaluation and Audit-Other	-	450	450	315	(30.00)
Government/Not for Profit Programs ⁽²⁾	-	-	-	2,417	N/A
LIPA Edge Program	533	1,900	1,400	1,871	(1.53)
Research, Development & Demonstration	1,691	1,400	550	665	(52.50)
NYSERDA Research Programs	1,600	1,600	1,600	1,600	-
Peak Load Reduction Program ⁽³⁾	15	25	7	25	-
Solar Pioneer/Entrepreneur Programs	7,018	8,000	8,850	12,512	56.40
Small Wind Program	-	-	-	1,214	N/A
Total Efficiency and Renewables Program Expenses	\$ 43,921	\$ 48,375	\$ 41,138	\$ 52,938	9.43

N/A=Not applicable

Notes: (1) Projection as of September 30, 2008.

(2) Expenditures for 2007 and 2008 are restated to correspond to the cost category of the individual energy efficiency and renewables programs under the Efficiency Long Island Program.

(3) Excludes the cost of customer rebates, which pursuant to LIPA's tariff, are provided for under Fuel and Purchased Power costs.

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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 renewable energy 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 2009 reflects the transition from LIPA's Clean Energy Initiative ("CEI") to LIPA's Green Energy Program, which will include the new Efficiency Long Island Program ("ELI"), a comprehensive program to promote energy conservation in existing and new market segments and to expand the development and use of renewable energy technologies. The budget for the programs under Efficiency and Renewables is \$52.9 million, an increase of \$4.6 million, or 9.4% from the level budgeted for 2008.

Contained in the increase is an expansion of the Solar Pioneer Program with initiation of the Solar Entrepreneur Program, which is approved to increase 56% from the budgeted 2008 level. The Solar Entrepreneur Program provides for an expansion of incentives to support larger installations in the commercial and not-for-profit customer segments and serves as a complement to solar net metering. Additionally, we have budgeted \$1.2 million for a new incentive program for customer-sited wind generators to be available to both residential and commercial customers, which is complementing the wind net-metering opportunity.

Long Island Power Authority and Subsidiaries
 Approved Budget-2009

Salaries and Benefits
 (Thousands of Dollars)

	2007 <u>Actual</u>	2008 <u>Approved</u> <u>Projected ⁽¹⁾</u>		Approved 2009	% Chg. From Approved <u>2008</u>
Employee Salaries	\$ 9,142	\$ 10,530	\$ 9,249	\$ 10,750	2.09
Incentive Compensation	1,250	-	-	-	-
Key Staff Attraction and Retention	-	250	250	-	(100.00)
Overtime	1	7	7	7	-
Medical, Dental and Vision Care Insurance	763	1,112	1,026	1,118	0.54
Employee Pensions/Other Post-Employment Benefits	2,076	2,560	2,762	2,017	(21.21)
Other Employee Benefits	1,761	1,659	1,625	1,801	5.56
Total Salaries & Benefits Expenses	\$ 14,993	\$ 16,118	\$ 14,919	\$ 15,693	(2.64)

Note: (1) Projection as of September 30, 2008

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2009
Approved Capital Budgets-2009 and 2010
Five Year Financial Projections-2009-13

Salaries and Benefits

This category consists of costs for the salaries, benefits and other related expenses of LIPA employees. The budget of \$15.7 million relates to the staffing level of 101, which reflects a reduction of two positions as compared with the level budgeted for 2008, as shown on page A-7.1.

**Approved Staffing Budget versus Approved 2008
 Number of Employees at Year End**

Department	Approved 2008	Approved 2009	Variation	
	Unit (#)	Unit (#)	From Approved 08	Units (#)
Office of the President	3	3	-	
Administration	1	1	-	
Communications ⁽¹⁾	8	8	-	
Customer Relations	7	7	-	
Environmental Affairs	2	2	-	
Efficiency and Renewable Program ⁽²⁾	11	9	(2)	Defers the addition of two positions
Finance	21	22	1	Adds Contract Specialist and Accounts Payable Clerk and eliminates one budgeted vacant position
Government Relations ^{(1) (3)}	4	4	-	
Human Resources	7	7	-	
IS&T	3	4	1	Brings network administration and IT support activities in-house
Legal	10	10	-	
Operations ⁽³⁾	6	6	-	
Power Markets ⁽²⁾	13	11	(2)	Eliminates two budgeted vacant positions
Retail Services	7	7	-	
Total Number of Employees	103	101	(2)	

The 2008 approved levels have been restated to reflect the following internal staffing realignments:

- (1) Director from Government Relations to Communications
- (2) Project Manager from Power Markets to Efficiency and Renewables
- (3) Administrative Assistant from Operations to Government Relations

Professional Services and General Expenses
 (Thousands of Dollars)

	2007 <u>Actual</u>	2008 <u>Approved</u>	2008 <u>Projected</u> ⁽¹⁾	Approved 2009	% Chg. From Approved <u>2008</u>
Professional Services	\$ 15,094	\$ 15,268	\$ 13,659	\$ 13,957	(8.59)
Insurance	1,907	1,888	1,888	1,817	(3.76)
Injuries and Damages Reserve	2,052	1,830	1,830	1,785	(2.46)
Office Rent	1,594	1,644	1,644	1,666	1.34
Telephone	197	225	222	214	(4.89)
Office Supplies and Equipment	433	1,288	605	741	(42.47)
Meetings, Conferences and Seminars	16	388	319	291	(25.00)
Dues/Memberships/Subscriptions	92	192	101	79	(58.85)
Communications	395	645	645	641	(0.62)
LIPA Other Public Meetings	44	60	77	82	36.67
Business and Community Development Programs	352	352	326	306	(13.07)
Miscellaneous	548	177	159	69	(61.02)
Total Professional Services and General Expenses	\$ 22,724	\$ 23,957	\$ 21,475	\$ 21,648	(9.64)

Note: (1) Projection as of September 30, 2008

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2009
Approved Capital Budgets-2009 and 2010
Five Year Financial Projections-2009-13

Professional Services and General Expenses

Professional services and general expenses for 2009 are budgeted at \$21.6 million. This represents a decrease of \$2.3 million, or 9.6% as compared with the budgeted level for 2008. 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.

Professional services expenses consist primarily of outside engineering, financial, legal and other professional services. The Approved budget for 2009 is \$14.0 million, a reduction of \$1.3 million, or 8.6% as compared with the budgeted level for 2008.

Long Island Power Authority and Subsidiaries
 Approved Budget-2009

Professional Services ⁽¹⁾
 (Thousands of Dollars)

	2007 <u>Actual</u>	2008 <u>Approved</u> <u>Projected ⁽²⁾</u>		Approved 2009	% Chg. From Approved <u>2008</u>
Engineering	\$ 8,879	\$ 7,405	\$ 5,948	\$ 5,579	(24.65)
Legal	1,858	2,644	2,644	2,900	9.68
Financial Advisor/Cash Management	1,613	1,792	1,750	1,672	(6.70)
Accounting and Audit Services	642	1,409	1,300	1,527	8.37
Rates and Tariffs	-	175	175	250	42.86
Information Technology	878	435	435	783	80.00
Risk Management-Fuel	679	708	708	763	7.77
Communications	122	190	190	170	(10.53)
Smart Meter Implementation Plan	-	-	-	100	N/M
Risk Management-Insurance	152	162	162	165	1.85
Miscellaneous	271	348	348	48	(86.21)
Total Professional Services Expenses	\$ 15,094	\$ 15,268	\$ 13,659	\$ 13,957	(8.59)

N/M=Not meaningful

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

(2) Projection as of September 30, 2008.

Long Island Power Authority and Subsidiaries
 Approved Budget-2009

Depreciation and Amortization

(Thousands of Dollars)

	2007 <u>Actual</u>	2008 <u>Approved</u> <u>Projected</u> ⁽¹⁾		Approved 2009	% Chg. From Approved <u>2008</u>
Amortization of Acquisition Adjustment	\$ 112,681	\$ 112,681	\$ 112,681	\$ 112,681	-
Depreciation Expense-Plant-in-Service	132,952	142,676	135,141	141,389	(0.90)
Total Depreciation and Amortization	\$ 245,632	\$ 255,357	\$ 247,823	\$ 254,070	(0.50)

Note: (1) Projection as of September 30, 2008

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2009
Approved Capital Budgets-2009 and 2010
Five Year Financial Projections-2009-13

Depreciation and Amortization

Depreciation and amortization is budgeted at \$254.1 million, a decrease of 0.5% versus the budgeted expense level for 2008. 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 lower expense level reflects the reduced depreciation expense associated with the extension of the operating license of the Nine Mile Point 2 Nuclear Generating Station.

Taxes and Payments in-lieu-of Taxes

(Thousands of Dollars)

	2007 <u>Actual</u>	2008 <u>Approved</u> <u>Projected ⁽¹⁾</u>		Approved 2009	% Chg. From Approved 2008
Revenue Taxes	\$ 59,297	\$ 59,320	\$ 59,559	\$ 61,506	3.69
Payments in-lieu-of Taxes (PILOTS)					
Long Island and New York City	\$ 158,199	\$ 168,078	\$ 166,393	\$ 174,384	3.75
Nine Mile PILOTS	3,641	3,632	3,659	3,632	-
Merchant Power Plants	10,353	9,326	9,663	9,809	5.18
Total PILOTS	\$ 172,193	\$ 181,036	\$ 179,715	\$ 187,825	3.75

Note: (1) Projection as of September 30, 2008

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2009
Approved Capital Budgets-2009 and 2010
Five Year Financial Projections-2009-13

Taxes and Payments-in-Lieu of Taxes

Revenue taxes are budgeted at \$61.5 million, an increase of 3.7% as compared with the approved level for 2008. These taxes are based on gross revenues received from the sale of electricity and tax assessments on other sources of revenues. The increase is due to higher taxable revenues budgeted for 2009 and lower projected tax credits under the Power-for-Jobs program, reflecting continued lower customer participation.

Payments-in-lieu of taxes, or PILOTs, are budgeted at \$187.8 million, an increase of \$6.8 million, or 3.8% as compared with the expense level budgeted for 2008. 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 \$176.6 million) are included in Operations and Maintenance expense. The higher expense level for 2009 is primarily attributable to projected increases in Nassau and Suffolk County property-based taxes.

Other Income and (Deductions)

(Thousands of Dollars)

	2007 <u>Actual</u>	2008 <u>Approved</u>	2008 <u>Projected ⁽¹⁾</u>	Approved 2009	% Chg. From Approved 2008
Low Income Senior Energy Assistance Program	-	-	-	\$ (10,000)	N/M
Short-Term Investment Income	36,947	21,000	21,225	16,000	(23.81)
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	32,178	31,829	31,829	31,383	(1.40)
Gains on Sales of Emissions Credits	14,717	13,138	3,581	6,143	(53.24)
Income on Nuclear Decommissioning Trust Fund	2,682	2,199	2,481	2,800	27.33
Utilization of Settlement Benefits	-	-	-	10,000	N/M
Miscellaneous Income and (Deductions)	(4,195)	1,100	7,079	(3,695)	(435.91)
Total Other Income and (Deductions)	\$ 82,329	\$ 69,266	\$ 66,195	\$ 52,631	(24.02)

N/M=Not meaningful

Note: (1) Projection as of September 30, 2008

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2009
Approved Capital Budgets-2009 and 2010
Five Year Financial Projections-2009-13

Other Income and (Deductions)

Other income and (deductions) are budgeted at \$52.6 million for 2009, a decrease of \$16.6 million, or 24% when compared with the level budgeted for 2008. This category consists of income on LIPA's short-term investments, 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. Also included in this category is the cost of the Low Income Senior Energy Assistance Program, which is expected to become effective in 2009. The cost of this program is offset by the utilization of Settlement Benefits from the National Grid contracts.

Major variances from the 2008 budgeted level include:

- **Short-Term Investment Income:** The projected decrease of \$5.0 million, or 23.8% reflects lower forecasted invested balances and lower returns.
- **Gains on Sales of Emissions Credits:** The reduction of \$7 million, or 53.2% reflects lower forecasted sales prices for SO2 credits.
- **Miscellaneous Income and Deductions:** The \$4.8 million decrease in income from the 2008 budgeted level is due to the community benefit payments related to the Caithness generating plant scheduled for 2009.

Long Island Power Authority and Subsidiaries
 Approved Budget-2009

Interest Expense
 (Thousands of Dollars)

	2007 <u>Actual</u>	2008 <u>Approved</u> <u>Projected ⁽¹⁾</u>		Approved 2009	% Chg. From Approved <u>2008</u>
Interest Expense on Debt Securities from Page A-13	\$ 298,270	\$ 296,524	\$ 295,303	\$ 322,062	8.61
Other Interest Expense					
NYSERDA	8,075	8,075	\$ 8,075	\$ 8,075	-
Promissory Note due from National Grid	(8,075)	(8,075)	(8,075)	(8,075)	-
Amortization of Deferred Debt Issue Costs	5,380	6,358	5,113	6,837	7.53
Amortization of Deferred Losses (Gains) on Debt Redemptions	12,042	11,434	12,173	10,778	(5.74)
Letter of Credit Fees	4,494	5,524	4,998	6,533	18.27
Broker/Dealer Fees on Auction Rate Bonds	2,519	2,625	1,937	17	(99.35)
Interest on Customer Security Deposits	658	750	715	789	5.20
Bond Administration Costs and Bank Fees	1,737	567	1,096	1,012	78.48
Remarketing Fees	998	840	934	929	10.60
Other	1,497	900	4,526	427	(52.56)
Total Other Interest Expense	\$ 29,325	\$ 28,998	\$ 31,491	\$ 27,322	(5.78)
Less: Capitalized Interest	8,183	6,000	7,592	5,900	(1.67)
Total Interest Expense	\$ 319,413	\$ 319,522	\$ 319,202	\$ 343,484	7.50

Note: (1) Projection as of September 30, 2008

Long Island Power Authority and Subsidiaries
Approved Operating Budget-2009
Approved Capital Budgets-2009 and 2010
Five Year Financial Projections-2009-13

Interest Expense

Interest expense is budgeted at \$343.5 million, an increase of \$24 million, or 7.5% as compared with the level budgeted for 2008. The budgeted expense for 2009 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 new issuances is 6% for fixed rate debt and variable rate debt is budgeted at 4%. Interest expense to be incurred on debt securities is detailed by issue on page A-13.

The budgeted expense level for 2009 reflects the debt restructuring and new money financings that are expected to take place in late-2008 or early-2009. The average level of debt outstanding for 2009 is forecasted at \$6.7 billion. The effective interest rate is 5.2%. This debt level and interest rate compare with the budgeted debt level of \$6.7 billion and an effective interest rate of 4.8% for 2008.

Cost of Debt-2009

<u>Series</u>	<u>Type</u>	<u>Maturity</u>	<u>Year-End Principal Outstanding</u> (SThousands)	<u>Average Principal Outstanding</u> (SThousands)	<u>Effective Interest Rate</u>	<u>Interest Expense (1)</u> (SThousands)
<u>Senior Lien Debt</u>						
1998 A	Serial Bonds	2009-2016	\$ 159,416	\$ 226,919	4.949%	\$ 11,230
1998 A	Capital Appreciation Bonds (2)	2009-2028	128,971	137,611	5.143%	7,077
1998 B	Serial Bonds	2009-2016	82,125	100,215	4.622%	4,632
2000 A	Capital Appreciation Bonds (4)	2009-2028	409,784	399,380	5.628%	22,478
2001A	Serial Bonds (3),	2013-2021	745	745	4.642%	35
2001 A	Term Bonds (3)	2025-2029	164,430	164,430	4.931%	8,107
2003 A	Serial Bonds	2009	-	8,290	3.883%	322
2003 B	Serial Bonds	2009-2014	262,510	268,405	4.570%	12,267
2003 C	Serial Bonds (3)	2013-2033	70,480	70,480	4.469%	3,149
2003 C	Term Bonds (3)	2033	185,520	185,520	4.911%	9,112
2003 D-O	Variable Rate Debt	2029	587,225	587,225	4.505%	26,457
2004A	Serial Bonds (3)	2013-2025	33,900	33,900	4.263%	1,445
2004A	Term Bonds	2029-2034	166,100	166,100	5.084%	8,444
2006A	Serial Bonds (3)	2009-2026	839,245	839,245	4.543%	38,126
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 (3)	2035	198,020	198,020	4.845%	9,595
2006D	Serial Bonds	2009-2025	216,210	216,637	4.451%	9,643
2006D	Serial Bonds - Variable Rate	2015	110,715	110,715	4.110%	4,550
2006E	Serial Bonds (3)	2009-2022	507,600	507,600	4.385%	22,259
2006F	Serial Bonds	2009-2028	401,915	401,915	3.891%	15,639
2006F	Term Bonds	2033	112,580	112,580	4.250%	4,785
2008 A	Term Bonds	2034	605,055	605,055	5.932%	35,893
2008 B	Serial Bonds	2019-2025	96,540	96,540	5.395%	5,208
2008 B	Term Bonds	2033	52,800	52,800	5.510%	2,909
2008 C			231,500	231,500	6.000%	13,890
2009 A			200,000	200,000	6.000%	12,000
Total Senior Lien Debt			\$ 5,920,341	\$ 6,018,782	4.884%	\$ 293,970
<u>Subordinate Debt</u>						
Series 8	Mandatory Purchase	2009-2010	\$ 51,705	\$ 64,960	3.960%	\$ 2,572
Series 2001 1A-3B	Variable Rate (5)	2033	525,000	525,000	4.099%	21,520
Commercial Paper	Variable Rate (5)	Various	100,000	100,000	4.000%	4,000
Total Subordinated Debt			\$ 676,705	\$ 689,960	4.072%	\$ 28,092
Total Debt Securities			\$ 6,597,046	\$ 6,708,742	4.801%	\$ 322,062
Other Debt-Related Interest Expense (6)						26,106
Total Average Debt Outstanding/Embedded Cost of Debt			\$ 6,597,046	\$ 6,708,742	5.190%	\$ 348,168

Notes:

- (1) Net of amortizations for discounts and premiums, 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% for 2009.
- (6) Excludes interest on customer deposits and other carrying charges.

Capital Expenditures
 (Thousands of Dollars)

	Actual 2007	2008		Approved 2009	% Chg. From Approved 2008	Approved 2010	% Chg.
		Approved	Projected ⁽¹⁾				
Transmission Projects							
Transmission Interconnections-New Power Plants (Major Capital)	\$ 2,914	\$ 13,825	\$ 15,437	\$ 8,500	(38.52)	\$ -	(100.00)
Transmission Interconnections-Offshore Wind Projects (Major Capital)	168	-	59	-	-	650	-
Transmission Interconnections-Neptune Cable (Major Capital) ⁽²⁾	22,943	653	1,210	-	(100.00)	-	-
Transmission Interconnections-NUSCO Cable (Major Capital)	34,645	27,059	32,747	-	(100.00)	-	-
Transmission Line-Southampton to Bridgehampton (Major Capital)	-	25,363	33,869	-	(100.00)	-	-
Nassau Substations and Lines (Major Capital)	26,043	16,488	17,604	11,888	(27.90)	57,965	387.60
Western Suffolk Substations and Lines (Major Capital)	16,907	10,803	11,731	7,526	(30.33)	15,700	108.61
Eastern Suffolk Substation and Lines (Major Capital)	14,725	31,893	23,661	24,585	(22.91)	7,100	(71.12)
Other Transmission (Routine Capital)	6,158	8,920	9,089	8,510	(4.59)	5,852	(31.24)
Other Transmission (Major Capital)	2,696	1,138	138	-	(100.00)	-	-
Total Transmission Projects	127,199	136,142	145,544	61,009	(55.19)	87,267	43.04
Distribution Projects							
Substations (Major Capital) ⁽²⁾	12,702	7,813	6,888	6,333	(18.94)	7,537	19.01
Substations (Routine Capital)	2,935	3,543	4,538	4,471	26.18	5,063	13.00
Electric Lines-New Customer Load (Routine Capital)	28,283	26,800	24,653	23,700	(11.57)	24,174	2.00
Electric Lines-Other (Routine Capital)	74,035	68,416	71,771	72,638	6.17	72,272	(0.50)
Storm Hardening Initiative (Routine Capital)	-	13,900	8,638	13,156	(5.35)	6,275	(52.30)
Purchase and Install Meters/Transformers (Routine Capital)	29,501	26,460	29,808	29,620	11.94	32,150	8.54
Public Works	2,996	3,200	3,489	3,200	-	3,264	2.00
Other Distribution (Routine Capital)	4,443	3,780	1,098	7,880	108.44	10,371	31.61
Total Distribution Projects	154,896	153,913	150,883	160,998	4.60	161,106	0.07
Project Funding for Emerging Work	N/A	-	N/A	12,190	N/A	8,000	(34.37)
Total Transmission and Distribution Projects	282,095	290,054	296,428	234,197	(19.26)	256,373	9.47
Cost-Sharing and Other Contributions	(8,139)	(10,194)	(9,157)	(9,172)	(10.03)	(6,120)	(33.28)
Capitalized Interest and Allocations	18,183	16,000	17,592	15,900	(0.63)	17,100	7.55
Caithness Generating Plant-Gas Transportation/Supply Facilities	-	20,550	20,551	9,506	(53.74)	-	(100.00)
Nine Mile Point Two Plant Additions/Replacements/Capitalized Nuclear Fuel	18,262	5,615	5,876	12,092	115.36	27,431	126.85
LIPA Information Systems, Equipment and Other Capitalized Expenditures	3,123	883	857	6,617	649.49	135	(97.96)
Total Capital Expenditures	\$ 313,524	\$ 322,907	\$ 332,147	\$ 269,141	(16.65)	\$ 294,919	9.58

N/M=Not Meaningful

N/A=Included in individual project categories, above

Notes: (1) Projection as of September 30, 2008.

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

Statements of Revenues and Expenses

(Thousands of Dollars)

	Approved Budget	Projected			
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Revenues	\$ 3,845,480	\$ 4,061,525	\$ 4,213,560	\$ 4,415,113	\$ 4,437,871
Expenses					
Fuel and Purchased Power Costs	2,123,894	2,268,816	2,360,382	2,497,663	2,452,116
Operations and Maintenance Expenses	814,991	871,890	913,733	961,693	1,014,748
Salaries and Benefits Expense	15,693	16,573	17,153	17,753	18,375
Professional Services and General Expenses	21,648	23,068	22,633	23,426	24,245
Depreciation and Amortization	254,070	261,364	268,874	276,461	284,207
Revenue Taxes	61,506	64,552	66,781	69,799	71,248
Payments in Lieu of Taxes (PILOTS)	187,825	195,880	206,199	216,984	227,346
Total Operating Expenses	3,479,627	3,702,143	3,855,755	4,063,778	4,092,285
Operating Income	365,853	359,382	357,805	351,335	345,586
Other Income and Deductions	52,631	53,615	54,253	53,827	53,709
Interest Expense	343,484	337,997	337,058	330,161	324,295
Excess of Revenues Over Expenses	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
Debt Service Coverage Ratios (x):					
Senior Lien Debt	2.43	2.62	2.72	2.41	3.10
Senior Lien and Subordinated Debt	2.07	2.36	2.45	2.30	2.93
Total Debt	2.04	2.33	2.42	2.27	2.88
Change in typical residential bill from prior year	3.2%	5.7%	3.5%	4.0%	0.6%

Long Island Power Authority and Subsidiaries
Five Year Financial Forecast

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

	Approved	Projected			
	Budget 2009	2010	2011	2012	2013
FUNDS PROVIDED FROM :					
Excess Of Revenues Over Expenses	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
Plus (Minus) Non-Cash Items:					
Utilization of Settlement Benefits	(100,000)	(40,000)	-	-	-
Amortization of Deferred Shoreham Property Tax Settlement Credits	37,335	38,093	38,931	39,918	40,692
Power Supply Management Contract Transition	-	2,740	2,740	2,740	2,740
Deferred Fuel Cost Reconciliation	36,500	36,500	36,500	36,500	36,500
NMP2 Amortized Nuclear Fuel Expense	8,028	9,902	10,426	10,568	11,248
Amortization of Prepaid NMP2 Refueling Outage Costs	3,081	2,939	2,891	2,795	2,763
Amortization of Prepaid Fuel Hedging Program Costs	22,608	10,000	10,000	10,000	10,000
Asset Retirement Obligation Accretion - FASB 143	5,175	5,486	5,815	6,164	6,533
Accrual for Other Post Employment Benefits	1,280	1,344	1,411	1,482	1,556
PSA Plant and Property Tax True-Ups-Accruals	14,156	15,240	14,101	14,558	17,723
Depreciation and Amortization	254,070	261,364	268,874	276,461	284,207
Promissary Note Receipts from National Grid	8,075	8,075	8,075	8,075	8,075
Other	9,662	9,703	9,703	9,703	9,703
Debt Service Interest Expense	343,484	337,997	337,058	330,161	324,295
Proceeds of Bonds and Notes	200,000	190,000	55,000	115,000	-
Total Sources of Funds before Interest Expense	\$918,454	\$964,382	\$876,524	\$939,124	\$831,035
FUNDS USED FOR :					
Prepaid Fuel Hedging Program Costs	-	10,000	10,000	10,000	10,000
Prepaid NMP2 Refueling Outage Costs	180	5,602	180	5,346	180
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	31,383	30,856	30,254	29,577	28,816
Power Supply Management Contract Transition	13,700				
Funding for NMP2 Plant Decommissioning	1,000	1,000	1,000	1,000	1,000
Bank and Related Fees	8,491	8,491	8,491	8,491	8,491
Interest on Customer Deposits and Overpayments	789	789	789	789	789
Interest on PSA Property Tax and Plant True-Ups	427	427	427	427	427
Debt Service Payments	555,704	528,256	542,023	574,000	468,315
Low Income Senior Energy Assistance Program	10,000	-	-	-	-
Capital Expenditures	246,946	256,668	250,252	259,443	261,872
Capitalized MSA Management Fees	10,000	10,000	10,000	10,000	10,000
PSA Plant and Property Tax True-Ups-Payments	10,380	14,156	15,240	14,101	14,558
NMP2 Cash Fuel Expense Capital Expenditures	6,294	20,947	5,261	25,194	4,838
Change in cash position due to Operating, Financing and Investing Activities	23,160	77,189	2,607	756	21,749
Total Uses of Funds	\$918,454	\$964,382	\$876,524	\$939,124	\$831,035

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, 2013 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 'K. Law', enclosed within a large, horizontal oval shape.

Kevin S. Law
President and Chief Executive Officer
Long Island Power Authority

Dated: December 11, 2008