

# Long Island Power Authority

Proposed Operating Budget-2010  
Proposed Capital Budgets-2010 and 2011  
Five Year Financial Projections-2010-2014





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**November 2, 2009**

**A Message from LIPA's President and CEO**

I am pleased to submit the Long Island Power Authority's proposed 2010 Operating and Capital budget, which walks the fine line of fiscal conservatism while continuing to demonstrate leadership in efficiency and renewable energy. This budget lowers the Power Supply Charge by 4%, and maintains the Delivery Charge at 2009 levels. With this proposed budget, today's typical residential customer will pay \$2.25 more for their monthly bill than they currently do, but about \$3 less than they did in January 2009. Although these bills are slightly higher than what customers currently pay, our ability to further adjust the rates down was diminished by the impact of increased property taxes of 7%, and a new NYS Assessment imposed earlier this year on all utilities in the State.

In these challenging economic times, LIPA must continue to make tough financial choices to keep costs down. This budget is the result of the tough choices we have had to make, while continuing to remain focused on the important investments necessary for our future. The proposed budget includes substantially increased spending on energy efficiency and renewable programs for solar and wind, new incentives for hybrid electric vehicles, increased funding on smart grid technologies and continued funding of our Low Income Seniors Program. As reported, LIPA recently had the opportunity but decided not to purchase the generation plants owned by National Grid. While we support the concept of repowering some of these plants, we could not make a compelling financial business case to acquire these plants because there simply were too many material and unquantifiable risks associated with the acquisition. This was a difficult decision, but we chose to focus on energy efficiency and renewable resources as it is the most economic choice for us to meet the energy needs of Long Island, to improve the environment, and reduce our reliance on fossil fuel.

The cost of debt, fuel, purchased power, and the taxes we pay, are significant components of LIPA's budget. For 2010, interest, depreciation and financial reserves related to debt will amount to more than \$630 million. Fuel and purchased power costs are projected to be more than \$1.8 billion, while the taxes and other assessments we pay will total more than \$490 million. We cannot control the cost of fuel and purchased power but we will continue to pursue cost savings in the areas of the budget that we can control, and will continue to review our options to reduce the taxes and assessments we pay.

The 2010 budget incorporates two new items that will be shown separately on your bill in January: an Efficiency and Renewables charge, and a New York State Assessment. The Efficiency and Renewables charge and the New York State Assessment are similar to those approved by the NYS Public Service Commission for all the regulated electric utilities within the State. As has been previously reported, LIPA's Efficiency and Renewables program and the separate charge associated with it, are based on Efficiency LI, a 10-year, \$924 million program which offers a wide array of incentives, rebates and initiatives for LIPA's residential and commercial customers to assist them in reducing their energy usage and thereby lowering their bills, and supports our solar and wind programs. Clearly identifying the Efficiency and Renewables charge on the bill is intended to provide you with clarity on the amount you contribute for this program. Equally important is the fact that since the Efficiency and Renewables charge is based on your individual electric usage, you will be able to see how your own efficiency efforts are helping to lower your electric cost.

The New York State Assessment is the direct pass-through of a new assessment imposed by the State on all utilities. This new assessment will amount to a monthly charge of \$1.75 for the average residential customer. Although this charge is a requirement of the State, you can reduce your own cost of the assessment by taking advantage of the Efficiency Long Island programs and reducing your usage.

LIPA is working diligently to minimize our costs and the impacts they have on your bill. At the same time, we are committed to maintain the continued high level of reliable service you expect of us, while focusing on the future energy needs of our customers and the environment we live in. We strongly believe that the 2010 budget we have proposed fulfills those objectives.

LIPA will be holding public hearings on the proposed budget on both November 17<sup>th</sup> and December 9<sup>th</sup> in both Nassau and Suffolk Counties. We invite you to attend one of the four (4) public meetings we will be hosting to discuss our proposed budget in more detail.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin S. Law". The signature is fluid and cursive, with a large initial "K" and "L".

Kevin S. Law  
President and Chief Executive Officer

cc: LIPA Board of Trustees

**Long Island Power Authority and Subsidiaries  
Proposed Operating Budget-2010  
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## **Executive Summary**

The revenue and expenditure forecasts contained herein represent the proposed operating budget of the Long Island Power Authority and its subsidiaries (LIPA) for the year ending December 31, 2010, and the proposed capital budget for 2010 and 2011. Also included are projected statements of revenues and expenses and sources and uses of funds for the five-year period 2010-2014.

The revenue budget incorporates actual and projected sales results for 2009, 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 2010, 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 proposed 2010 budget totals \$3.702 billion. Electric sales for 2010 are forecasted at 19,756,120 MWH, which represents a 1.7% decrease from the budgeted sales level for 2009. The sales forecast reflects general economic conditions in the region and a higher level of energy conservation efforts employed by customers. The resultant revenues for 2010 are budgeted at \$3.702 billion, or 3.7% lower than the approved level for 2009. This decrease reflects lower budgeted sales as well as a proposed 4% reduction in LIPA's Power Supply Charge, resulting from lower natural gas and purchased power costs projected for 2010 and the refund of 2009 over recoveries of fuel and purchased power costs. Revenues also reflect the introduction of two cost recovery riders in 2010: (1) a rider to recover costs associated with LIPA's Efficiency Long Island and Renewable Energy programs, similar to the System Benefit Charge cost recovery mechanisms used by other New York public power and regulated utilities, and (2) a rider to recover costs associated with the New York State Temporary Conservation Assessment, enacted by the State in 2009. Both of these riders are similar to cost-recovery mechanisms approved by the NYS Public Service Commission for regulated utilities. Finally, budgeted revenues include revenues to be derived from the imposition of a late payment charge on residential customers, beginning in the second quarter of 2010. Other LIPA customer classes are presently subject to a similar charge. As in prior years, LIPA's Delivery Charge will remain unchanged. The

adjustments to LIPA's rates, effective January 1, 2010, will increase the typical residential customer's monthly bill by approximately 1.5%, or \$2.25, compared with the rates presently in effect.

Fuel and Purchased Power costs for 2010, before the effect of accounting accruals and amortizations, are budgeted at \$2.0 billion, a decrease of 8.4% compared with the comparable 2009 level. The budget is based on forecasted commodity (natural gas and fuel oil) prices using the ten day average of the forward price curve for all months as of September 28, 2009 and the projected cost of purchased power and nuclear fuel net of the impact of LIPA's commodity hedge positions for 2010. Also included in fuel and purchased power are the costs associated with the purchase of renewable power (\$35 million) and LIPA's compliance with the Regional Greenhouse Gas Initiative (\$24 million). In addition to lower projected commodity and purchased power prices and lower sales volume, the decrease in fuel and purchased power costs for 2010 reflects the fact that 2010 costs are lowered by the refund of prior-year (2009) over recoveries of fuel and purchased power costs projected at \$145 million, offset in part by the lower level of available KeySpan/National Grid USA settlement benefits (a decrease of \$52 million compared with 2009) to mitigate the impact of cost increases, resulting in a total decrease in fuel and purchased power costs of \$276 million as compared with the 2009 budgeted level.

Expenses for Operations and Maintenance are budgeted at \$917 million for 2010, an increase of 12.5% as compared with the approved level for 2009. 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 \$706 million, or 77% of all O&M expenses. Other major costs included in Operations and Maintenance expenses are those for LIPA's Efficiency and Renewables Program (\$73 million), assessments, reflecting the recently-enacted NYS Temporary Conservation Assessment (\$48 million), storm restoration costs (\$27 million), the operation and maintenance activities associated with LIPA's 18% ownership interest in the Nine Mile Point 2 nuclear power generating plant (\$27 million) and losses on uncollectible accounts (\$21 million). The approved budget for Efficiency and Renewables reflects the planned growth 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  $\frac{1}{2}$  of 1% of the total proposed budget for 2010. Salaries are budgeted at \$10.7 million, a slight decrease from the level approved for 2009. Non-retirement employee benefits are budgeted at \$3.1 million, an increase of 1.8% as compared with the approved 2009 level, reflecting higher medical insurance premiums. Employee pensions and other post-employment retirement benefits ("OPEBs") are budgeted at \$3.1 million, an increase of 53.3% over the 2009 budget, the result of updated actuarial assumptions used for accounting for OPEBs for LIPA's employees. The staffing level for 2010 totals 101 positions, unchanged from the approved 2009 level.

Professional Services, consisting primarily of outside engineering, financial, legal and other professional services, are budgeted at \$14 million, unchanged from the approved level for 2009. General and administrative expenses for 2010 are budgeted at \$7.8 million. This represents an increase of 1.6% as compared with the 2009 budget. Included are expenses for insurance, public liability damage claims, office rent, computer software upgrades and licenses, communications, and other administrative activities. The proposed 2010 budget for professional services includes funding for the information technology components of implementation of LIPA's new power supply management agreement and preparation for the 2013 rebid of the transmission and distribution management contract.

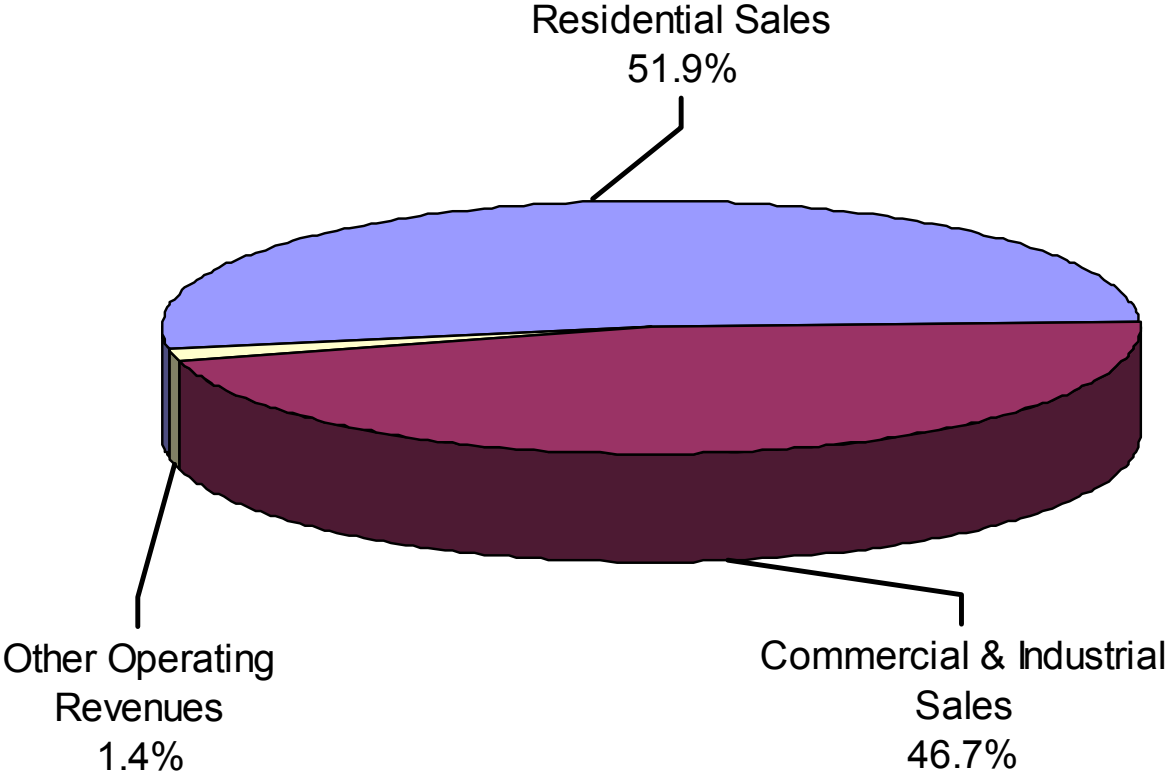
State and local taxes constitute 13.2% of the total proposed 2010 budget and 23.1% of LIPA's Delivery Charge. Real property taxes associated with the generating assets under contract through the Power Supply Agreement with National Grid USA are increasing by 3% to a total of \$182 million (4.9% of the total overall budget), and are included in Operations and Maintenance expenses. Payments in-lieu-of Taxes, or PILOTs, are budgeted at \$200 million, an increase of \$12.3 million (6.6%) as compared with the approved budget for 2009. 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 \$60.5 million, a decrease of 1.7% as compared with the approved level for 2009. The year-to-year reduction is due to lower taxable revenues budgeted for 2010.

Interest Expense is based on forecasted levels of outstanding debt and associated fees. The budgeted expense for 2010 is \$341 million, a decrease of \$2 million, or 0.6% as compared with the level approved for 2009. The reduced expense level reflects generally lower prevailing interest rates on LIPA's variable rate debt, partially offset by new money issuances to fund LIPA's ongoing investment in the transmission and distribution system.

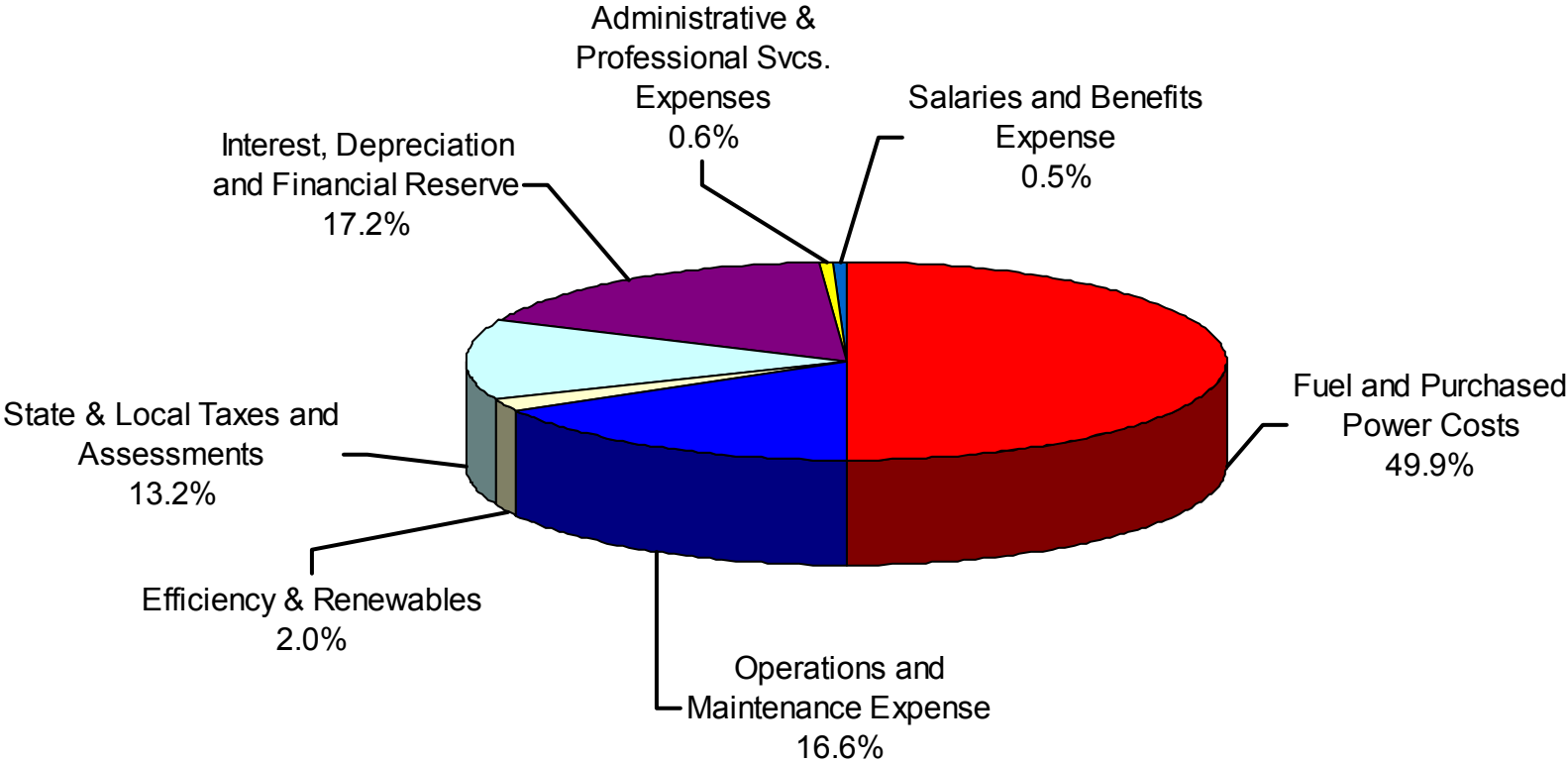
Capital expenditures for 2010 are projected to increase by 2.9% from the budgeted 2009 level. This increase results from projects related to the transition to "smart grid" technology and LIPA's participation in the expanded power uprate project for the Nine Mile Point 2 nuclear generating station. The effects of these items were partially offset by the completion of major capital projects undertaken prior to 2010, including interconnection and gas transportation and supply facilities associated with the Caithness Energy Center. Capital expenditures for 2011 are projected to increase 13.1% over the approved 2010 level, reflecting increased expenditures related to smart grid related projects.

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.

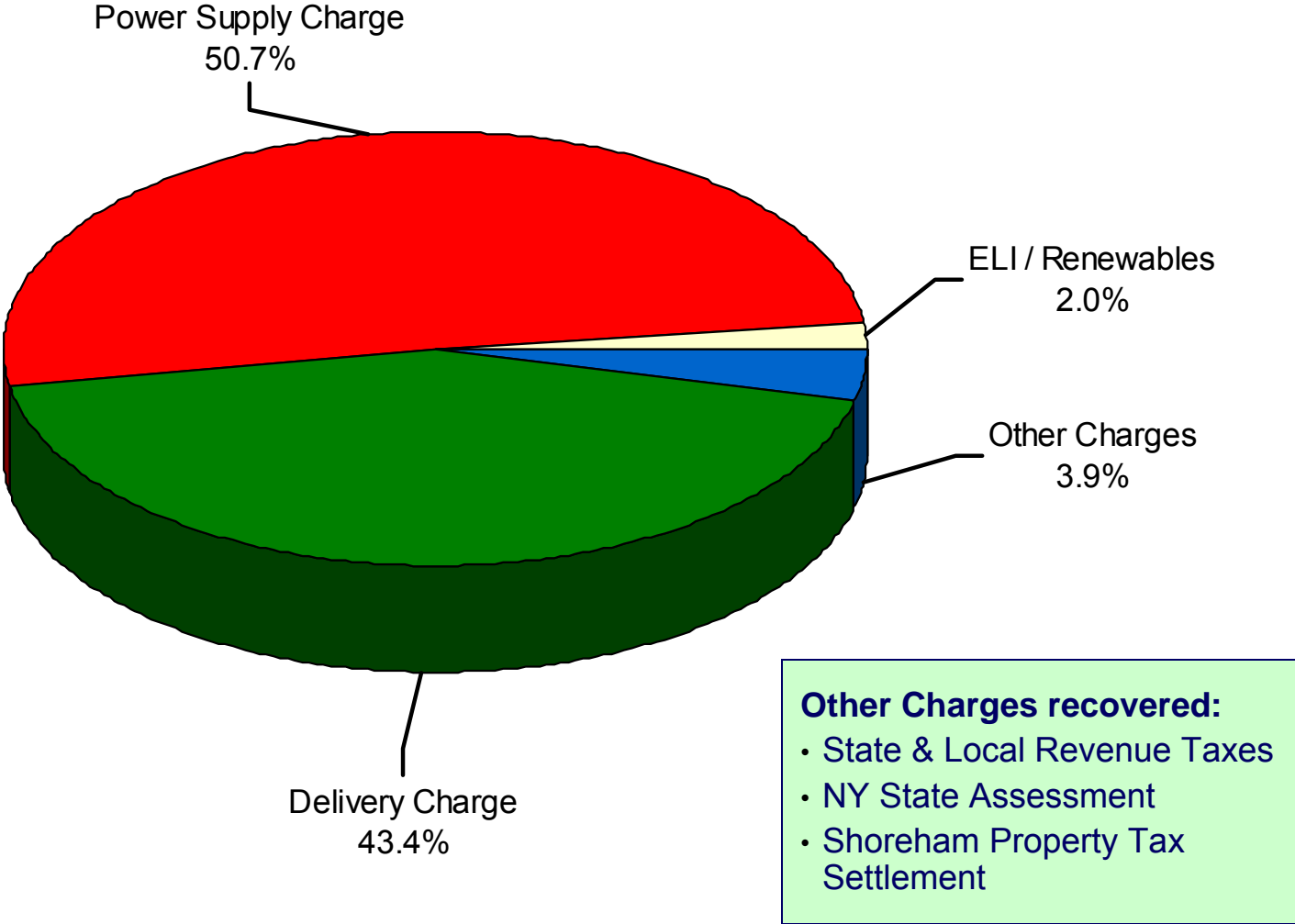
# Source of 2010 Revenue Dollar



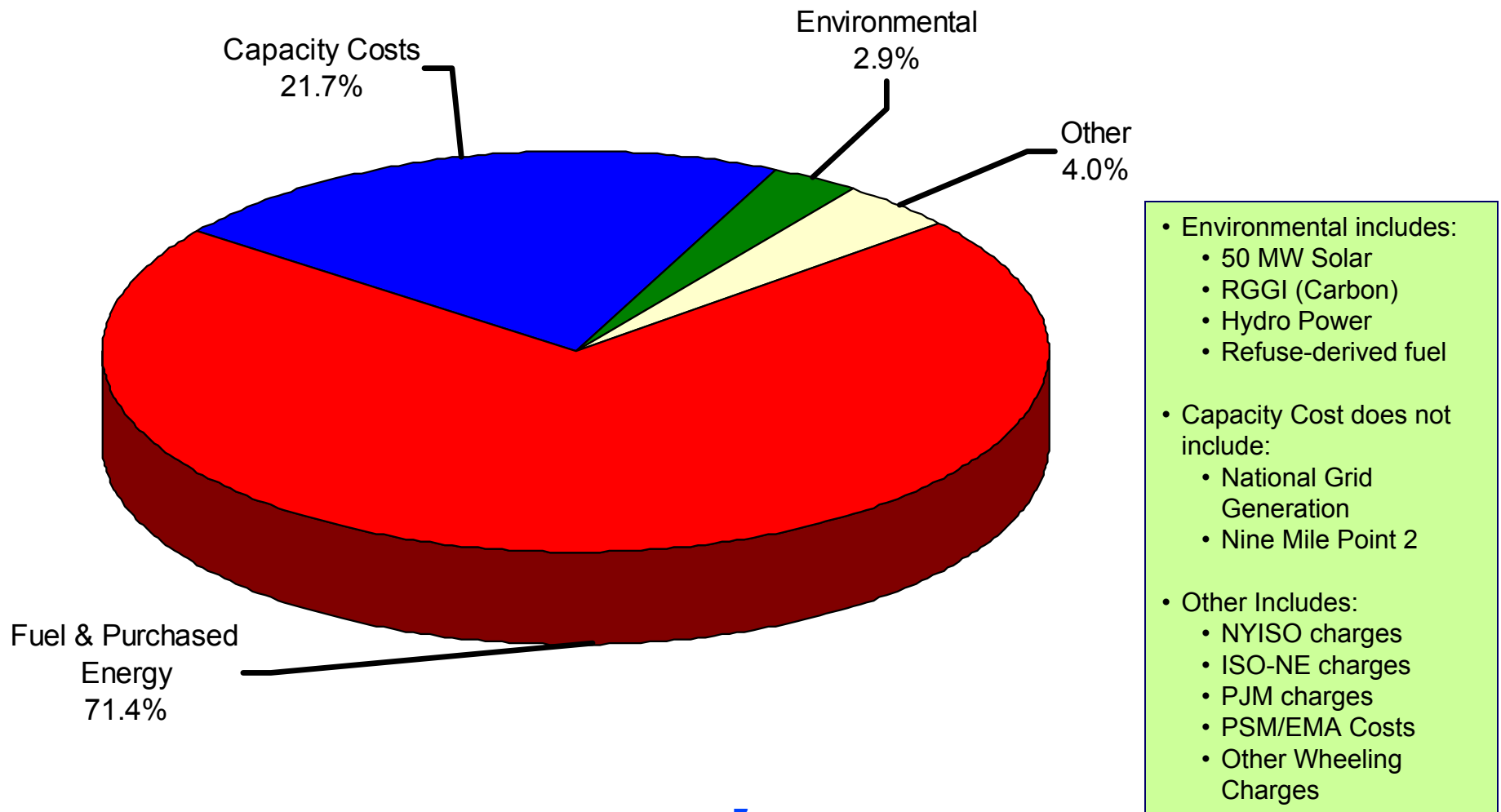
# LIPA Proposed Use of 2010 Revenue Dollar



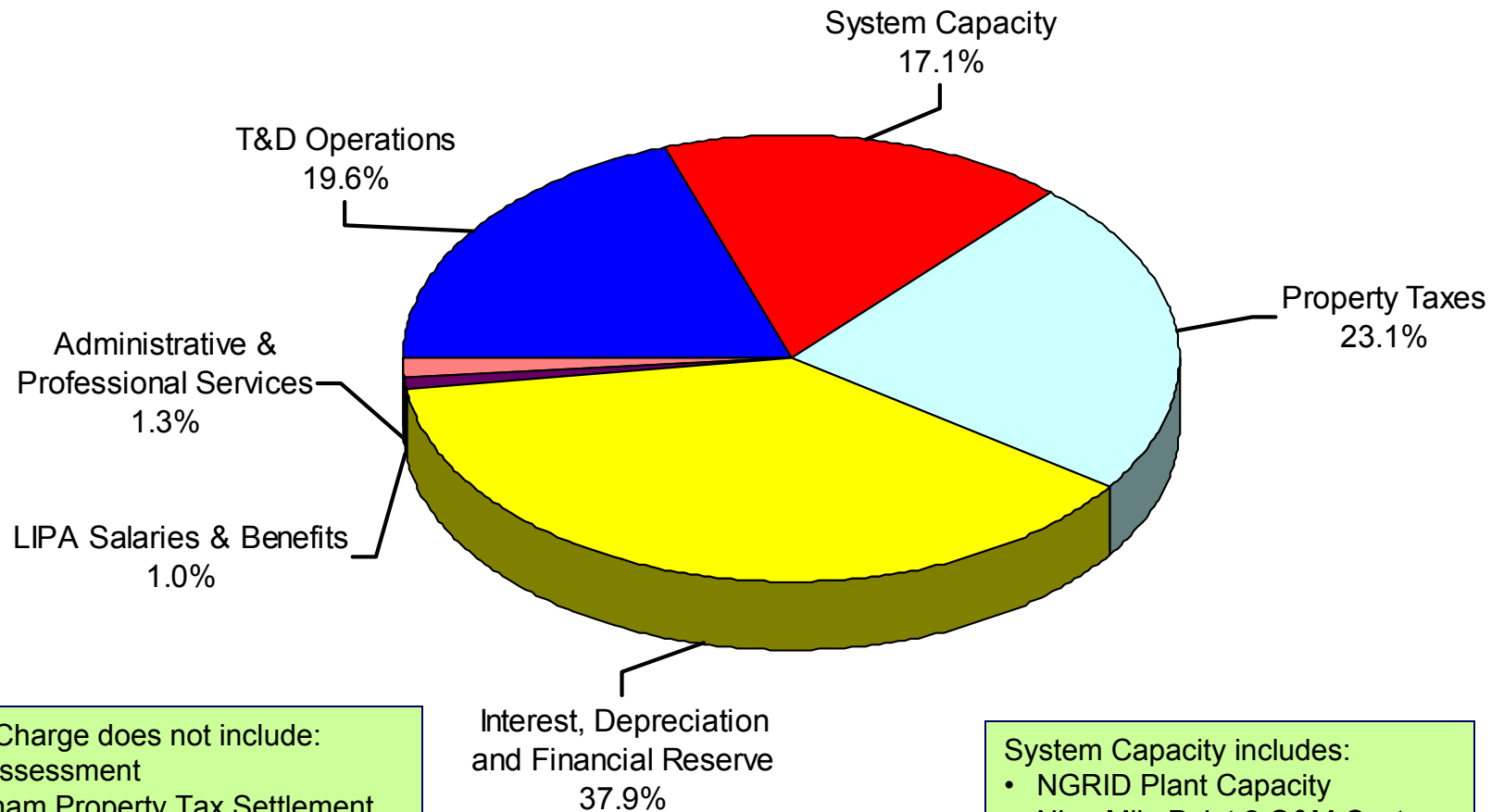
# Components of Rates in 2010



## Power Supply Charge Components



## Delivery Charge Components



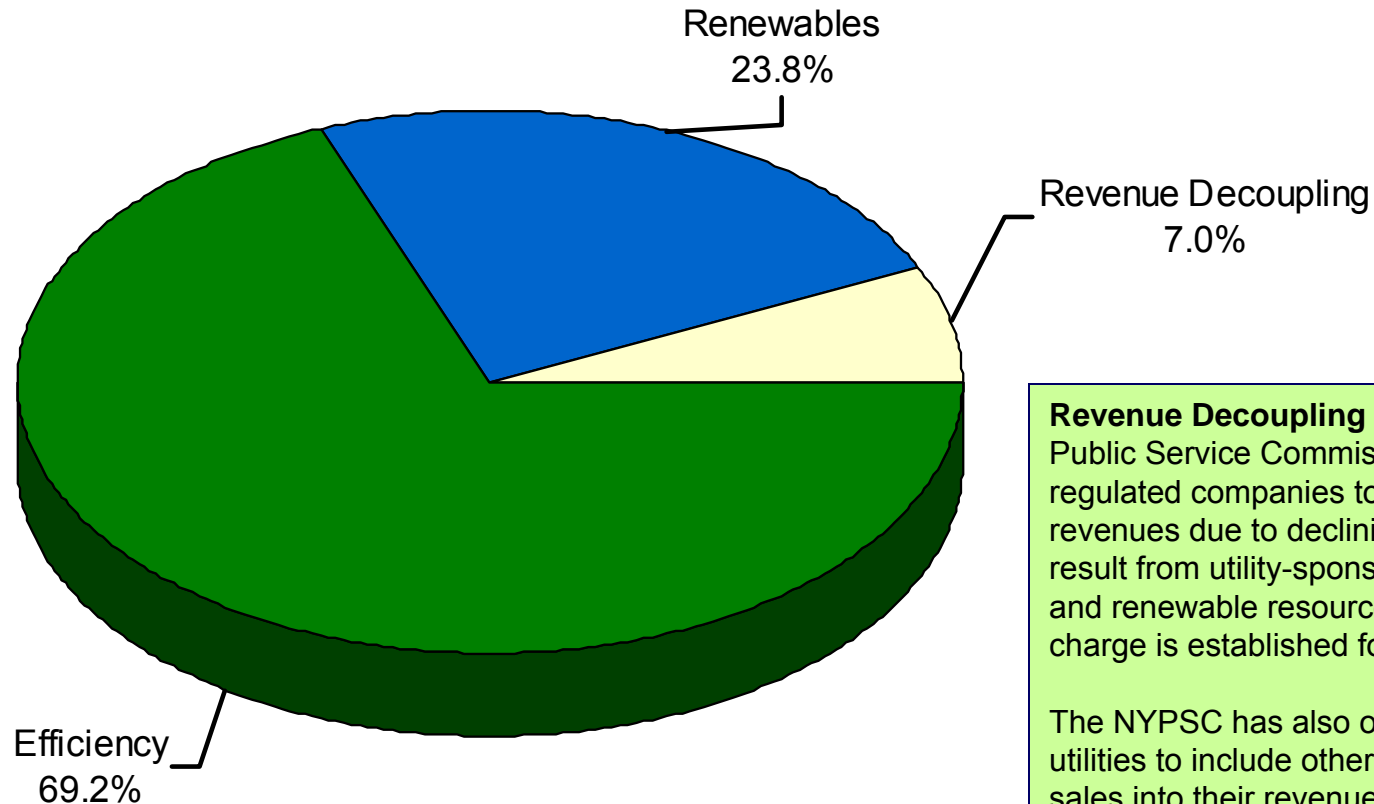
**Delivery Charge does not include:**

- NYS Assessment
- Shoreham Property Tax Settlement
- Revenue Taxes
- Efficiency and Renewables

**System Capacity includes:**

- NGRID Plant Capacity
- Nine Mile Point 2 O&M Costs

## Efficiency & Renewables Charge Components



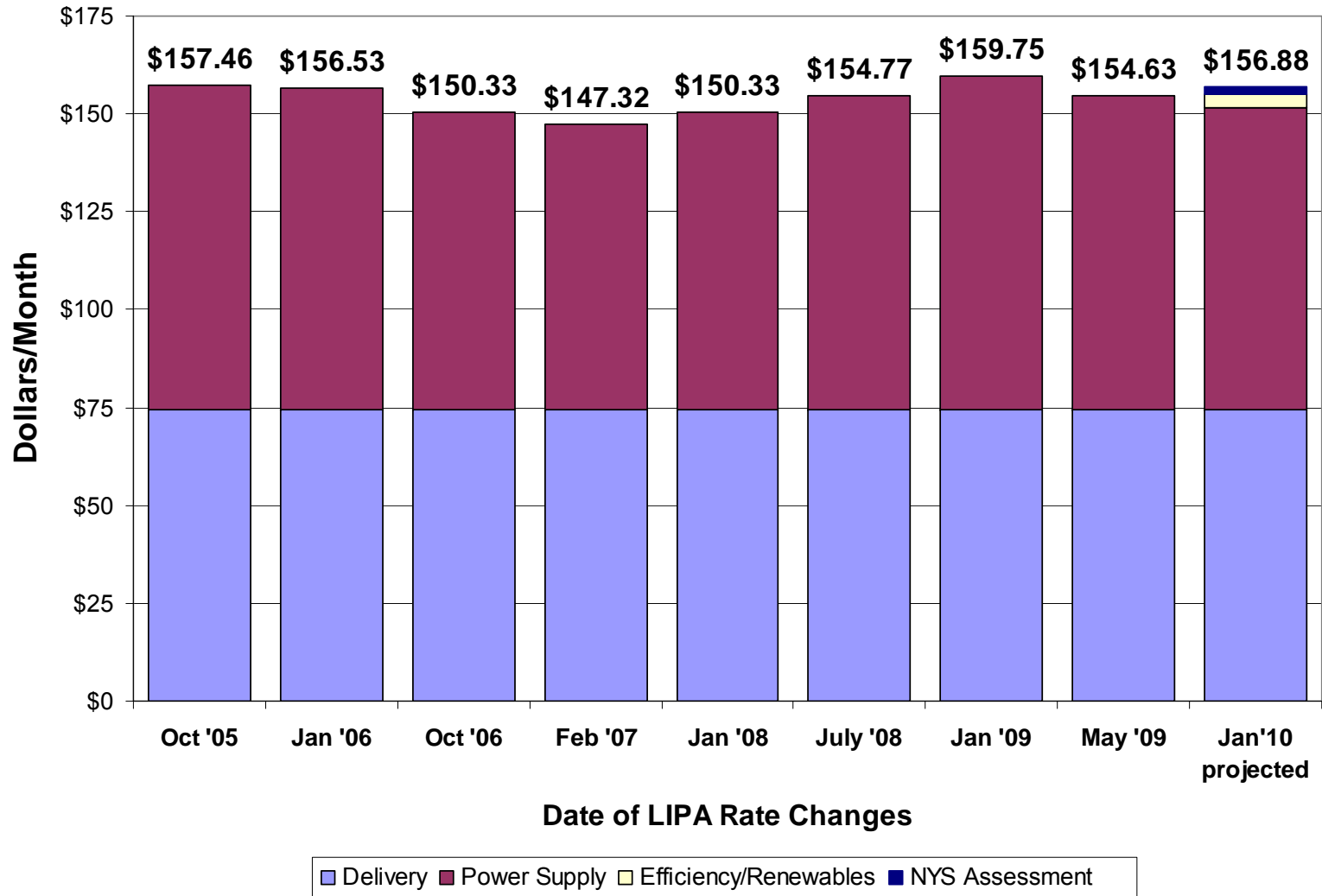
**Revenue Decoupling** is endorsed by the NY Public Service Commission and requires the regulated companies to recover lost delivery revenues due to declining energy sales that result from utility-sponsored energy efficiency and renewable resource programs. A special charge is established for this purpose.

The NYPSC has also ordered the regulated utilities to include other factors that affect utility sales into their revenue decoupling mechanisms (such as weather impacts and general economic conditions), which LIPA has not proposed for its customers.

## Proposed Rates to Residential Customers

<u>Date of Rate Change</u>	2009 Approved <u>1/1/2009</u> (\$/kwh)	Current Rate <u>5/1/2009</u> (\$/kwh)	Change Since <u>1/1/2009</u> %	<b>2010 Proposed <u>1/1/2010</u> (\$/kwh)</b>	Change C From <u>Current Rate</u> %	Change From <u>1/1/2009</u> %
<b>Power Supply Charge</b>	0.1098	0.1032	-6.0%	<b>0.0991</b>	-4.0%	<b>-9.8%</b>
<b>Delivery Charge</b>	<u>0.0963</u>	<u>0.0963</u>	0.0%	<b><u>0.0963</u></b>	0.0%	<b>0.0%</b>
<b>Subtotal</b>	0.2061	0.1995	-3.2%	<b>0.1954</b>	-2.1%	<b>-5.2%</b>
<b>Efficiency/Renewables Charge</b>	0.0000	0.0000		<b>0.0048</b>		
<b>NY State Assessment Charge</b>	<u>0.0000</u>	<u>0.0000</u>		<b><u>0.0023</u></b>		
<b>Total Rate to Customer</b>	<u>0.2061</u>	<u>0.1995</u>	-3.2%	<b><u>0.2024</u></b>	1.5%	<b>-1.8%</b>
<b>Monthly Impact for Typical Residential Bill (775 kWhs)</b>		(\$5.11)		<b>\$2.25</b>		<b>(\$2.86)</b>

# LIPA Typical Residential Bill for 775 kWh of Usage per Month



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

	2008	2009		<b>Proposed 2010</b>	% Chg. From Approved 2009	Ref.
	<u>Actual</u>	<u>Approved</u>	<u>Projected <sup>(1)</sup></u>			
<b>Revenues</b>	\$ 3,639,684	\$ 3,845,480	\$ 3,488,913	\$ 3,701,897	(3.73)	A-2
<b>Expenses</b>						
Fuel and Purchased Power Costs	2,052,732	2,123,894	1,745,700	1,848,188	(12.98)	A-3
Operations and Maintenance Expenses	785,689	814,991	852,696	916,906	12.51	A-4
Salaries and Benefits Expense:						
-Salaries	9,183	10,757	10,016	10,750	(0.07)	A-5
-Non-Retirement Employee Benefits	2,524	2,919	2,837	2,970	1.75	A-5
-Employee Pensions and Other Post-Employment Benefits	2,423	2,017	2,844	3,092	53.30	A-5
Professional Services and General & Administrative Expenses:						
-Professional Services	13,149	13,957	16,031	13,955	(0.01)	A-6.1
-General & Administrative Expenses	3,721	7,691	7,870	7,814	1.60	A-6.1
Depreciation and Amortization	246,919	254,070	255,093	257,781	1.46	A-7
Revenue Taxes	59,049	61,506	56,585	60,491	(1.65)	A-8
Payments in Lieu of Taxes (PILOTS)	180,610	187,825	191,460	200,139	6.56	A-8
<b>Total Operating Expenses</b>	<b>3,355,999</b>	<b>3,479,627</b>	<b>3,141,132</b>	<b>3,322,086</b>	<b>(4.53)</b>	
<b>Operating Income</b>	<b>283,685</b>	<b>365,853</b>	<b>347,781</b>	<b>379,811</b>	<b>3.82</b>	
Other Income and Deductions	66,022	52,631	33,360	36,556	(30.54)	A-9
Interest Expense	323,365	343,484	329,399	341,367	(0.62)	A-10
<b>Excess of Revenues Over Expenses <sup>(2)</sup></b>	<b>\$ 26,342</b>	<b>\$ 75,000</b>	<b>\$ 51,742</b>	<b>\$ 75,000</b>	<b>-</b>	
<b>Debt Service Coverage Ratios (x):</b>						
Senior Lien Debt	2.33	2.18	2.10	2.30	0.12	
Senior Lien and Subordinated Debt	2.16	1.90	1.86	2.10	0.20	
Total Debt	2.12	1.87	1.84	2.07	0.20	

Note: (1) Projection as of September 30, 2009

(2) By a financial policy adopted by the Authority's Board of Trustees, LIPA targets \$75 million in Excess Revenues Over Expenses in its annual budgets in order to reduce the probability of losses in any one year and to provide a cash contribution to its capital program, thereby reducing the need for debt financing.

**Sales and Revenues**

	2008 <u>Actual</u>	2009		<b>Proposed 2010</b>	% Chg. From Approved 2009
		<u>Approved</u>	<u>Projected</u> <sup>(1)</sup>		
<b><u>Sales of Electricity (MWh)</u></b>					
Residential Sales	9,511,874	9,676,402	9,347,358	9,468,343	(2.15)
Commercial & Industrial Sales	9,911,583	9,971,362	9,718,584	9,807,927	(1.64)
Other Sales to Public Authorities/Street Lighting	465,033	459,138	459,477	479,850	4.51
<b>Total Sales of Electricity</b>	<b>19,888,490</b>	<b>20,106,902</b>	<b>19,525,419</b> <sup>(2)</sup>	<b>19,756,120</b>	<b>(1.74)</b>
<b><u>Revenues (\$ thousands)</u></b>					
Residential Sales	\$ 1,889,527	\$ 2,014,287	\$ 1,825,095	\$ 1,940,696	(3.65)
Commercial & Industrial Sales	1,675,492	1,764,017	1,602,395	1,697,173	(3.79)
Other Sales to Public Authorities/Street Lighting	90,310	80,589	75,816	78,817	(2.20)
Sales for Resale	1,289	2,621	777	1,860	(29.02)
Recovery of Deferred Shoreham Property Settlement Costs	(36,571)	(37,335)	(36,085)	(38,093)	2.03
Wheeling Revenues	5,740	5,873	5,890	5,337	(9.13)
Pole Attachment Fees	4,618	3,723	4,686	3,461	(7.04)
Late Payment and Dishonored Check Charges	5,426	6,554	5,702	8,934	36.31
Service Initiation Charges	-	1,578	395	932	(40.91)
Miscellaneous Revenues	3,853	3,573	4,242	2,780	(22.19)
<b>Total Revenues</b>	<b>\$ 3,639,684</b>	<b>\$ 3,845,480</b>	<b>\$ 3,488,913</b>	<b>\$ 3,701,897</b>	<b>(3.73)</b>

Note: (1) Projection as of September 30, 2009

(2) Projected weather-normalized sales of electricity as of September 30, 2009: 19,940,716 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 2010 are budgeted at 19,756,120 MWH, which is 1.7% below the level included in the budget for 2009. Sales to residential customers are expected to decline by 2.2%, while commercial and industrial sales are expected to be 1.6% under last year's budgeted level. Other electric sales, mostly consisting of sales to other public authorities, are estimated to increase by 4.5% as compared with 2009'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 customers whose bill is in arrears and other miscellaneous service fees. Revenues are budgeted at \$3.702 billion, or 3.7% under the level budgeted for 2009. This decrease reflects the lower budgeted sales level as well as a 4% reduction to the Power Supply Charge resulting from lower natural gas and purchased power prices projected for 2010 and the refund of 2009 over recoveries of fuel and purchased power costs.

The Delivery Charge component of LIPA's retail rate will remain unchanged. Two new components to the customer's bill will be introduced in 2010. A cost recovery rider to recover the costs associated with LIPA's Efficiency Long Island and Renewable Energy programs will become effective January 1, 2010. This is similar to the System Benefit Charges, or SBC's, which are presently utilized by other New York public power and investor-owned utilities to recover such costs. A second cost recovery rider to recover costs associated with the New York State Temporary Conservation Assessment, enacted by the State in 2009, will also become effective January 1, 2010. This is also similar to the cost recovery mechanism approved by the NYS Public Service Commission for regulated utilities.

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In total, the effect of the new cost recovery riders, partially offset by the reduction to the Power Supply Charge, will result in an increase to the typical residential customer's monthly bill of approximately 1.5%, or \$2.25.

Budgeted revenues also include revenues to be derived from the imposition of a late payment charge on residential customers beginning in the second quarter of 2010. Other LIPA customer classes are presently subject to a similar charge.

Finally, budgeted revenues include the recovery of 2003 excess fuel and purchased power costs totaling \$36.5 million and reflect \$38.1 million of recoveries from Suffolk County customers as provided for by the Shoreham Property Tax settlement.

**Fuel and Purchased Power Costs**

(Thousands of Dollars)

	2008	2009		<b>Proposed 2010</b>	% Chg. From Approved 2009
	<u>Actual</u>	<u>Approved</u>	<u>Projected <sup>(1)</sup></u>		
Fuel Oil	\$ 211,923	\$ 393,798	\$ 71,317	\$ 52,401	(86.69)
Natural Gas	659,220	427,033	357,274	671,934	57.35
Purchased Power	638,686	711,097	678,326	618,547	(13.02)
Regional Greenhouse Gas Initiative	-	39,458	20,338	23,671	(40.01)
Renewable Power	-	24,158	8,056	34,812	44.10
Wheeling Charges	14,820	8,573	13,261	14,451	68.56
Capacity Charges	375,763	383,912	369,450	431,295	12.34
Nine Mile Nuclear Fuel (incl. Disposal and Decomm. Costs)	7,458	10,351	8,848	12,525	21.00
Y-49 and Y-50 Cable Operating Costs	25,460	20,760	20,666	20,778	0.09
Fuel Hedging Program Costs	11,723	22,608	36,655	18,537	(18.01)
ESCO Bill Credit Adjustment Payments	117,014	89,052	26,128	47,491	(46.67)
Energy Management/Fuel and Power Supply Management Agreements	23,538	14,684	15,189	19,120	30.21
ISO-Related Service Costs	78,941	41,910	41,774	38,926	(7.12)
<b>Total Fuel and Purchased Power Costs before Adjustments</b>	<b>\$ 2,164,546</b>	<b>\$ 2,187,394</b>	<b>\$ 1,667,282</b>	<b>\$ 2,004,488</b>	<b>(8.36)</b>
Recovery of 2003 Deferred Fuel and Purchased Power Costs	36,026	36,500	35,369	36,500	-
Deferral (Amortization) of Excess Fuel Cost Recovery	(111,840)	-	143,049	(144,800)	N/M
Utilization of Settlement Benefits	(36,000)	(100,000)	(100,000)	(48,000)	(52.00)
<b>Total Fuel and Purchased Power Costs</b>	<b>\$ 2,052,732</b>	<b>\$ 2,123,894</b>	<b>\$ 1,745,700</b>	<b>\$ 1,848,188</b>	<b>(12.98)</b>

N/M=Not meaningful

Note: (1) Projection as of September 30, 2009

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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 for all months as of September 28, 2009 and the projected cost of purchased power and nuclear fuel in accordance with agreements to be in effect during 2010.

Fuel and purchased power costs for 2010, before the effect of accounting accruals and amortizations, are budgeted at \$2.0 billion, a decrease of 8.4% when compared with the expense level budgeted for 2009. 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 ("ESCOs") in accordance with the Long Island Choice Program; services received under the Energy Management and Power Supply Management agreements; 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 \$183 million reduction versus the budgeted level in 2009 are: \$189 million related to lower commodity costs, net of the impact of LIPA's commodity hedge positions for 2010, reflecting lower fuel prices; \$16 million in savings related to the compliance with the Regional Greenhouse Gas initiative and \$42 million in lower bill credits to ESCO's due to lower marginal purchased power prices. The effects of these factors were partially offset by \$47 million of higher capacity charges, mostly reflecting a full year's operation of the Caithness generating plant, and \$10 million higher costs related to the full year's availability of renewable energy resources.

Finally, total Fuel and Purchased Power Costs also reflect the impact of various accounting accruals and amortizations as shown. The net impact of all adjustments is a decrease in Total Fuel and Purchased Power Costs of \$276 million as compared with the 2009 budget.

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

	2008	2009		<b>Proposed 2010</b>	% Chg. From Approved 2009	Ref
	<u>Actual</u>	<u>Approved</u>	<u>Projected</u> <sup>(1)</sup>			
National Grid Management Services Agreement	\$ 269,499	\$ 276,818	\$ 267,589	\$ 266,785	(3.62)	A-4.1
National Grid Power Supply Agreement	387,152	400,000	437,595	439,427	9.86	A-4.1
Power Supply Management Contract Transition Costs	-	-	-	3,260	N/M	(2)
Efficiency & Renewables Program	35,483	52,938	51,252	72,755	37.43	A-4.3
Storm Restoration	35,752	30,000	30,000	27,000	(10.00)	(2)
Nine Mile Point 2 O&M	23,725	24,549	26,136	27,462	11.87	A-4.2
Uncollectible Accounts	17,877	18,814	25,377	21,094	12.12	(2)
Storm Hardening Initiative	3,847	2,000	3,000	2,000	-	(2)
Accretion of Asset Retirement Obligation	5,186	5,175	5,175	5,616	8.52	(2)
Assessments	2,597	2,635	3,460	48,123	N/M	(2)
Postage-Paid Remittance Envelopes	2,535	-	297	-	-	(2)
Research & Development	1,163	750	750	730	(2.67)	(2)
Retail and Customer Care Programs	794	702	711	1,533	118.44	(2)
O & M-Y49 and Y-50 Cables	-	110	644	100	(9)	(2)
Miscellaneous	79	500	710	1,021	104.13	(2)
<b>Total Operations and Maintenance Expenses</b>	<b>\$ 785,689</b>	<b>\$ 814,991</b>	<b>\$ 852,696</b>	<b>\$ 916,906</b>	<b>12.51</b>	

N/M=Not meaningful

Notes: (1) Projection as of September 30, 2009

(2) Not detailed on separate schedule.

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### **Operations and Maintenance Expenses**

Operations and maintenance expenses are budgeted at \$916.9 million. This represents an increase of 12.5% over the expense level budgeted for 2009. 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; assessments imposed by industry organizations, governmental agencies and legislation, such as the recently-enacted NYS Temporary Conservation Assessment; 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 2009 budgeted level include:

- **Assessments:** The increase of \$45.5 million reflects the recently-enacted NYS Temporary Conservation Assessment, the costs of which will be recovered by LIPA by a separate cost recovery rider to become effective January 1, 2010.
- **National Grid Management Services and Power Supply Agreements (\$29.3 million):** See page A-4.1 (a)
- **Efficiency and Renewables Programs (\$19.8 million):** See page A-4.3 (a)
- **Power Supply Management Contract Transition Costs:** This item, new to the budget in 2010, provides for the amortization of costs associated with the development of systems and processes associated with the transition to a new vendor to manage LIPA's power supply activities.
- **Uncollectible Accounts:** The increase of \$2.3 million, or 12.1% over last year's budgeted level reflects the current bad debt loss experience of 0.6% of sales revenues.
- **Miscellaneous:** The increase of \$0.5 million, or 104% is due to a new provision for costs to protect LIPA's facilities in connection with municipal road, sewer and water projects.

**National Grid Contracts-Operating Expenses**  
(Thousands of Dollars)

	2008 <u>Actual</u>	2009 <u>Approved</u>	2009 <u>Projected</u> <sup>(1)</sup>	<b>Proposed 2010</b>	% Chg. Approved <u>2009</u>
<b>Management Services Agreement (2)</b>					
Operation and Maintenance Expenses	\$ 269,499	\$ 276,818	\$ 267,589	\$ 266,785	(3.62)
<b>Total Management Services Agreement</b>	<b>\$ 269,499</b>	<b>\$ 276,818</b>	<b>\$ 267,589</b>	<b>\$ 266,785</b>	<b>(3.62)</b>
<b>Power Supply Agreement (2)</b>					
Operation and Maintenance Expenses	\$ 214,109	\$ 219,441	\$ 252,422	\$ 253,644	15.59
Property Taxes	168,962	176,559	181,173	181,783	2.96
Non-Cost Performance Incentives	4,081	4,000	4,000	4,000	-
<b>Total Power Supply Agreement</b>	<b>\$ 387,152</b>	<b>\$ 400,000</b>	<b>\$ 437,595</b>	<b>\$ 439,427</b>	<b>9.86</b>
<b>Energy Management Agreement (3)</b>					
Operating Expenses	\$ 2,250	\$ 3,047	\$ 1,585	\$ 1,823	(40.17)
Management Fees	2,120	2,287	2,287	1,770	(22.61)
Non-Cost Performance Incentives	5,000	5,000	5,000	5,000	-
<b>Total Energy Management Agreement</b>	<b>\$ 9,370</b>	<b>\$ 10,334</b>	<b>\$ 8,872</b>	<b>\$ 8,593</b>	<b>(16.85)</b>
<b>Total Contracts with National Grid</b>	<b>\$ 666,021</b>	<b>\$ 687,152</b>	<b>\$ 714,056</b>	<b>\$ 714,805</b>	<b>4.02</b>

N/A-Not applicable

Notes: (1) Projection as of September 30, 2009.

(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 incentives 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 \$266.8 million, a decrease of \$10 million, or 3.6% as compared with the budgeted level for 2009. The decrease reflects lower retail sales as compared with the level on which the 2009 budget was based. The budget also contains higher synergy savings that are contained in the agreement with National Grid as part of its acquisition of KeySpan.

PSA costs are budgeted at \$439.4 million, an increase of \$39.4 million, or 9.9% as compared with the 2009 budgeted level. The increase reflects the settlement agreement terms of the recently-concluded Federal Energy Regulatory Commission rate reset proceeding, higher PSA property taxes assessed on National Grid’s generating facilities and increased operating expenses.

**Nine Mile Point 2 Operations and Maintenance Expenses**

(Thousands of Dollars)

	2008 <u>Actual</u>	2009 <u>Approved</u> <u>Projected</u> <sup>(1)</sup>		<b>Proposed 2010</b>	% Chg. From Approved <u>2009</u>
Refueling Outage Amortization	\$ 2,870	\$ 3,081	\$ 3,081	\$ 3,098	0.55
Non-Outage Operating Expenses	20,769	21,380	22,967	24,273	13.53
Insurance	86	88	88	91	3.41
<b>Total Nine Mile Point 2 O&amp;M Expenses</b>	<b>\$ 23,725</b>	<b>\$ 24,549</b>	<b>\$ 26,136</b>	<b>\$ 27,462</b>	<b>11.87</b>

Note: (1) Projection as of September 30, 2009

## Efficiency and Renewables Program Expenses

(Thousands of Dollars)

	2008	2009		Proposed	% Chg.
	<u>Actual</u>	<u>Approved</u>	<u>Projected</u> <sup>(1)</sup>	<b>2010</b>	From Approved <u>2009</u>
Efficient Products Program <sup>(2)</sup>	\$ 3,533	\$ 6,983	\$ 6,293	\$ 7,329	4.95
Commercial & Industrial New Construction Program <sup>(2)</sup>	3,073	3,799	1,851	5,688	49.72
Commercial & Industrial Existing Structures Program <sup>(2)</sup>	2,976	2,398	5,906	16,161	573.94
New Homes Program <sup>(2)</sup>	1,499	2,179	1,876	2,033	(6.70)
Existing Homes Program <sup>(2)</sup>	2,522	6,033	6,882	8,591	42.40
Multi-Family Program	-	-	115	405	N/M
Low Income Conservation	3,169	3,250	3,250	3,250	-
Advertising and Promotion	1,879	2,550	1,101	2,799	9.76
Professional Services	347	900	898	900	-
Evaluation and Audit-Efficiency Long Island Program <sup>(2)</sup>	128	853	541	1,255	47.13
Evaluation and Audit-Other	231	315	215	290	(7.94)
Government/Not for Profit Programs <sup>(2)</sup>	-	2,417	1,370	2,449	1.32
LIPA Edge Program	1,495	1,871	1,453	1,871	-
Research, Development & Demonstration	433	665	494	571	(14.14)
NYSERDA-Clean Energy Research Programs	1,600	1,600	1,600	1,600	-
Peak Load Reduction Program <sup>(3)</sup>	7	25	25	-	(100.00)
Solar Pioneer Programs	11,768	12,512	16,917	15,297	22.26
Solar Thermal Programs	-	-	-	342	N/M
Small Wind Program	-	1,214	194	1,924	58.48
75 MW Energy Efficiency Program	823	3,374	271	-	(100.00)
<b>Total Efficiency and Renewables Program Expenses</b>	<b>\$ 35,483</b>	<b>\$ 52,938</b>	<b>\$ 51,252</b>	<b>\$ 72,755</b>	<b>37.43</b>

N/M=Not meaningful

Notes: (1) Projection as of September 30, 2009.

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

(3) Excludes the cost of customer rebates, which 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 participation in related demonstration projects.

The proposed budget for 2010 reflects the continued transition from LIPA's Clean Energy Initiative ("CEI") to LIPA's new Efficiency Long Island Program ("ELI"), a comprehensive program to promote energy conservation in existing and new market segments, and an expansion of the development and use of renewable energy technologies. The budget for the programs under Efficiency and Renewables is \$72.8 million, an increase of \$19.8 million, or 37.4% from the level budgeted for 2009.

Contained in the increase is an expansion of the Solar Pioneer Program, which is budgeted to increase 22% from the 2009 level. The program provides for incentives to support residential as well as larger installations in the commercial and not-for-profit customer segments and serves as a complement to solar net metering. We have also provided for the addition of solar thermal programs as part of the overall solar program. Finally, we have budgeted \$1.9 million for the incentive program for customer-sited wind generators for both residential and commercial customers, which is complementing wind net metering.

**Salaries and Benefits**  
(Thousands of Dollars)

	2008 <u>Actual</u>	2009 <u>Approved</u> <u>Projected<sup>(1)</sup></u>		<b>Proposed 2010</b>	% Chg. From Approved <u>2009</u>
Employee Salaries	\$ 9,182	\$ 10,750	\$ 10,009	\$ 10,743	(0.07)
Overtime	1	7	7	7	-
Non-Retirement Employee Benefits	2,524	2,919	2,837	2,970	1.75
Employee Pensions/Other Post-Employment Benefits	2,423	2,017	2,844	3,092	53.30
<b>Total Salaries &amp; Benefits Expenses</b>	<b>\$ 14,130</b>	<b>\$ 15,693</b>	<b>\$ 15,697</b>	<b>\$ 16,812</b>	<b>7.13</b>

N/M-Not meaningful

Note: (1) Projection as of September 30, 2009

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### **Salaries and Benefits**

This category consists of costs for the salaries, benefits and other related expenses of LIPA employees. The salaries budget of \$10.7 million is a slight decrease from the level approved for 2009. It relates to the staffing level of 101, which remains unchanged from the level budgeted for 2009.

Non-retirement employee benefits are budgeted at \$3.0 million, an increase of 1.8% over the approved 2009 level, reflecting higher medical insurance premiums.

Employee pensions and other post-employment retirement benefits (“OPEBs”) are budgeted at \$3.1 million, an increase of \$1.1 million, or 53.3% as compared with the level approved for 2009. The additional expense is primarily the result of updated actuarial assumptions with respect to OPEBs for LIPA’s employees and retirees. OPEB’s are post-employment benefits other than pensions, such as medical insurance, that an employee will receive in retirement. Pursuant to accounting standards, employers must reflect the cost of such future post-employment benefits in their current financial statements.

**Professional Services and General Expenses**

(Thousands of Dollars)

	2008 <u>Actual</u>	2009 <u>Approved</u> <u>Projected</u> <sup>(1)</sup>		<b>Proposed 2010</b>	% Chg. From Approved <u>2009</u>
Professional Services	\$ 13,149	\$ 13,957	\$ 16,031	\$ 13,955	(0.01)
Insurance	1,794	1,817	1,829	1,970	8.42
Injuries and Damages Reserve	(1,120)	1,785	1,785	1,675	(6.16)
Office Rent	1,631	1,666	1,666	1,800	8.04
Telephone	187	214	214	193	(9.81)
Office Supplies and Equipment	531	741	741	741	-
Meetings, Conferences and Seminars	221	291	291	291	-
Dues/Memberships/Subscriptions	41	79	79	79	-
Communications	169	641	641	552	(13.88)
LIPA Other Public Meetings	97	82	82	90	9.76
Business and Community Programs	103	306	306	245	(19.93)
Miscellaneous	67	69	236	178	157.97
<b>Total Professional Services and General Expenses</b>	<b>\$ 16,870</b>	<b>\$ 21,648</b>	<b>\$ 23,901</b>	<b>\$ 21,769</b>	<b>0.56</b>

Note: (1) Projection as of September 30, 2009

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**Professional Services and General & Administrative Expenses**

Professional services and general and administrative expenses for 2010 are budgeted at \$21.8 million. This represents an increase of \$0.1 million, or 0.6% as compared with the budgeted level for 2009.

Professional services, which consist primarily of outside engineering, financial, legal and other professional services, are budgeted at \$14 million, the same level approved for 2009. The budget contains funding for the information technology components of LIPA's new power supply management agreement and the preparation for the 2013 rebid of the transmission and distribution management contract. This new funding was provided by reductions in other professional services.

General and administrative expenses, which consist of expenses for insurance, public liability damage claims, office rent, and other administrative activities, are budgeted at \$7.8 million, an increase of 1.6% over the approved level for 2009. The largest percentage increase, that attributable to miscellaneous administrative and general expenses, reflects funding for web conferencing facilities to reduce business travel costs.

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

	2008 <u>Actual</u>	2009 <u>Approved</u> <u>Projected <sup>(2)</sup></u>		<b>Proposed 2010</b>	% Chg. From Approved <u>2009</u>
Engineering	\$ 7,100	\$ 5,579	\$ 8,501	\$ 5,769	3.41
Legal	1,620	2,900	2,900	2,900	-
Financial Advisor/Cash Management	1,588	1,672	1,365	1,297	(22.43)
Accounting and Audit Services	919	1,527	1,032	1,020	(33.20)
Rates and Tariffs	118	250	250	300	20.00
Information Technology	602	783	737	1,271	62.32
Risk Management-Fuel	800	763	763	872	14.29
Communications	96	170	170	170	-
Risk Management-Insurance	162	165	165	166	0.61
Miscellaneous	144	148	148	190	28.38
<b>Total Professional Services Expenses</b>	<b>\$ 13,149</b>	<b>\$ 13,957</b>	<b>\$ 16,031</b>	<b>\$ 13,955</b>	<b>(0.01)</b>

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, 2009.

## Depreciation and Amortization

(Thousands of Dollars)

	2008	2009		<b>Proposed 2010</b>	% Chg. From Approved 2009
	<u>Actual</u>	<u>Approved</u>	<u>Projected <sup>(1)</sup></u>		
Amortization of Acquisition Adjustment	\$ 112,681	\$ 112,681	\$ 112,681	\$ 112,681	-
Depreciation Expense-Plant-in-Service	134,238	141,389	142,412	145,100	2.62
<b>Total Depreciation and Amortization</b>	<b>\$ 246,919</b>	<b>\$ 254,070</b>	<b>\$ 255,093</b>	<b>\$ 257,781</b>	<b>1.46</b>

Note: (1) Projection as of September 30, 2009

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**Depreciation and Amortization**

Depreciation and amortization is budgeted at \$257.8 million, an increase of 1.5% versus the budgeted expense level for 2009. 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 higher expense level reflects additions and replacement of plant and equipment to LIPA's transmission and distribution system as reflected in LIPA's capital expenditure budget.

### Taxes and Payments in-lieu-of Taxes

(Thousands of Dollars)

	2008 <u>Actual</u>	2009 <u>Approved</u>	2009 <u>Projected</u> <sup>(1)</sup>	<b>Proposed 2010</b>	% Chg. From Approved 2009
<b>Revenue Taxes</b>	\$ 59,049	\$ 61,506	\$ 56,585	\$ 60,491	(1.65)
<b>Payments in-lieu-of Taxes (PILOTS)</b>					
Long Island and New York City	\$ 167,082	\$ 174,384	\$ 177,408	\$ 186,376	6.88
Nine Mile PILOTS	3,621	3,632	3,619	3,638	0.17
Merchant Power Plants	9,907	9,809	10,418	10,086	2.82
Metropolitan Commuter Transportation Tax	-	-	15	39	N/M
<b>Total PILOTS</b>	\$ 180,610	\$ 187,825	\$ 191,460	\$ 200,139	6.56
<b>Other Taxes, PILOTS and Assessments</b>					
Property Taxes on NGrid Power Plants (PSA)	\$ 168,962	\$ 176,559	\$ 181,173	\$ 181,783	2.96
Property Taxes on other Purchased Power Agreements	5,300	2,722	2,722	3,275	20.32
NYS Temporary Conservation Assessment	-	-	-	44,666	N/M
Petroleum Business Tax and Motor Fuels Tax	11,100	15,032	9,982	-	(100.00)
Sales and Use Tax on Purchases	13,241	10,261	10,261	-	(100.00)
<b>Total Other Taxes, PILOTS and Assessments</b>	\$ 198,603	\$ 204,574	\$ 204,138	\$ 229,724	12.29
<b>Total State and Local Taxes, PILOTS and Assessments</b>	\$ 438,262	\$ 453,905	\$ 452,183	\$ 490,354	8.03

N/M=Not meaningful

Note: (1) Projection as of September 30, 2009

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**Taxes and Payments-in-Lieu of Taxes**

Revenue taxes are budgeted at \$60.5 million, a decrease of 1.7% as compared with the approved level for 2009. These taxes are based on gross revenues received from the sale of electricity and tax assessments on other sources of revenues. The decrease is due to lower taxable revenues budgeted for 2010.

Payments-in-lieu of taxes, or PILOTs, are budgeted at \$200.1 million, an increase of \$12.3 million, or 6.6% as compared with the expense level budgeted for 2009. The proposed 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 PILOTs and taxes being passed through to LIPA pursuant to its purchase power agreements or the recently enacted NYS Temporary Conservation Assessment, which are included elsewhere in the budget. Real property taxes associated with the generating assets under contract through the Power Supply Agreement with National Grid (budgeted at \$181.8 million) are included in Operations and Maintenance expense. The higher expense level for 2010 is primarily attributable to projected increases in Nassau and Suffolk County property-based taxes.

Other taxes, PILOTs and assessments, are shown here as a compilation of taxes contained elsewhere in the budget.

**Other Income and Deductions**  
(Thousands of Dollars)

	2008 <u>Actual</u>	2009 <u>Approved</u>	2009 <u>Projected <sup>(1)</sup></u>	<b>Proposed 2010</b>	% Chg. From Approved <u>2009</u>
Low Income Senior Energy Assistance Program	\$ -	\$ (10,000)	\$ (1,973)	\$ (8,027)	N/M
Short-Term Investment Income	19,799	16,000	1,747	2,666	(83.34)
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	31,829	31,383	31,383	30,856	(1.68)
Gains on Sales of Emissions Credits	3,907	6,143	1,775	774	(87.40)
Income on Nuclear Decommissioning Trust Fund	2,959	2,800	728	1,254	(55.21)
Utilization of Settlement Benefits	-	10,000	1,973	8,027	N/M
Miscellaneous Income and Deductions	7,528	(3,695)	(2,273)	1,006	N/M
<b>Total Other Income and Deductions</b>	<b>\$ 66,022</b>	<b>\$ 52,631</b>	<b>\$ 33,360</b>	<b>\$ 36,556</b>	<b>(30.54)</b>

( )=Income deduction

N/M=Not meaningful

Note: (1) Projection as of September 30, 2009.

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### **Other Income and (Deductions)**

Other income and (deductions) are budgeted at \$36.6 million for 2010, a decrease of \$16.1 million, or 30.5% when compared with the level budgeted for 2009. 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 began in mid-2009 and will have funds available to continue the program into 2010. The cost of this program is offset by the utilization of Settlement Benefits from the National Grid contracts.

Major variances from the 2009 budgeted level include:

- **Short-Term Investment Income:** The projected decrease of \$13.3 million, or 83.3% reflects lower forecasted invested balances and lower returns.
- **Gains on Sales of Emissions Credits:** The reduction of \$5.4 million, or 87.4% reflects lower forecasted sales prices for SO2 credits.
- **Income on Nuclear Decommissioning Trust Fund:** The projected decrease of \$1.5 million, or 55.2% reflects lower returns on fund investments.
- **Miscellaneous Income and Deductions:** The \$2.7 million increase in income from the 2009 budgeted level is due to the payment of certain one-time community benefit costs related to the Caithness generating plant in 2009. Funding for subsequent years is not required.

**Interest Expense**  
(Thousands of Dollars)

	2008 <u>Actual</u>	2009 <u>Approved</u> <u>Projected</u> <sup>(1)</sup>		<b>Proposed 2010</b>	% Chg. From Approved 2009
<b>Interest Expense on Debt Securities from Page A-11</b>	<b>\$ 301,371</b>	<b>\$ 322,062</b>	<b>\$ 314,586</b>	<b>\$ 321,968</b>	<b>(0.03)</b>
<b>Other Interest Expense</b>					
NYSERDA	8,076	8,075	\$ 8,076	\$ 8,075	-
Promissory Note due from KeySpan	(8,076)	(8,075)	\$ (8,076)	(8,075)	-
Amortization of Deferred Debt Issue Costs	5,039	6,837	5,117	5,014	(26.66)
Amortization of Deferred Losses (Gains) on Debt Redemptions	11,262	10,778	11,205	11,011	2.16
Letter of Credit Fees	4,200	6,533	4,964	7,388	13.09
Broker/Dealer Fees on Auction Rate Bonds	1,365	17	35	-	(100.00)
Interest on Customer Security Deposits	724	789	1,111	1,260	59.70
Bond Administration Costs and Bank Fees	1,209	1,012	582	798	(21.15)
Remarketing Fees	889	929	883	945	1.72
Other	5,656	427	491	423	(0.94)
<b>Total Other Interest Expense</b>	<b>\$ 30,344</b>	<b>\$ 27,322</b>	<b>\$ 24,388</b>	<b>\$ 26,839</b>	<b>(1.77)</b>
<b>Less: Capitalized Interest</b>	<b>8,350</b>	<b>5,900</b>	<b>9,575</b>	<b>7,440</b>	<b>26.10</b>
<b>Total Interest Expense</b>	<b>\$ 323,365</b>	<b>\$ 343,484</b>	<b>\$ 329,399</b>	<b>\$ 341,367</b>	<b>(0.62)</b>

N/M=Not meaningful

Note: (1) Projection as of September 30, 2009

**Long Island Power Authority and Subsidiaries**  
**Proposed Operating Budget-2010**  
**Proposed Capital Budgets-2010 and 2011**  
**Five Year Financial Projections-2010-14**

**Interest Expense**

Interest expense is budgeted at \$341 million, a decrease of \$2.2 million, or .6% as compared with the level budgeted for 2009. The budgeted expense for 2010 is based on forecasted levels of outstanding debt, associated fees and the amortization of debt-related deferred charges and credits. The assumed rates of interest on LIPA's new issuances planned for 2010 range from 5% to 5.38% for fixed rate debt and variable rate debt is budgeted at 1.5%. Interest expense to be incurred on debt securities is detailed by issue on page A-11.

The budgeted expense level for 2010 reflects the debt restructuring and new money financings that are expected to take place during the year. The average level of debt outstanding for 2010 is forecasted at \$6.8 billion. The effective interest rate is 5.1%. This debt level and interest rate compare with the budgeted debt level of \$6.7 billion and an effective interest rate of 5.2% for 2009.

**Cost of Debt-2010**

Series	Type	Maturity	Year-End Principal Outstanding (\$Thousands)	Average Principal Outstanding (\$Thousands)	Effective Interest Rate	Interest Expense (1) (\$Thousands)
<b>Senior Lien Debt</b>						
1998 A	Serial Bonds	2009-2016	\$ 81,796	\$ 152,948	4.976%	\$ 7,610
1998 A	Capital Appreciation Bonds (2)	2009-2028	135,833	132,659	5.173%	6,862
1998 B	Serial Bonds	2009-2016	3,745	23,340	4.639%	1,083
2000 A	Capital Appreciation Bonds (3)	2009-2028	414,514	411,687	5.543%	22,818
2001A	Serial Bonds	2013-2021	<del>7465</del>		4.642%	35
2001 A	Term Bonds (4)	2025-2029	164,430	164,430	5.373%	8,835
2003 B	Serial Bonds	2009-2014	250,265	258,427	4.598%	11,881
2003 C	Serial Bonds (4)	2013-2033	70,480	70,480	5.011%	3,532
2003 C	Term Bonds (4)	2033	185,520	185,520	5.259%	9,756
2003 D-O	Variable Rate Debt (5), (6)	2029	187,225	337,225	4.408%	14,864
2004A	Serial Bonds (4)	2013-2025	33,900	33,900	4.272%	1,448
2004A	Term Bonds	2029-2034	166,100	166,100	5.084%	8,444
2006A	Serial Bonds (4)	2009-2026	839,245	839,245	4.609%	38,682
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 (4)	2035	198,020	198,020	5.189%	10,276
2006D	Serial Bonds	2009-2025	215,545	215,988	4.453%	9,617
2006D	Serial Bonds - Variable Rate	2015	110,715	110,715	4.110%	4,550
2006E	Serial Bonds (4)	2009-2022	507,600	507,600	4.452%	22,600
2006F	Serial Bonds (4)	2009-2028	401,915	401,915	4.166%	16,745
2006F	Term Bonds	2033	112,580	112,580	4.250%	4,785
2008 A	Term Bonds	2034	605,055	605,055	5.931%	35,889
2008 B	Serial Bonds	2019-2025	96,540	96,540	5.770%	5,571
2008 B	Term Bonds	2033	52,800	52,800	5.750%	3,036
2009 A	Serial Bonds	2014-2039	363,355	363,355	5.153%	18,723
2009 A	Term Bonds	2033	72,470	72,470	6.250%	4,529
2010 A			210,000	192,500	5.250%	10,106
2010 B			210,000	192,500	5.377%	10,351
2010 C			210,000	70,000	5.000%	3,500
Total Senior Lien Debt			<u>\$ 5,997,348</u>	<u>\$ 6,065,699</u>	<u>4.960%</u>	<u>\$ 300,847</u>
<b>Subordinate Debt</b>						
Series 8	Mandatory Purchase	2010	\$ 26,480	\$ 32,786	3.787%	\$ 1,242
Series 2001 1A-3B	Variable Rate (5), (6)	2033	\$ 525,000	\$ 525,000	3.215%	16,879
Commercial Paper	Variable Rate (5)	Various	\$ 200,000	\$ 200,000	1.500%	3,000
Total Subordinated Debt			<u>\$ 751,480</u>	<u>\$ 757,786</u>	<u>2.787%</u>	<u>\$ 21,121</u>
<b>Total Debt Securities</b>			<u><b>\$ 6,748,828</b></u>	<u><b>\$ 6,823,485</b></u>	<u><b>4.719%</b></u>	<u><b>\$ 321,968</b></u>
<b>Other Debt-Related Interest Expense (7)</b>						<u><b>25,055</b></u>
<b>Total Average Debt Outstanding/Embedded Cost of Debt</b>			<u><b>\$ 6,748,828</b></u>	<u><b>\$ 6,823,485</b></u>	<u><b>5.086%</b></u>	<u><b>\$ 347,023</b></u>

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) Represents accreted value of original proceeds of \$325,165 million, adjusted for partial refinancing in 2003.
- (4) Net of fixed-to-floating/basis swap arrangement.
- (5) Projected variable rate of 1.50% for 2010.
- (6) Includes a Fixed Rate Swap arrangement.
- (7) Excludes interest on customer deposits and other carrying charges.

**Capital Expenditures**  
(Thousands of Dollars)

	<b>Actual 2008</b>	<b>2009</b>		<b>Proposed 2010</b>	<b>% Chg. From Approved 2009</b>	<b>Proposed 2011</b>	<b>% Chg.</b>
		<b>Approved</b>	<b>Projected <sup>(1)</sup></b>				
<b>Transmission Projects</b>							
Transmission Interconnections-New Power Plants (Major Capital)	\$ 15,235	\$ 8,500	\$ 1,520	\$ -	(100.00)	\$ -	-
Transmission Interconnections-Solar Projects (Major Capital)	-	-	-	4,200	N/M	1,000	(76.19)
Transmission Interconnections-Offshore Wind Projects (Major Capital)	59	-	-	-	-	650	N/M
Transmission Interconnections-Neptune Cable (Major Capital) (2)	1,187	-	472	-	-	-	-
Transmission Interconnections-NUSCO Cable (Major Capital)	32,527	-	-	-	-	-	-
Transmission Line-Southampton to Bridgehampton (Major Capital)	28,809	-	724	-	-	-	-
Nassau Substations and Lines (Major Capital)	17,689	11,888	14,254	26,045	119.09	29,600	13.65
Western Suffolk Substations and Lines (Major Capital)	9,973	7,526	8,936	7,267	(3.44)	10,095	38.92
Eastern Suffolk Substation and Lines (Major Capital)	16,917	24,585	40,487	16,555	(32.66)	30,150	82.12
Other Transmission (Routine Capital)	7,390	8,510	11,194	12,142	42.67	12,080	(0.51)
Other Transmission (Major Capital)	797	-	-	-	-	-	-
<b>Total Transmission Projects</b>	<b>130,583</b>	<b>61,009</b>	<b>77,587</b>	<b>66,209</b>	<b>8.52</b>	<b>83,575</b>	<b>26.23</b>
<b>Distribution Projects</b>							
Substations (Major Capital) (2)	6,099	6,333	9,761	11,100	75.27	11,400	2.70
Substations (Routine Capital)	4,922	4,471	5,670	6,139	37.31	6,320	3.00
Electric Lines-New Customer Load (Routine Capital)	23,444	23,700	19,657	25,110	5.95	24,182	(3.70)
Electric Lines-Other (Routine Capital)	66,929	72,638	74,973	77,532	6.74	64,041	(17.40)
Storm Hardening Initiative (Routine Capital)	7,487	13,156	11,705	6,650	(49.45)	13,500	103.01
Purchase and Install Meters/Transformers (Routine Capital)	30,557	29,620	28,893	30,414	2.68	55,420	82.22
Public Works	2,503	3,200	6,756	6,000	87.50	4,131	(31.15)
Other Distribution (Routine Capital)	883	7,880	1,621	6,902	(12.41)	2,863	(58.52)
<b>Total Distribution Projects</b>	<b>142,824</b>	<b>160,998</b>	<b>159,036</b>	<b>169,847</b>	<b>5.50</b>	<b>181,857</b>	<b>7.07</b>
<b>Project Funding for Emerging Work and Land Acquisitions</b>	<b>377</b>	<b>12,190</b>	<b>N/A</b>	<b>2,837</b>	<b>(76.73)</b>	<b>19,881</b>	<b>600.78</b>
<b>Total Transmission and Distribution Projects</b>	<b>273,784</b>	<b>234,197</b>	<b>236,623</b>	<b>238,893</b>	<b>2.00</b>	<b>285,313</b>	<b>19.43</b>
<b>Cost-Sharing and Other Contributions</b>	<b>(6,417)</b>	<b>(9,172)</b>	<b>(22,357)</b>	<b>(23,190)</b>	<b>152.82</b>	<b>(15,542)</b>	<b>(183.66)</b>
<b>Capitalized Interest and Allocations</b>	<b>18,350</b>	<b>15,900</b>	<b>19,745</b>	<b>17,400</b>	<b>9.43</b>	<b>19,400</b>	<b>11.49</b>
<b>Caithness Generating Plant-Gas Transportation/Supply Facilities</b>	<b>27,791</b>	<b>9,506</b>	<b>9,506</b>	<b>-</b>	<b>(100.00)</b>	<b>-</b>	<b>-</b>
<b>Nine Mile Point Two Plant Additions/Replacements/Capitalized Nuclear Fuel</b>	<b>5,571</b>	<b>12,092</b>	<b>26,362</b>	<b>31,030</b>	<b>156.61</b>	<b>16,086</b>	<b>(48.16)</b>
<b>LIPA Information Systems, Equipment and Other Capitalized Expenditures</b>	<b>641</b>	<b>6,617</b>	<b>8,093</b>	<b>12,917</b>	<b>95.21</b>	<b>8,084</b>	<b>(37.42)</b>
<b>Total Capital Expenditures</b>	<b>\$ 319,720</b>	<b>\$ 269,140</b>	<b>\$ 277,972</b>	<b>277,050</b>	<b>2.94</b>	<b>\$ 313,341</b>	<b>13.10</b>

N/M=Not Meaningful

N/A=Included in individual project categories, above

Notes: (1) Projection as of September 30, 2009.

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

## Statements of Revenues and Expenses

(Thousands of Dollars)

	Proposed Budget	Projected			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Revenues</b>	<b>\$ 3,701,897</b>	<b>\$ 3,952,746</b>	<b>\$ 3,906,961</b>	<b>\$ 3,929,902</b>	<b>\$ 3,989,746</b>
<b>Expenses</b>					
Fuel and Purchased Power Costs	1,848,188	2,025,648	1,937,277	1,880,432	1,901,152
Operations and Maintenance Expenses	916,906	970,979	999,921	1,061,716	1,082,801
Salaries and Benefits Expense	16,812	17,011	17,606	18,399	19,227
Professional Services and General Expenses	21,769	21,473	22,225	23,225	24,270
Depreciation and Amortization	257,781	264,347	273,258	282,103	290,860
Revenue Taxes	60,491	64,256	64,691	65,956	67,560
Payments in Lieu of Taxes (PILOTS)	200,139	210,673	221,680	232,072	242,967
<b>Total Operating Expenses</b>	<b>3,322,086</b>	<b>3,574,387</b>	<b>3,536,658</b>	<b>3,563,902</b>	<b>3,628,838</b>
<b>Operating Income</b>	<b>379,811</b>	<b>378,359</b>	<b>370,303</b>	<b>366,000</b>	<b>360,908</b>
Other Income and Deductions	36,556	41,055	45,783	45,206	44,458
Interest Expense	341,367	344,414	341,086	336,206	330,366
<b>Excess of Revenues Over Expenses <sup>(1)</sup></b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>
<b>Debt Service Coverage Ratios (x):</b>					
Senior Lien Debt	2.30	2.71	2.48	3.15	3.02
Senior Lien and Subordinated Debt	2.10	2.44	2.34	2.94	2.82
Total Debt	2.07	2.40	2.33	2.93	2.81

Note: (1) By a financial policy adopted by the Authority's Board of Trustees, LIPA targets \$75 million in Excess Revenues Over Expenses in its annual budgets in order to reduce the probability of losses in any one year and to and to provide a cash contribution to its capital program, thereby reducing the need for debt financing.

Long Island Power Authority and Subsidiaries  
Five Year Financial Forecast

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

	Proposed	Projected			
	Budget				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>FUNDS PROVIDED FROM :</b>					
<b>Excess Of Revenues Over Expenses</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>
<b>Plus (Minus) Non-Cash Items:</b>					
Accrual/(Amortization) of Excess Fuel Cost Recovery	(144,800)	-	-	-	-
Utilization of Settlement Benefits	(48,000)	(42,000)	-	-	-
Amortization of Deferred Shoreham Property Tax Settlement Credits	38,093	38,930	39,918	40,692	41,578
Power Supply Management Contract Transition	3,260	3,260	3,260	3,260	3,260
Deferred Fuel Cost Reconciliation	36,500	36,500	36,500	36,500	-
NMP2 Amortized Nuclear Fuel Expense	10,184	10,975	11,920	13,703	13,490
Amortization of Prepaid NMP2 Refueling Outage Costs	3,098	3,096	3,137	3,150	3,224
Amortization of Prepaid Fuel Hedging Program Costs	18,537	24,000	16,200	16,200	16,200
Asset Retirement Obligation Accretion - FASB 143	5,616	5,945	6,293	6,662	7,052
Accrual for Other Post Employment Benefits	2,242	2,387	2,506	2,632	2,763
PSA Plant and Property Tax True-Ups-Accruals	(939)	1,786	123	6,265	1,169
Depreciation and Amortization	257,781	264,347	273,258	282,103	290,860
Promissory Note Receipts from National Grid	8,075	8,075	8,075	8,075	8,075
Other	30,392	31,351	31,049	30,742	24,776
Debt Service Interest Expense	341,367	344,414	341,086	336,206	330,366
Proceeds of Bonds and Notes	200,000	175,000	140,000	-	55,000
<b>Total Sources of Funds before Interest Expense</b>	<b>\$836,406</b>	<b>\$983,066</b>	<b>\$988,324</b>	<b>\$861,190</b>	<b>\$872,813</b>
<b>FUNDS USED FOR :</b>					
Prepaid Fuel Hedging Program Costs	29,373	23,000	16,200	16,200	16,200
Prepaid NMP2 Refueling Outage Costs	6,012	180	6,120	180	6,318
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	30,856	30,254	29,577	28,816	27,968
Power Supply Management Contract Transition					
Funding for NMP2 Plant Decommissioning	800	800	800	800	800
Bank and Related Fees	9,131	10,118	10,118	10,118	10,118
Interest on Customer Deposits and Overpayments	1,260	1,260	1,260	1,260	1,260
Interest on PSA Property Tax and Plant True-Ups					
Debt Service Payments	537,964	550,200	594,077	490,634	492,903
Low Income Senior Energy Assistance Program	8,027	-	-	-	-
Capital Expenditures	257,420	289,298	299,704	291,587	292,198
Capitalized MSA Management Fees	10,000	10,000	10,000	10,000	10,000
PSA Plant and Property Tax True-Ups-Payments	523	523	523	523	523
NMP2 Cash Fuel Expense Capital Expenditures	2,230	4,593	21,617	4,151	22,000
Change in cash position due to Operating, Financing and Investing Activities	(57,190)	62,840	(1,672)	6,921	(7,475)
<b>Total Uses of Funds</b>	<b>\$836,406</b>	<b>\$983,066</b>	<b>\$988,324</b>	<b>\$861,190</b>	<b>\$872,813</b>

Long Island Power Authority and Subsidiaries  
Proposed Operating Budget-2010  
Proposed Capital Budgets-2010 and 2011  
Five Year Financial Projections-2010-14

**Taxes and Payments-in-Lieu of Taxes**

Revenue taxes are budgeted at \$60.5 million, a decrease of 1.7% as compared with the approved level for 2009. These taxes are based on gross revenues received from the sale of electricity and tax assessments on other sources of revenues. The decrease is due to lower taxable revenues budgeted for 2010.

Payments-in-lieu of taxes, or PILOTs, are budgeted at \$200.1 million, an increase of \$12.3 million, or 6.6% as compared with the expense level budgeted for 2009. The proposed 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 PILOTs and taxes being passed through to LIPA pursuant to its purchase power agreements or the recently enacted NYS Temporary Conservation Assessment, which are included elsewhere in the budget. Real property taxes associated with the generating assets under contract through the Power Supply Agreement with National Grid (budgeted at \$181.8 million) are included in Operations and Maintenance expense. The higher expense level for 2010 is primarily attributable to projected increases in Nassau and Suffolk County property-based taxes.

Other taxes, PILOTs and assessments, are shown here as a compilation of taxes contained elsewhere in the budget.

Long Island Power Authority and Subsidiaries  
Proposed Operating Budget-2010  
Proposed Capital Budgets-2010 and 2011  
Five Year Financial Projections-2010-14

**Other Income and (Deductions)**

Other income and (deductions) are budgeted at \$36.6 million for 2010, a decrease of \$16.1 million, or 30.5% when compared with the level budgeted for 2009. 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 began in mid-2009 and will have funds available to continue the program into 2010. The cost of this program is offset by the utilization of Settlement Benefits from the National Grid contracts.

Major variances from the 2009 budgeted level include:

- **Short-Term Investment Income:** The projected decrease of \$13.3 million, or 83.3% reflects lower forecasted invested balances and lower returns.
- **Gains on Sales of Emissions Credits:** The reduction of \$5.4 million, or 87.4% reflects lower forecasted sales prices for SO2 credits.
- **Income on Nuclear Decommissioning Trust Fund:** The projected decrease of \$1.5 million, or 55.2% reflects lower returns on fund investments.
- **Miscellaneous Income and Deductions:** The \$2.7 million increase in income from the 2009 budgeted level is due to the payment of certain one-time community benefit costs related to the Caithness generating plant in 2009. Funding for subsequent years is not required.