

# Long Island Power Authority

Approved Operating Budget – 2011  
Approved Capital Budgets – 2011 and 2012  
Five Year Financial Projections – 2011-2015



Long Island Power Authority and Subsidiaries  
Approved Operating Budget-2011  
Approved Capital Budgets - 2011 and 2012  
Five Year Financial Projections-2011-2015

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## **Executive Summary**

The revenue and expenditure forecasts contained herein represent the approved operating budget of the Long Island Power Authority and its subsidiaries (LIPA) for the year ending December 31, 2011, and the approved capital budgets for 2011 and 2012. Also included are projected statements of revenues and expenses and sources and uses of funds for the five-year period 2011-2015

The revenue budget incorporates actual and projected sales results for 2010, 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 2011, which are designed to accommodate system needs, promote energy efficiency and renewable energy and to further improve the levels of reliable service and outreach programs provided to LIPA's customers.

The approved 2011 budget totals \$3.660 billion. Electric sales for 2011 are forecasted at 19,831,948 MWH, which is slightly higher (0.4%) than the budgeted sales level for 2010. 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 2011 are budgeted at \$3.660 billion, or 4.9% lower than the approved level for 2010. This decrease reflects a 9.8% reduction (4.6% as measured as a component of the total bill) in LIPA's Power Supply Charge, resulting from the refund of 2010 over recoveries of fuel and purchased power costs, which occurred despite the 6% reduction to the Power Supply Charge in June, 2010, and lower natural gas and purchased power costs projected for 2011. Revenues also reflect two cost recovery riders implemented 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 Energy and Utility 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 who pay after the due date of their bill, beginning in the second quarter of 2011.

Other LIPA customer classes have already been subject to a similar charge. While LIPA's overall rates will decrease from their present level, thereby on a net basis saving the average residential customer approximately \$3.31 per month, LIPA is forced to increase the Delivery Charge component of its retail rate. The relatively modest increase is necessitated by the significant growth of costs largely beyond the control of LIPA. Primary among the cost increases are taxes and assessments, which are increasing by \$37.2 million as compared with the budgeted level for 2010. This, in of itself, has the effect of increasing average rates by 1% over what rates would have been without the increases in taxes. Despite LIPA's efforts to mitigate the impact of tax and other non-controllable cost increases on customer rates, LIPA cannot completely eliminate their impact within the current environment of slow growth and must therefore recover the higher costs by increasing its Delivery Charge. Overall the adjustments to LIPA's rates for 2011 will decrease the typical residential customer's monthly bill by approximately 2.2%, or \$3.31, compared with the rates presently in effect.

Fuel and Purchased Power costs for 2011, before the effect of accounting accruals and amortizations, are budgeted at \$1.717 billion, a decrease of 14.4% as compared with the budgeted 2010 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, 2010 and the projected cost of purchased power and nuclear fuel, net of the impact of LIPA's commodity hedge positions for 2011. Also included in fuel and purchased power are the costs associated with the purchase of renewable power (\$43.2 million), payments made to Energy Service Companies in accordance with the Long Island Choice Program (\$11.9 million), ISO-related service costs (\$63.8 million) and LIPA's compliance with the Regional Greenhouse Gas Initiative (\$11.0 million). The decrease resulting from lower projected commodity and purchased power prices is offset in part by higher ISO-related services costs (\$24.8 million) and the lower level of available KeySpan/National Grid USA settlement benefits (a decrease of \$8.5 million compared with 2010) used to mitigate the impact of cost increases, resulting in a total decrease in fuel and purchased power costs of \$279.0 million as compared with the 2010 budgeted level.

Expenses for Operations and Maintenance are budgeted at \$979.7 million for 2011, an increase of 6.9% as compared with the approved level for 2010. 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 power. The management and power supply agreements with National Grid USA total \$723.1 million, or 74% of all O&M expenses. Other major costs included in Operations and Maintenance expenses are those for LIPA's Efficiency and Renewables Program (\$93.1 million), assessments, including the NYS Temporary Energy and Utility Conservation Assessment enacted in 2009 (\$43.7 million) and the NYS Administrative Cost Recovery Assessment (\$6.5 million), storm restoration costs (\$46 million), the operation and maintenance activities associated with LIPA's 18% ownership interest in the Nine Mile Point 2 nuclear power generating plant (\$30.4 million) and losses on uncollectible accounts (\$21.6 million). The approved budget for the Efficiency and Renewables Program reflects the planned growth of LIPA's Efficiency Long Island initiative as well as a significant increase in the support of customer based solar and wind distributed generation.

Salaries and Benefits constitute one-half of 1% of the total approved budget for 2011. Salaries are budgeted at \$11.9 million, an increase of \$1.2 million as compared with the level approved for 2010. The increase reflects five additional positions approved for 2011 in order to replace outside consultants, where appropriate, at a lower cost. Non-retirement employee benefits are budgeted at \$3.4 million, an increase of 13.5% as compared with the approved 2010 level, reflecting higher medical insurance premiums. Employee pensions and other post-employment retirement benefits (“OPEBs”) are budgeted at \$4.2 million, an increase of 35.8% over the 2010 budget, the result of higher required contributions to the NYS Retirement System and updated actuarial assumptions used for accounting for OPEBs for LIPA’s employees. The staffing level approved for 2011 totals 107 positions.

Professional Services, consisting primarily of outside engineering, financial, legal and other professional services, are budgeted at \$18.6 million, an increase of \$4.7 million as compared with the approved level for 2010. General and administrative expenses for 2011 are budgeted at \$8.2 million. This represents an increase of 4.6% as compared with the 2010 budget. Included are expenses for insurance, public liability damage claims, office rent, computer software upgrades and licenses, communications, and other administrative activities. The approved 2011 budget for professional services includes funding for a strategic options study to analyze LIPA’s business model going forward and to support the implementation of LIPA’s new power supply management agreement and preparation for the 2013 rebid of the transmission and distribution management contract. Also included are the information technology components of a new customer relationship management system and support for an internal audit function.

State and local taxes constitute 14.5% of the total approved 2011 budget and 23.9% 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 4.8% to a total of \$190.6 million (5.2% of the total overall budget), and are included in Operations and Maintenance expenses. Payments in-lieu-of Taxes, or PILOTs, are budgeted at \$222 million, an increase of \$21.9 million (10.9%) as compared with the approved budget for 2010. 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 \$58.9 million, a decrease of 2.6% as compared with the approved level for 2010. The year-to-year reduction is due to lower taxable revenues budgeted for 2011.

Grant income is a new component of LIPA’s budget as LIPA expects to receive newly-available subsidies for its qualified programs from various government agencies. The approved budget for 2011 is \$17.4 million, which is comprised largely of subsidies provided by the U.S. Treasury in connection with the Build America Bonds program (\$9.8 million). Also included are grants to provide funding for LIPA’s Solar Pioneer Program (\$2.7 million), its Smart Grid and Smart Meter

demonstration programs (\$3.1 million) and a subsidy to offset costs associated with interconnecting LIPA's facilities to receive solar-produced power (\$1.8 million).

Interest Expense is based on forecasted levels of outstanding debt and associated fees. The budgeted expense for 2011 is \$346 million, an increase of \$4.5 million, or 1.3% as compared with the level approved for 2010. The higher expense level reflects new money issuances to fund LIPA's ongoing investment in the transmission and distribution system, partially offset by scheduled refundings and lower cost refinancings of existing debt .

Capital expenditures for 2011 are projected to increase by 13.4% from the budgeted 2010 level. This increase results from projects related to information technology to provide better information relating to the operation of the T&D system and improved service interruption information to customers and LIPA's share of refueling costs for the Nine Mile Point 2 nuclear generating station. Capital expenditures for 2012 are projected to decrease by 4.3% as compared with the approved 2011 level, reflecting the bi-annual nuclear refueling which will occur in 2011.

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.

## Budget Highlights

- **Decreases Typical Monthly Residential Bill by 5.1%.**
  - ▶ Decrease of \$8.12 per month from January 2010 for a residential customer using 775 kWhs
  - ▶ Decrease of \$3.31 per month (2.2%) from June 2010 for a residential customer using 775 kWhs
  - ▶ Lowest typical residential bill since 2007
  
- **Maintains 1<sup>st</sup> quartile reliability that our customers expect and adequately funds the 2011 expected storm cost.**
  
- **Expands efficiency and renewables programs cost-effectively based on experience**
  
- **Improves customer communications to increase awareness of programs and improve customer satisfaction**
  
- **Conforms LIPA's rate design to the most economically-sound features of the other NY State utilities**
  - ▶ Strengthens Service Charge component of Delivery Rates
  - ▶ For the first time, LIPA introduces Low Income Program
  - ▶ Introduces Residential Late Payment Charges (LPCs) to recover costs.
  
- **Funds longer term improvement of the Authority through:**
  - ▶ Strategic review of business model
  - ▶ Transformation to a more effective Service Provider model and rebidding contract for 2013
  - ▶ Competitive process for 1,000 MW of new generating resources to force competition on the GENCO plants
  - ▶ LIPA-staffed Internal audit program for better control and accountability

## Key Assumptions and Recommendations

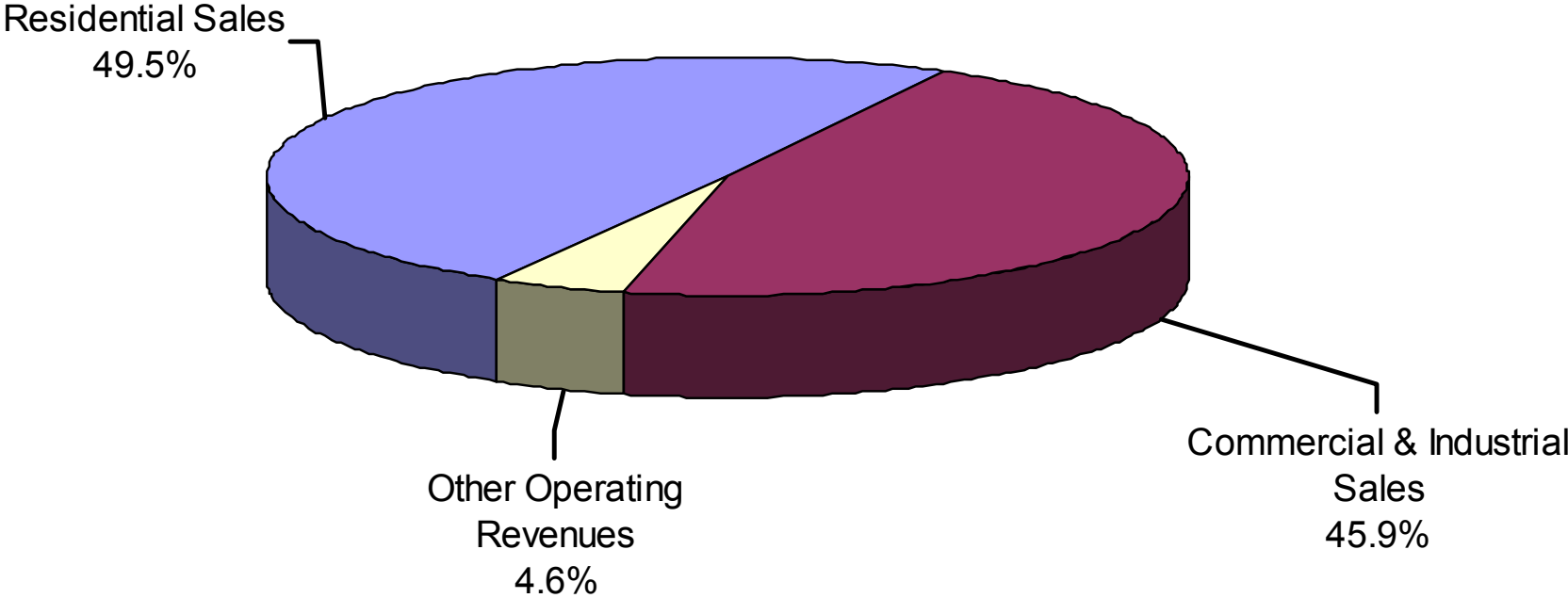
### Key Assumptions

- 1) **Fuel Prices:** Fuel commodity prices are down from 2010 based on the forward price curve of September 28<sup>th</sup>, 2010
- 2) **Sales Forecasts:** Sales forecast of 19,832 GWhs is based on load and energy forecast dated July, 2010, an increase of only 0.4% above 2010, assuming normal weather.
- 3) **Property Taxes:** Tax projections again assume, consistent with our recent experience, an escalation rate higher than inflation imposed on the utility.
- 4) **Financing:** Bond issuances for 2011 Capital projects to occur in December, 2010 in order to capture the low rates of the expiring Federal Build America Bonds (BAB's) grant program. Amount of financing is \$250 million.

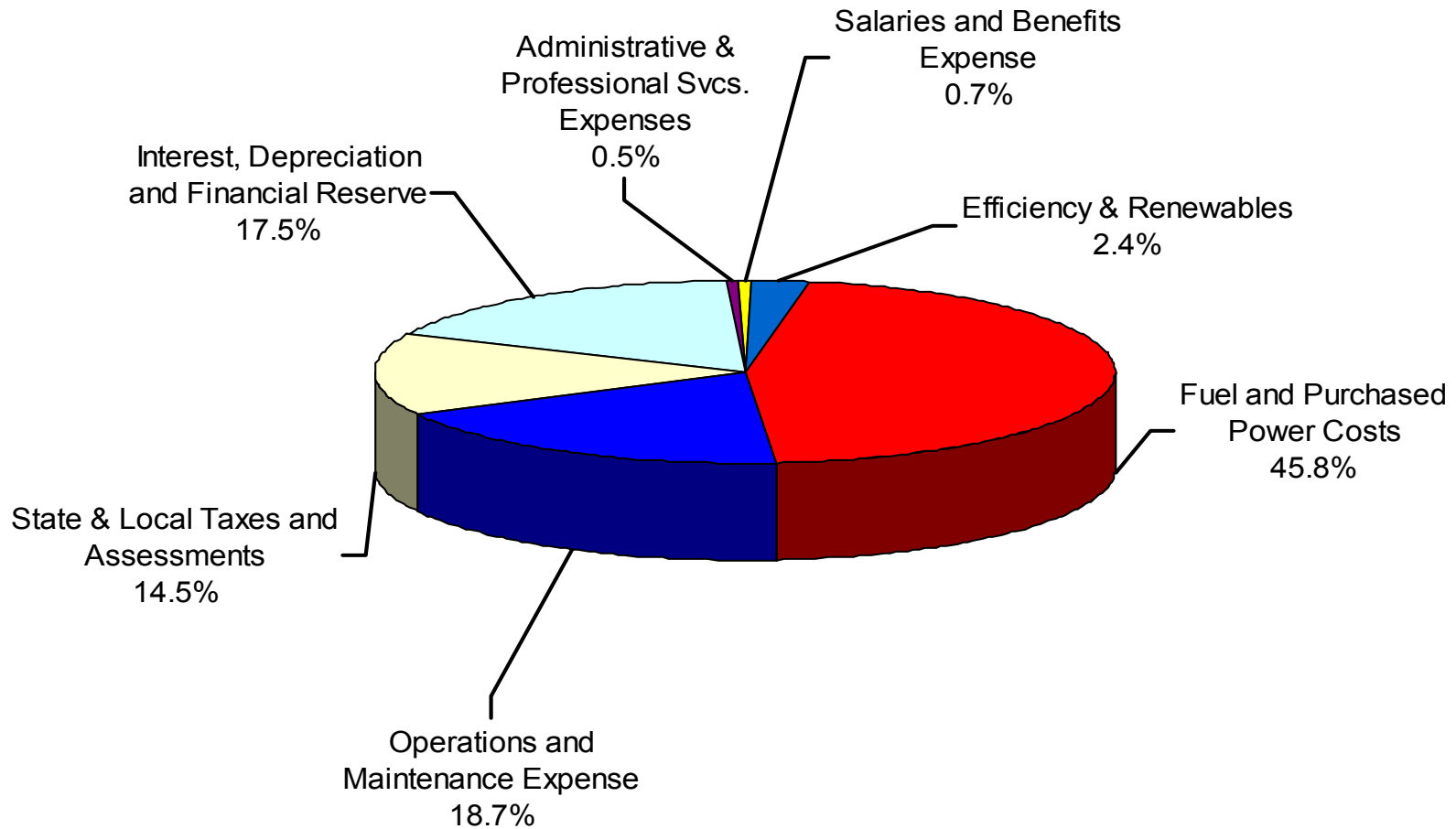
### Key Recommendations

- 1) **Storm Costs:** The unusually high 2010 storm costs will not be recovered in 2011 rates. The expected storm costs for 2011 is budgeted at \$46 million, reflecting a level based on history.
- 2) **Merger Benefits:** All remaining NGRID settlement benefits and unspent Senior Energy Assistance Program funds are being returned to customers through rates.
- 3) **Rate Initiatives:** begins to conform rates to include economically sound features of other NYS utilities:
  - Fixed Component of Delivery Charge
  - Low Income Program
  - Residential Late Payment Charges
  - Quarterly resets of Power Supply Charge
- 4) **New Rates Effective:**
  - January 1<sup>st</sup>, 2011: Power Supply Charge and Efficiency & Renewables Rider
  - March 1<sup>st</sup>, 2011: Delivery Charge and Low Income Program
  - May 1<sup>st</sup>, 2011: Residential Late Payment Charge

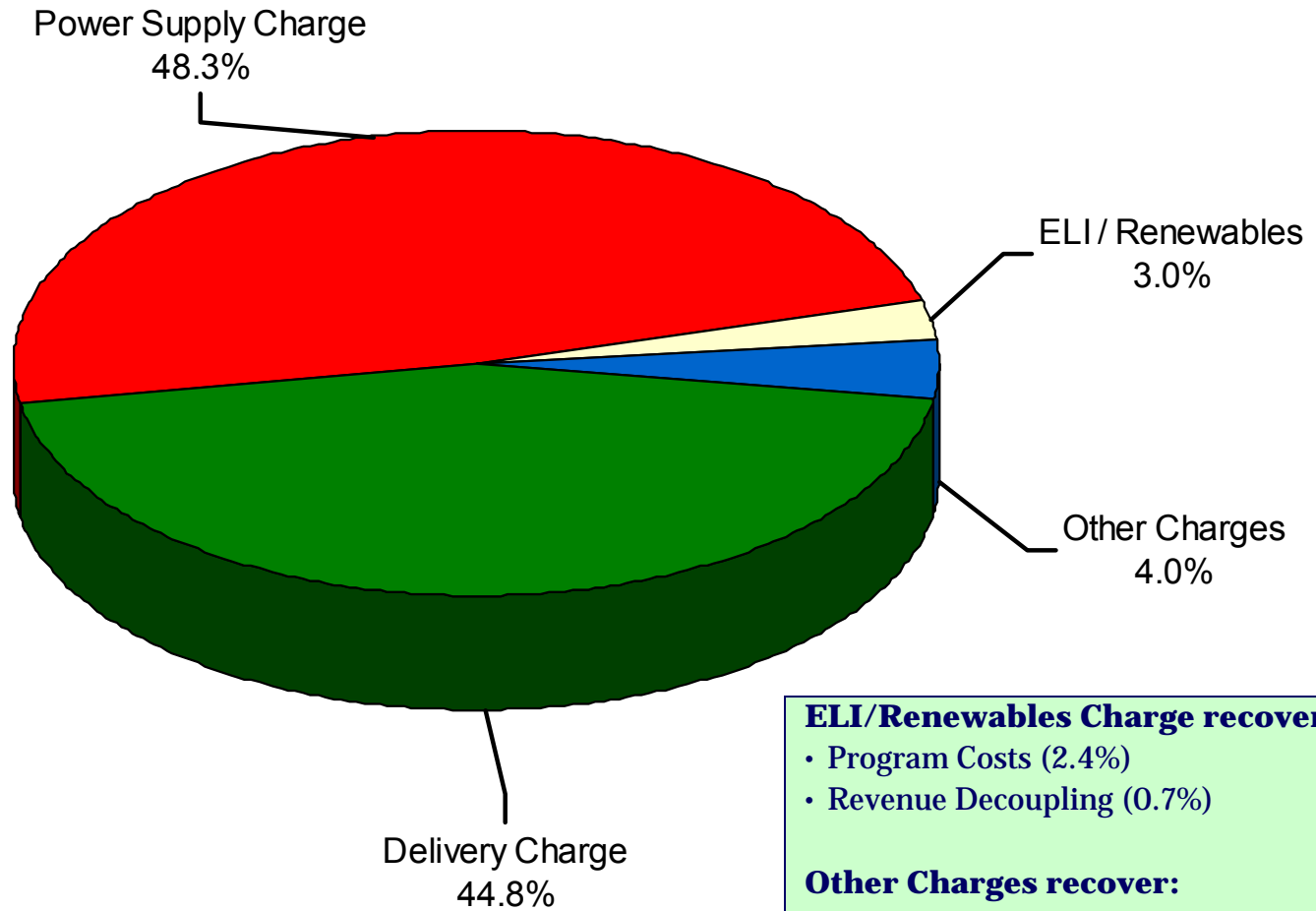
# Source of 2011 Revenue Dollar



## LIPA Proposed Use of 2011 Revenue Dollar



## Components of Rates in 2011



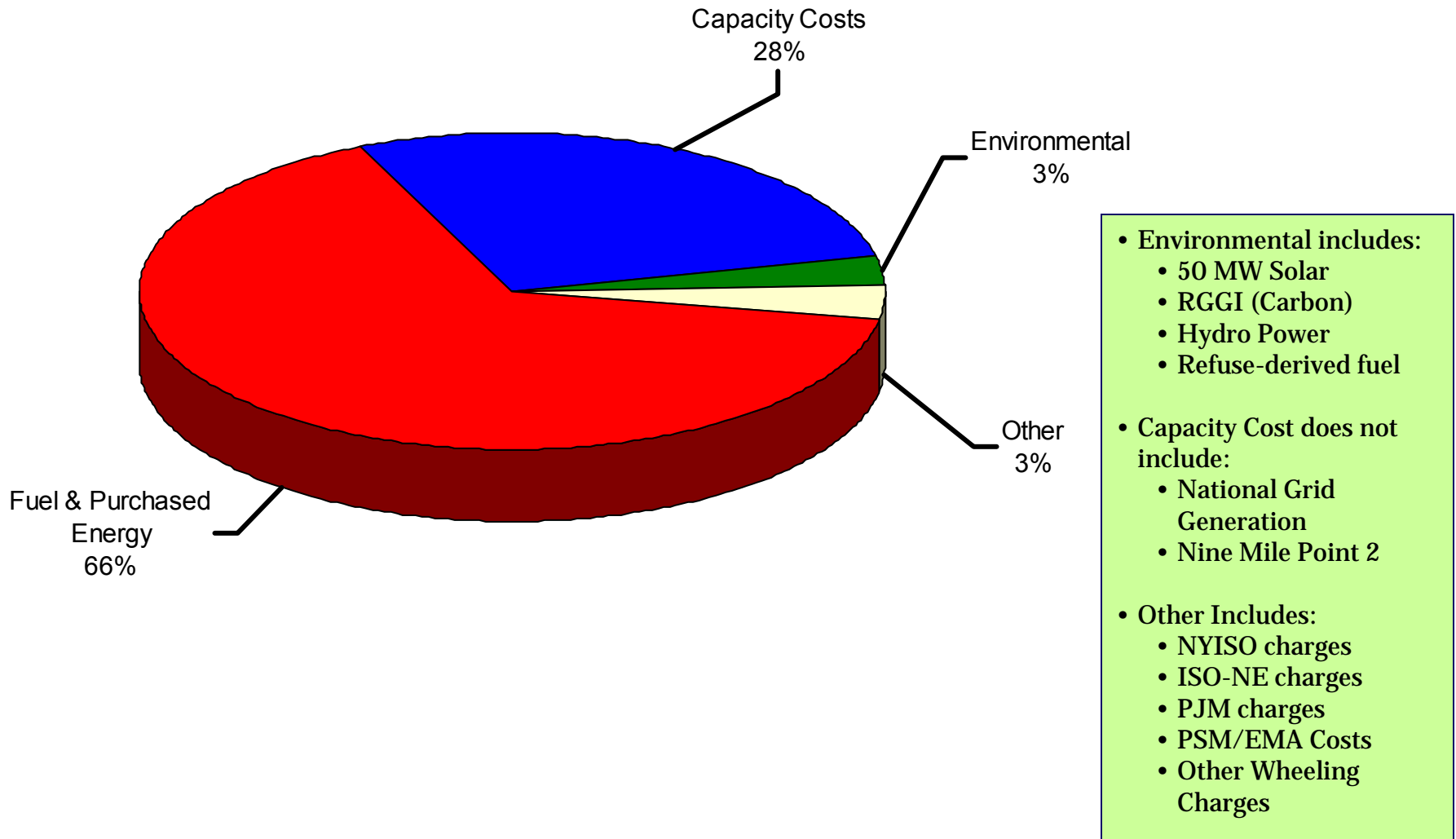
**ELI/Renewables Charge recovers:**

- Program Costs (2.4%)
- Revenue Decoupling (0.7%)

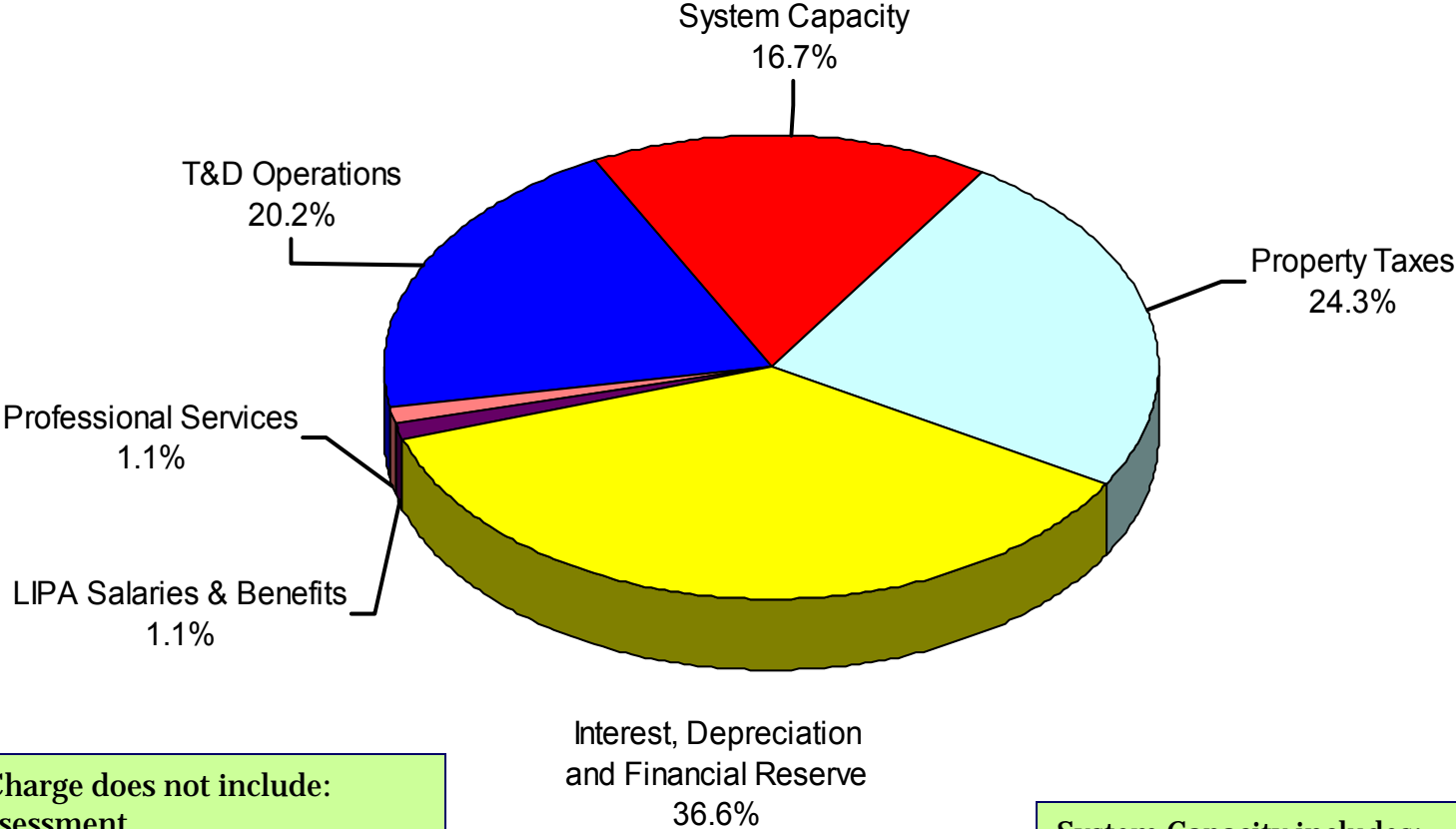
**Other Charges recover:**

- State & Local Revenue Taxes
- NY State Assessment
- Shoreham Property Tax Settlement

## 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

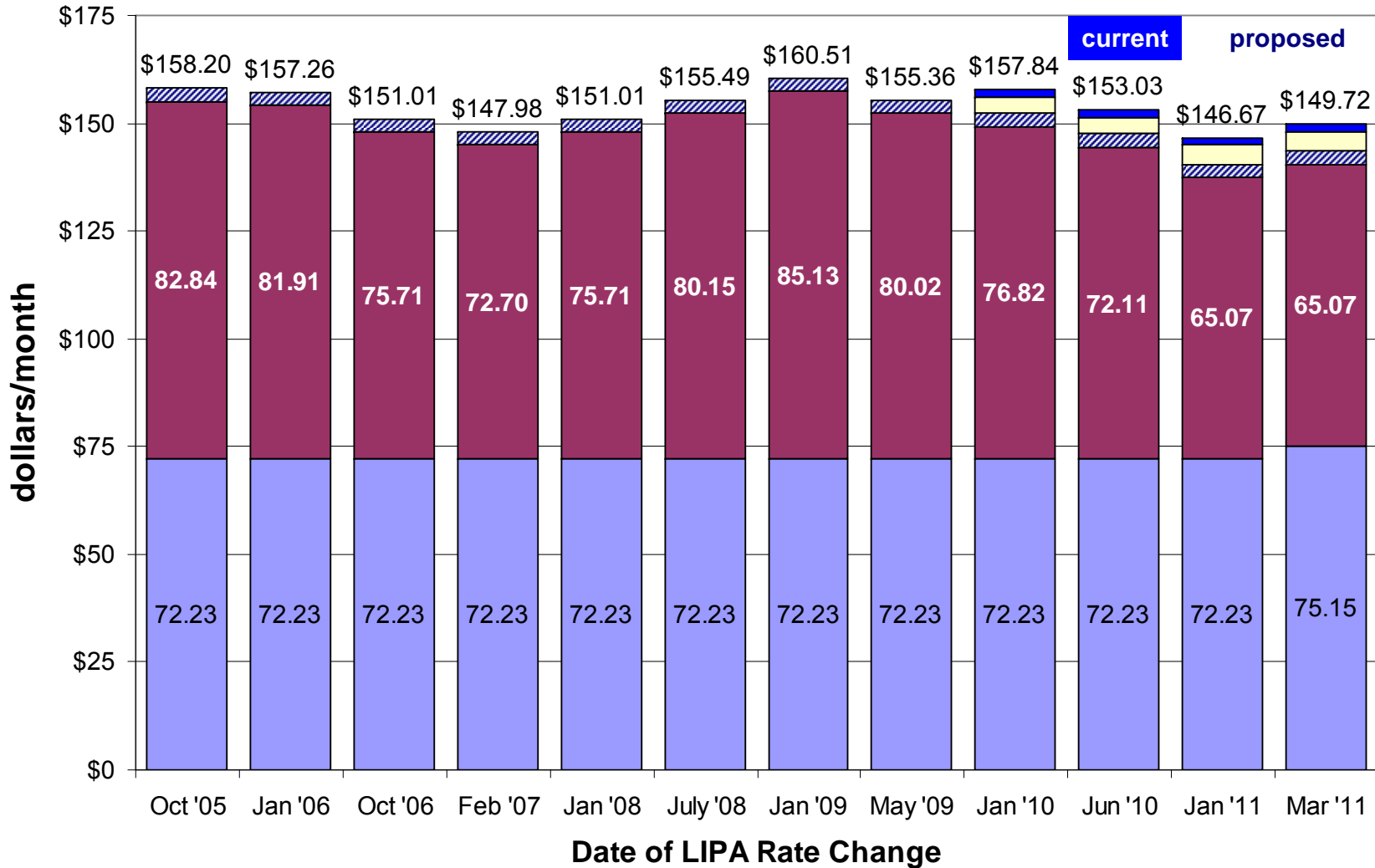
## Typical Residential Bill

Residential (180) Rate Components	Jan 1, 2010 Approved Rate \$/kWh	Jun 1, 2010 Current Rate \$/kWh	Change Since 1/1/10 (note 1)	2011 Proposed Rate \$/kWh	Change Since 6/1/10 (note 1)	Change Since 1/1/10 (note 1)
<b>Power Supply Charge</b>	<b>0.0991</b>	<b>0.0930</b>	<b>-3.0%</b>	<b>0.0840</b>	<b>-4.6%</b>	<b>-7.4%</b>
<b>Delivery Charge (note 2)</b>	<b>0.0932</b>	<b>0.0932</b>	<b>0.0%</b>	<b>0.0970</b>	<b>1.9%</b>	<b>1.8%</b>
<b>Efficiency/Renewables Charge</b>	<b>0.0048</b>	<b>0.0048</b>	<b>0.0%</b>	<b>0.0058</b>	<b>0.5%</b>	<b>0.5%</b>
<b><u>Assessment &amp; Taxes</u></b>	<b><u>0.0066</u></b>	<b><u>0.0064</u></b>	<b><u>-0.1%</u></b>	<b><u>0.0065</u></b>	<b><u>0.0%</u></b>	<b><u>-0.1%</u></b>
<b>Total Rate</b>	<b>0.2037</b>	<b>0.1975</b>	<b>-3.0%</b>	<b>0.1932</b>	<b>-2.2%</b>	<b>-5.1%</b>
<b>Monthly Bill @ 775 kWhs</b>	<b>\$157.84</b>	<b>\$153.03</b>	<b>-\$4.81</b>	<b>\$149.72</b>	<b>-\$3.31</b>	<b>-\$8.12</b>

note 1) expressed as a percent of change in total bill to customer

note 2) proposed delivery increase doesn't apply to eligible low income customers

## Trend in Typical Residential Bills



■ Delivery 
 ■ Power Supply 
 ▨ Revenue Taxes 
 ■ Efficiency/Renewables 
 ■ NYS Assessment

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

	2009 <u>Actual</u>	2010 <u>Approved</u> <u>Projected <sup>(1)</sup></u>		<b>Approved 2011</b>	% Chg. From Approved <u>2010</u>	<u>Ref.</u>
<b>Revenues</b>	<b>\$ 3,312,160</b>	<b>\$ 3,846,697</b>	<b>\$ 3,729,913</b>	<b>\$ 3,659,623</b>	<b>(4.86)</b>	A-2
<b>Expenses</b>						
Fuel and Purchased Power Costs	1,566,005	1,992,988	1,861,071	1,713,947	(14.00)	A-3
Operations and Maintenance Expenses	865,180	916,906	1,115,568	979,735	6.85	A-4
Salaries and Benefits Expense	15,411	16,812	17,117	19,514	16.07	A-5
Professional Services and General Expenses	24,110	21,769	24,746	26,790	23.06	A-6
Depreciation and Amortization	254,944	257,781	262,488	269,608	4.59	A-7
Revenue Taxes	55,308	60,491	62,804	58,946	(2.55)	A-8
Payments in Lieu of Taxes (PILOTS)	194,372	200,139	211,358	222,020	10.93	A-8
<b>Total Operating Expenses</b>	<b>2,975,330</b>	<b>3,466,886</b>	<b>3,555,152</b>	<b>3,290,560</b>	<b>(5.09)</b>	
<b>Operating Income</b>	<b>336,830</b>	<b>379,811</b>	<b>174,761</b>	<b>369,063</b>	<b>(2.83)</b>	
Other Income and Deductions	33,518	36,556	38,489	34,488	(5.66)	A-9
Grant Income	-	-	68,691	17,361	N/M	A-10
Interest Expense	329,822	341,367	325,171	345,912	1.33	A-11
<b>Excess of Revenues Over Expenses</b>	<b>\$ 40,526</b>	<b>\$ 75,000</b>	<b>\$ (43,230)</b>	<b>\$ 75,000</b>	<b>-</b>	
<b>Debt Service Coverage Ratios (x):</b>						
Senior Lien Debt	2.11	2.24	2.26	2.21	(0.03)	
Senior Lien and Subordinated Debt	1.84	2.05	2.09	2.01	(0.04)	
Total Debt	1.82	2.02	2.06	1.98	(0.04)	

N/M=Not meaningful

Note: (1) Projection as of September 30, 2010

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**Sales and Revenues**

	2009 <u>Actual</u>	2010		<b>Approved 2011</b>	% Chg. From Approved <u>2010</u>
		<u>Approved</u>	<u>Projected <sup>(1)</sup></u>		
<b><u>Sales of Electricity (MWh)</u></b>					
Residential Sales	9,211,453	9,468,343	9,849,270	9,441,933	(0.28)
Commercial & Industrial Sales	9,599,501	9,807,927	9,934,558	9,917,278	1.11
Other Sales to Public Authorities/Street Lighting	460,188	479,850	450,680	472,737	(1.48)
<b>Total Sales of Electricity</b>	<b>19,271,142</b>	<b>19,756,120</b>	<b>20,234,508 <sup>(2)</sup></b>	<b>19,831,948</b>	<b>0.38</b>
<b><u>Revenues (\$ thousands)</u></b>					
Residential Sales	\$ 1,813,233	\$ 1,940,696	\$ 1,977,143	\$ 1,829,869	(5.71)
Commercial & Industrial Sales	1,602,801	1,697,173	1,680,511	1,628,210	(4.06)
Other Sales to Public Authorities/Street Lighting	74,001	78,817	71,995	71,187	(9.68)
Sales for Resale	319	1,860	840	1,865	0.27
Recovery of Deferred Shoreham Property Settlement Costs	(35,923)	(38,093)	(40,062)	(38,930)	2.20
Wheeling Revenues	5,811	5,337	5,314	6,364	19.24
Pole Attachment Fees	5,796	3,461	4,998	4,016	16.04
Late Payment and Dishonored Check Charges	5,268	8,934	5,487	7,516	(15.87)
Amortization (Deferral) of Excess Fuel Cost Recovery	(163,695)	144,800	22,670	141,699	(2.14)
Revenue Decoupling-Efficiency and Renewables Program	-	-	(3,029)	3,029	N/M
Miscellaneous Revenues	4,549	3,712	4,046	4,798	29.26
<b>Total Revenues</b>	<b>\$ 3,312,160</b>	<b>\$ 3,846,697</b>	<b>\$ 3,729,913</b>	<b>\$ 3,659,623</b>	<b>(4.86)</b>

N/M=Not meaningful

Notes: (1) Projection as of September 30, 2010

(2) Projected weather-normalized sales of electricity as of September 30, 2010: 19,905,243 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 2011 are budgeted at 19,831,948 MWH, which slightly exceeds the level included in the budget for 2010. Sales to residential customers are expected to decline by 0.3%, while commercial and industrial sales are expected to grow by 1.1% when compared to last year's budgeted level. Other electric sales, mostly consisting of sales to other public authorities, are estimated to decline by 1.5% as compared with 2010'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 \$3.660 billion, or 4.9% under the level budgeted for 2010. This decrease reflects the 9.8% reduction (4.6% when measured as a component of the total bill) to the Power Supply Charge resulting from the refund of 2010 over recoveries of fuel and purchased power costs and lower natural gas and purchased power prices projected for 2011. The over recoveries resulted despite the 6% reduction to the Power Supply Charge made in June, 2010.

While LIPA's overall rates will decrease from their present level, thereby saving the average residential customer approximately \$3.31 per month, LIPA is forced to increase the Delivery Charge component of its retail rate. The relatively modest increase is necessitated by the significant growth of costs largely beyond the control of LIPA. Primary among these cost increases are taxes and assessments, which are increasing by \$37 million over the past year alone. Despite efforts that LIPA has taken to offset these increases with savings in other areas and with load growth, LIPA cannot completely absorb the higher costs within the environment of slower growth it is experiencing without a modest adjustment to its Delivery Charge. The increase in this component of LIPA's bill will result in an increase of \$2.92 per month for the average residential customer.

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In conjunction with the planned growth of LIPA's ten year Efficiency Long Island and Renewable Energy program, the rate contained in the Efficiency & Renewables cost recovery rider designed to recover the cost of the program will also increase. The effect of the change in this component of LIPA's rates will be an increase of \$.79 to the average residential customer's monthly bill.

As previously indicated, in total, the lower Power Supply Charge, partially offset by an increase to the Delivery Charge and the Efficiency & Renewables rider, will result in a decrease to the typical residential customer's monthly bill of approximately 2.2%, or \$3.31.

Budgeted revenues also include revenues to be derived from the first-time imposition of a late payment charge on residential customers beginning in mid-2011. 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 \$38.9 million of recoveries from Suffolk County customers as provided for by the Shoreham Property Tax settlement.

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

	2009	2010		<b>Approved 2011</b>	% Chg. From Approved 2010
	<u>Actual</u>	<u>Approved</u>	<u>Projected <sup>(1)</sup></u>		
Fuel Oil	\$ 61,275	\$ 52,401	\$ 85,244	\$ 107,275	104.72
Natural Gas	330,603	671,934	619,600	438,473	(34.74)
Purchased Power	693,136	618,547	554,395	523,421	(15.38)
Regional Greenhouse Gas Initiative	15,886	23,671	13,903	11,015	(53.47)
Renewable Power	777	34,812	20,459	43,211	24.13
Wheeling Charges	19,701	27,980	25,461	29,863	6.73
Capacity Charges	357,660	417,766	408,465	421,266	0.84
Nine Mile Nuclear Fuel (incl. Disposal and Decomm. Costs)	8,395	12,525	9,858	13,034	4.06
Y-49 and Y-50 Cable Operating Costs	20,284	20,778	20,565	20,859	0.39
Fuel Hedging Program Costs	37,462	18,537	10,564	13,415	(27.63)
ESCO Bill Credit Adjustment Payments	24,391	47,491	30,163	11,860	(75.03)
Energy Mgt./Fuel and Power Supply Mgt. Agreements	14,777	19,120	17,504	19,467	1.81
ISO-Related Service Costs	46,675	38,926	55,747	63,764	63.81
	<b>\$ 1,631,022</b>	<b>\$ 2,004,488</b>	<b>\$ 1,871,928</b>	<b>\$ 1,716,923</b>	<b>(14.35)</b>
Recovery of 2003 Deferred Fuel and Purchased Power Costs	34,983	36,500	37,171	36,500	-
Utilization of Settlement Benefits	(100,000)	(48,000)	(48,000)	(39,476)	(17.76)
Amortization of 2009 Excess Fuel Cost Recovery	-	-	(28)	-	N/M
<b>Total Fuel and Purchased Power Costs</b>	<b>\$ 1,566,005</b>	<b>\$ 1,992,988</b>	<b>\$ 1,861,071</b>	<b>\$ 1,713,947</b>	<b>(14.00)</b>

N/M=Not meaningful

Note: (1) Projection as of September 30, 2010

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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, 2010 and the projected cost of purchased power and nuclear fuel in accordance with agreements to be in effect during 2011.

Fuel and purchased power costs for 2011, before the effect of accounting accruals and amortizations, are budgeted at \$1.717 billion, a decrease of 14.4% when compared with the expense level budgeted for 2010. In addition to the cost for generation fuels and purchased power, fuel and purchased power costs include expenditures for: environmental compliance costs related to generation; generation and transmission cable capacity covered by contract; LIPA's share of costs incurred by the New York, New England and PJM Independent System Operators ("ISO"); 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 \$287.6 million reduction versus the budgeted level in 2010 are: \$273.7 million related to lower commodity costs, net of the impact of LIPA's commodity hedge positions for 2011, reflecting lower fuel prices; \$12.7 million in savings related to the compliance with the Regional Greenhouse Gas initiative and \$35.6 million in lower bill credits to ESCO's due to lower marginal purchased power prices. The effects of the lower costs associated with these factors were partially offset by \$24.8 million of higher ISO-Related Service Costs, reflecting lower revenues to be received for ancillary services provided through the New York ISO, and \$8.4 million higher costs related to the expanded 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 these accounting adjustments is an increase in Total Fuel and Purchased Power Costs of \$8.5 million as compared with the 2010 budget.

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

	2009	2010		<b>Approved</b>	% Chg. From Approved	<u>Ref</u>
	<u>Actual</u>	<u>Approved</u>	<u>Projected <sup>(1)</sup></u>	<b>2011</b>	<u>2010</u>	
National Grid Management Services Agreement	\$ 265,381	\$ 266,785	\$ 276,926	\$ 271,650	1.82	A-4.1
National Grid Power Supply Agreement	425,243	439,427	442,107	451,468	2.74	A-4.1
Power Supply Management Contract Transition Costs	-	3,260	3,260	3,260	-	(2)
Operations Services Agreement Transition Costs	-	-	-	250	N/M	(2)
Efficiency & Renewables Program	60,548	72,755	84,415	93,124	28.00	A-4.3
Storm Restoration	48,900	27,000	199,854	46,000	70.37	(2)
Nine Mile Point 2 O&M	26,311	27,462	30,407	30,443	10.85	A-4.2
Uncollectible Accounts	26,753	21,094	21,516	21,588	2.34	(2)
Storm Hardening Initiative	2,120	2,000	1,000	1,000	(50.00)	(2)
Accretion of Asset Retirement Obligation	1,768	5,616	3,727	3,943	(29.79)	(2)
Assessments	4,739	48,123	48,820	51,114	6.22	(2)
Smart Grid Program Operating Costs	-	-	-	1,668	N/M	(2)
Customer Accounting and Billing System	-	950	950	100	(89.47)	(2)
Research & Development	912	730	636	905	23.97	(2)
Retail and Customer Care Programs	365	583	472	2,040	249.64	(2)
O & M-Y49 and Y-50 Cables	233	100	100	100	-	(2)
O&M-NUSCO Cable	-	-	768	257	N/M	(2)
Miscellaneous	1,907	1,021	610	825	(19.17)	(2)
<b>Total Operations and Maintenance Expenses</b>	<b>\$ 865,180</b>	<b>\$ 916,906</b>	<b>\$ 1,115,568</b>	<b>\$ 979,735</b>	<b>6.85</b>	

N/M=Not meaningful

Notes: (1) Projection as of September 30, 2010

(2) Not detailed on separate schedule.

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## **Operations and Maintenance Expenses**

Operations and maintenance expenses are budgeted at \$979.7 million. This represents an increase of 6.9% over the expense level budgeted for 2010. 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 USA and other power supply management firms. 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 NYS Temporary Energy and Utility Conservation Assessment and the NYS Administrative Cost Recovery Assessment; the cost of storm damage restoration; 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; LIPA's Storm Hardening Initiative; and LIPA's retail and customer care activities.

Major variances from the 2010 budgeted level include:

- **Storm Restoration:** The increase of \$19 million reflects the level of costs incurred in recent years to restore electric service to customers who experience service interruption due to severe weather events and to make the necessary repairs to the transmission and distribution system for damage caused by the storm event. The budget for 2011 does not include recovery of costs incurred for storm restoration in 2010.
- **National Grid Management Services and Power Supply Agreements** (increase of \$16.9 million): See page A-4.1 (a)
- **Efficiency and Renewables Programs** (increase of \$20.4 million): See page A-4.3 (a)
- **Nine Mile Point 2** (increase of \$3.0 million): See page A-4.2 (a)
- **Assessments:** The increase of \$3.0 million reflects the higher New York State Administrative Cost Recovery Assessment, a fee assessed on public authorities in the state.

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- **Retail and Customer Care Programs:** The increase of \$1.5 million is associated with new and expanded customer outreach and communications initiatives to provide customers with better information on LIPA's programs and products and more current and comprehensive information concerning storm outages and service restoration activities.
- **Smart Grid Operating Costs:** The budget provision of \$1.7 million includes those costs associated with LIPA's new smart meter/smart grid initiative. This is being offset by associated Grant Income-see page A-10.

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

	2009 Actual	2010		Approved 2011	% Chg. From Approved 2010
		Approved	Projected <sup>(1)</sup>		
<b>Management Services Agreement <sup>(2)</sup></b>					
Operation and Maintenance Expenses	\$ 265,381	\$ 266,785	\$ 276,926	\$ 271,650	1.82
<b>Total Management Services Agreement</b>	<b>\$ 265,381</b>	<b>\$ 266,785</b>	<b>\$ 276,926</b>	<b>\$ 271,650</b>	<b>1.82</b>
<b>Power Supply Agreement <sup>(2)</sup></b>					
Operation and Maintenance Expenses	\$ 246,097	\$ 253,644	\$ 256,652	\$ 256,891	1.28
Property Taxes	176,282	181,783	183,333	190,577	4.84
Non-Cost Performance Incentives	2,864	4,000	2,122	4,000	N/M
<b>Total Power Supply Agreement</b>	<b>\$ 425,243</b>	<b>\$ 439,427</b>	<b>\$ 442,107</b>	<b>\$ 451,468</b>	<b>2.74</b>
<b>Energy Management Agreement <sup>(3)</sup></b>					
Operating Expenses	\$ 3,156	\$ 1,823	\$ 1,841	\$ 1,887	3.51
Management Fees	2,287	1,770	1,770	1,808	2.15
Non-Cost Performance Incentives	3,186	5,000	3,809	5,000	N/M
<b>Total Energy Management Agreement</b>	<b>\$ 8,629</b>	<b>\$ 8,593</b>	<b>\$ 7,420</b>	<b>\$ 8,695</b>	<b>1.19</b>
<b>Total Contracts with National Grid</b>	<b>\$ 699,253</b>	<b>\$ 714,805</b>	<b>\$ 726,453</b>	<b>\$ 731,813</b>	<b>2.38</b>

N/M=Not meaningful

Note: (1) Projection as of September 30, 2010

(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, power supply and fuel management 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 \$271.7 million, an increase of \$4.9 million, or 1.8% as compared with the budgeted level for 2010. The increase reflects escalation provisions contained in the agreement, including the projected increase in system sales.

PSA costs are budgeted at \$451.5 million, an increase of \$12 million, or 2.7% as compared with the 2010 budgeted level. The increase reflects higher PSA property taxes assessed on National Grid’s generating facilities and increased operating expenses associated with emissions mitigation modifications made to the generation facilities.

EMA costs are budgeted at \$8.7 million, an increase of \$0.1 million, or 1.2% as compared with the 2010 budgeted level. The increase is in accordance with the escalation provisions contained in the agreement.

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**Nine Mile Point 2 Operations and Maintenance Expenses**  
 (Thousands of Dollars)

	2009 <u>Actual</u>	2010 <u>Approved</u> <u>Projected</u> <sup>(1)</sup>		<b>Approved 2011</b>	% Chg. From Approved 2010
Refueling Outage Amortization	\$ 3,102	\$ 3,098	\$ 3,591	\$ 3,797	22.56
Non-Outage Operating Expenses	23,123	24,273	26,725	26,553	9.39
Insurance	86	91	91	93	2.20
<b>Total Nine Mile Point 2 O&amp;M Expenses</b>	<b>\$ 26,311</b>	<b>\$ 27,462</b>	<b>\$ 30,407</b>	<b>\$ 30,443</b>	<b>10.85</b>

Note: (1) Projection as of September 30, 2010

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

This category of expense relates to LIPA's share of expenses incurred to operate and maintain the Nine Mile Point 2 ("NMP2") nuclear reactor. NMP2, of which LIPA owns an undivided 18 percent interest, is one of two nuclear units at the Nine Mile nuclear power station located in Oswego, New York. The other 82 percent interest in NMP2 is owned by Constellation Energy Nuclear Group, LLC ("Constellation"), a division of Constellation Energy Group, Inc. Under the operating agreement with Constellation, LIPA is responsible for 18% of all operation, maintenance and capital expenditures related to NMP2 (see page B-1 for budgeted capital expenditures).

NMP2 operations and maintenance expenses are budgeted at \$30.4 million, an increase of 10.9% over the level budgeted for 2010 but in line with the higher non-refueling outage operating expenses actually being incurred for 2010. The higher costs reflect increased plant labor and benefits costs which were not fully reflected in the 2010 budget.

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**Efficiency and Renewables Program Expenses**  
 (Thousands of Dollars)

	2009	2010		<b>Approved 2011</b>	% Chg. From Approved 2010
	<u>Actual</u>	<u>Approved</u>	<u>Projected <sup>(1)</sup></u>		
Efficient Products Program	\$ 5,778	\$ 7,329	\$ 6,179	\$ 9,223	25.84
Commercial, Industrial and Not for Profit New Construction Program	2,798	6,326	2,897	2,367	(62.58)
Commercial, Industrial and Not for Profit Existing Structures Program	7,630	17,972	12,050	31,893	77.45
New Homes Program	1,615	2,033	1,941	2,292	12.74
Existing Homes Program	7,929	8,591	8,694	10,828	26.04
Multi-Family Program	75	405	5	-	(100.00)
Low Income Conservation	3,100	3,250	3,250	2,830	(12.92)
Advertising and Promotion	581	2,799	2,143	2,523	(9.86)
Professional Services	483	900	400	400	(55.56)
Evaluation and Audit-Efficiency Long Island Program	131	1,255	1,145	1,495	19.12
Evaluation and Audit-Other	150	290	245	425	46.55
LIPA Edge Program	1,519	1,871	1,841	1,871	-
Research, Development & Demonstration	571	571	374	451	(21.02)
NYSERDA-Clean Energy Research Programs	1,600	1,600	1,600	1,600	-
Peak Load Reduction Program <sup>(2)</sup>	7	-	-	-	-
Solar Pioneer Programs	26,185	15,297	28,263	20,690	35.26
Solar Thermal Programs	-	342	25	535	56.43
Small Wind Program	125	1,924	1,263	1,001	(47.97)
75 MW Energy Efficiency Program	271	-	-	-	-
<b>Total Efficiency and Renewables Program Expenses before Grant-Qualified Expenditures</b>	<b>\$ 60,548</b>	<b>\$ 72,755</b>	<b>\$ 72,315</b>	<b>\$ 90,424</b>	<b>24.29</b>
<b>Grant-Qualified Solar Program Expenditures <sup>(3)</sup></b>	<b>-</b>	<b>-</b>	<b>12,100</b>	<b>2,700</b>	<b>N/M</b>
<b>Total Efficiency and Renewables Program Expenses</b>	<b>\$ 60,548</b>	<b>\$ 72,755</b>	<b>\$ 84,415</b>	<b>\$ 93,124</b>	<b>28.00</b>

N/M=Not meaningful

Notes: (1) Projection as of September 30, 2010

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

(3) Refer to Grant Income, page A-10

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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 and to delay the need for capacity additions to serve LIPA's customers during peak demand periods. 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, including qualified program funding, and participation in related demonstration projects.

The approved budget for 2011 reflects the planned growth of LIPA's 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 \$93.1 million, an increase of \$20.4 million, or 28% from the level budgeted for 2010.

A major driver of the 2011 increase is the introduction of a Small Commercial Direct Install Program, which is the primary component of the 41% increase in the Commercial, Industrial and Not for Profit Existing Structures Program. This program will support energy efficiency and lighting upgrades for LIPA's small commercial customers through direct installation by LIPA approved contractors, allowing for customer bill savings and system demand reductions.

Also contained in the increased expenditure level is the continued expansion of the Solar Program, which is budgeted to increase 35.7% from the 2010 level. The growth reflects the significant increase in demand for solar installations experienced in 2010 and the continued availability of government agency grants to help fund the expansion of the program. 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.

To further promote renewable sources of energy, LIPA has applied for and is receiving grants from various government agencies, including the NYS Energy Research and Development Authority and the federal government. These grants are projected to be \$2.7 million in 2011 and will be used to expand the size of LIPA's previously-planned Solar Program. Projected income from the grants is reflected in Grant Income on page A-10.

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**Salaries and Benefits**

(Thousands of Dollars)

	2009 <u>Actual</u>	2010		<b>Approved 2011</b>	% Chg. From Approved <u>2010</u>
		<u>Approved</u>	<u>Projected</u> <sup>(1)</sup>		
Employee Salaries	\$ 9,757	\$ 10,743	\$ 10,307	\$ 11,934	11.09
Overtime	-	7	7	12	71.43
Non-Retirement Employee Benefits	3,204	2,970	2,898	3,370	13.47
Employee Pensions/Other Post-Employment Benefits	2,450	3,092	3,905	4,198	35.77
<b>Total Salaries &amp; Benefits Expenses</b>	<b>\$ 15,411</b>	<b>\$ 16,812</b>	<b>\$ 17,117</b>	<b>\$ 19,514</b>	<b>16.07</b>

Note: (1) Projection as of September 30, 2010

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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 \$11.9 million is an increase of \$1.2 million, or 11.1% from the level approved for 2010. It relates to the staffing level of 107, which is five positions higher than the level budgeted for 2010. The staffing increase is due to the planned hiring of internal employees where overall cost savings can be achieved through less reliance on outside consultants. The annual net savings, after incremental salary and benefits cost, is projected to be in excess of \$850,000.

Non-retirement employee benefits are budgeted at \$3.4 million, an increase of 13.5% over the approved 2010 level, reflecting higher medical insurance premiums.

Employee pensions and other post-employment retirement benefits (“OPEBs”) are budgeted at \$4.2 million, an increase of \$1.1 million, or 35.8% as compared with the level approved for 2010. The additional expense is primarily the result of higher required contributions to the NYS Retirement System and 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.

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**Professional Services and General Expenses**  
 (Thousands of Dollars)

	2009 <u>Actual</u>	2010		<b>Approved 2011</b>	% Chg. From Approved <u>2010</u>
		<u>Approved</u>	<u>Projected</u> <sup>(1)</sup>		
Professional Services	\$ 16,089	\$ 13,955	\$ 16,632	\$ 18,613	33.38
Insurance	1,826	1,970	2,054	1,968	(0.10)
Injuries and Damages Reserve	1,785	1,675	1,675	1,300	(22.39)
Office Rent	1,738	1,800	1,800	1,650	(8.33)
Telephone	179	193	193	198	2.59
Software Licenses and Maintenance	235	363	363	885	143.80
Office Supplies and Equipment	443	378	378	439	16.14
Meetings, Conferences and Seminars	200	291	313	336	15.46
Dues/Memberships/Subscriptions	287	79	79	111	40.51
Communications	703	552	552	326	(40.94)
LIPA Other Public Meetings	79	90	90	94	4.44
Business and Community Programs	151	245	245	515	110.20
Miscellaneous	395	178	372	355	99.44
<b>Total Professional Services and General Expenses</b>	<b>\$ 24,110</b>	<b>\$ 21,769</b>	<b>\$ 24,746</b>	<b>\$ 26,790</b>	<b>23.06</b>

Note: (1) Projection as of September 30, 2010

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**Professional Services and General Expenses**

Professional services and general expenses for 2011 are budgeted at \$26.8 million. This represents an increase of \$5 million, or 23.1% as compared with the budgeted level for 2010.

Professional services, which consist primarily of outside engineering, financial, legal and other professional services, are budgeted at \$18.6 million, an increase of 33.4% as compared to the budgeted level approved for 2010. This increase is primarily due to the preparation for the 2013 rebids of the transmission and distribution and power supply management contracts. The budget also contains funding for a strategic options study to analyze LIPA's business model going forward in concert with the management contracts rebids.

General expenses, which consist of expenses for insurance, public liability damage claims, office rent, communications, community programs and other administrative activities, are budgeted at \$8.2 million, an increase of 4.6% over the approved level for 2010. The largest percentage increase, that attributable to software licenses and maintenance, reflects funding for licenses associated with a new customer relationship management system as part of a program to provide additional services for customers and improved communication during power interruptions.

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

	2009 <u>Actual</u>	2010		<b>Approved 2011</b>	% Chg. From Approved <u>2010</u>
		<u>Approved</u>	<u>Projected <sup>(2)</sup></u>		
Engineering	\$ 8,092	\$ 5,769	\$ 8,653	\$ 8,759	51.83
Legal	2,507	2,900	2,530	2,813	(3.00)
Financial Advisor/Cash Management	1,214	1,297	1,297	1,274	(1.77)
Accounting and Audit Services	772	1,020	852	1,665	63.24
Strategic Review	650	-	(288)	1,113	N/M
Rates and Tariffs	-	300	300	200	(33.33)
Information Technology	1,043	1,271	1,818	1,214	(4.48)
Risk Management-Fuel	808	872	872	868	(0.46)
Communications	144	170	170	420	147.06
Risk Management-Insurance	162	166	166	174	4.82
Miscellaneous	697	190	262	113	(40.53)
<b>Total Professional Services Expenses</b>	<b>\$ 16,089</b>	<b>\$ 13,955</b>	<b>\$ 16,632</b>	<b>\$ 18,613</b>	<b>33.38</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, 2010

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**Depreciation and Amortization**  
 (Thousands of Dollars)

	2009 <u>Actual</u>	2010		<b>Approved 2011</b>	% Chg. From Approved <u>2010</u>
		<u>Approved</u>	<u>Projected</u> <sup>(1)</sup>		
Amortization of Acquisition Adjustment	\$ 112,681	\$ 112,681	\$ 112,681	\$ 112,681	-
Depreciation Expense-Plant-in-Service	142,263	145,100	149,807	156,927	8.15
<b>Total Depreciation and Amortization</b>	<b>\$ 254,944</b>	<b>\$ 257,781</b>	<b>\$ 262,488</b>	<b>\$ 269,608</b>	<b>4.59</b>

Note: (1) Projection as of September 30, 2010

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**Depreciation and Amortization**

Depreciation and amortization is budgeted at \$269.6 million, an increase of 4.6% versus the budgeted expense level for 2010. 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, including related information systems, as reflected in LIPA's capital expenditure budget.

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

	2009 <u>Actual</u>	2010		<b>Approved 2011</b>	% Chg. From Approved <u>2010</u>
		<u>Approved</u>	<u>Projected <sup>(1)</sup></u>		
<b>Revenue Taxes</b>	<b>\$ 55,308</b>	<b>\$ 60,491</b>	<b>\$ 62,804</b>	<b>\$ 58,946</b>	<b>(2.55)</b>
<b>Payments in-lieu-of Taxes (PILOTS)</b>					
Long Island and New York City	\$ 180,308	\$ 186,376	\$ 197,544	\$ 206,985	11.06
Nine Mile PILOTS	3,619	3,638	3,619	4,607	26.63
Merchant Power Plants	10,417	10,086	10,160	10,388	3.00
Metropolitan Commuter Transportation Tax	28	39	35	40	2.56
<b>Total PILOTS</b>	<b>\$ 194,372</b>	<b>\$ 200,139</b>	<b>\$ 211,358</b>	<b>\$ 222,020</b>	<b>10.93</b>
<b>Other Taxes, PILOTS and Assessments</b>					
Property Taxes on NGrid Power Plants (PSA)	\$ 176,282	\$ 181,783	\$ 183,333	\$ 190,577	4.84
Property Taxes on other Purchased Power Agreements	6,090	3,275	3,275	3,439	5.01
NYS Temporary Energy and Utility Conservation Assessment	-	44,666	44,666	43,667	(2.24)
NYS Administrative Cost Recovery Assessment	3,864	2,570	3,504	6,523	153.82
Petroleum Business Tax and Motor Fuels Tax	6,090	-	4,537	2,546	N/M
Sales and Use Tax on Purchases	9,081	-	14,936	2,400	N/M
<b>Total Other Taxes, PILOTS and Assessments</b>	<b>\$ 201,407</b>	<b>\$ 232,294</b>	<b>\$ 254,251</b>	<b>\$ 249,152</b>	<b>7.26</b>
<b>Total State and Local Taxes, PILOTS and Assessments</b>	<b>\$ 451,087</b>	<b>\$ 492,924</b>	<b>\$ 528,413</b>	<b>\$ 530,118</b>	<b>7.55</b>

N/M=Not meaningful

Note: (1) Projection as of September 30, 2010

Long Island Power Authority and Subsidiaries  
Approved Operating Budget-2011  
Approved Capital Budgets-2011 and 2012  
Five Year Financial Projections-2011-15

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

Revenue taxes are budgeted at \$58.9 million, a decrease of 2.6% as compared with the approved level for 2010. These taxes are based on gross revenues received from the sale of electricity and tax assessments on other sources of revenues. The reduced expense level reflects lower taxable revenues budgeted for 2011.

Payments-in-lieu of taxes, or PILOTs, are budgeted at \$222 million, an increase of \$21.9 million, or 10.9% as compared with the expense level budgeted for 2010. 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 PILOTs and taxes being passed through to LIPA pursuant to its purchase power agreements or the NYS Temporary Energy and Utility Conservation and NYS Administrative Cost Recovery assessments, which are included elsewhere (i.e., Fuel and Purchased Power Costs and Operations and Maintenance Expense) in the budget. Real property taxes associated with the generating assets under contract through the Power Supply Agreement with National Grid (budgeted at \$190.6 million) are included in Operations and Maintenance Expense. The higher expense level for 2011 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. As the table shows, the total cost of state and local taxes over which LIPA has little control and must recover from its customers, is projected to be \$530.1, an increase of \$37.2 million, or 7.6%.

Long Island Power Authority and Subsidiaries  
 Approved Budget - 2011

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

	2009	2010		<b>Approved 2011</b>	% Chg. From Approved 2010
	<u>Actual</u>	<u>Approved</u>	<u>Projected <sup>(1)</sup></u>		
Low Income Senior Program	\$ -	\$ (8,027)	\$ (4,650)	\$ -	(100.00)
Short-Term Investment Income	1,514	2,666	\$ 1,545	2,552	(4.28)
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	31,383	30,856	30,856	30,254	(1.95)
Gains on Sales of Emissions Credits	368	774	310	115	(85.14)
Income on Nuclear Decommissioning Trust Fund	1,794	1,254	4,190	1,420	13.24
Utilization of Settlement Benefits	-	8,027	4,650	-	(100.00)
Miscellaneous Income and Deductions	(1,541)	1,006	1,588	147	(85.39)
<b>Total Other Income and Deductions</b>	<b>\$ 33,518</b>	<b>\$ 36,556</b>	<b>\$ 38,489</b>	<b>\$ 34,488</b>	<b>(5.66)</b>

Negative dollar value=income deduction

Note: (1) Projection as of September 30, 2010

Long Island Power Authority and Subsidiaries  
Approved Operating Budget-2011  
Approved Capital Budgets-2011 and 2012  
Five Year Financial Projections-2011-15

### **Other Income and Deductions**

Other income and deductions are budgeted at \$34.5 million for 2011, a decrease of \$2.1 million, or 5.7% when compared with the level budgeted for 2010. 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.

Major variances from the 2010 budgeted level include:

- **Gains on Sales of Emissions Credits:** The reduction of 85.1% reflects lower forecasted sales prices for SO<sub>2</sub> credits.
- **Income on Nuclear Decommissioning Trust Fund:** The projected increase of 13.2% reflects higher returns on fund investments.
- **Miscellaneous Income and Deductions:** The \$0.9 million, or 85.4% decrease in income from the 2010 budgeted level is due to the budgeted payment of certain one-time community benefits costs related to the BP Solar installation.

Long Island Power Authority and Subsidiaries  
 Approved Budget - 2011

**Grant Income**  
 (Thousands of Dollars)

	<u>2009</u> <u>Actual</u>	<u>2010</u> <u>Approved</u>	<u>Projected</u> <sup>(1)</sup>	<b>Approved</b> <b>2011</b>	% Chg. From Approved <u>2010</u>
Storm Restoration Costs-FEMA	-	-	54,027	-	N/M
Build America Bonds Subsidy-U.S. Treasury	-	-	2,564	9,809	N/M
Solar Pioneer Program Expansion-NYSERDA	-	-	12,100	2,200	N/M
Solar Pioneer Program-Congressional Grant	-	-	-	500	N/M
Smart Meter Demonstration Program-Congressional Grant	-	-	-	158	N/M
Smart Grid Corridor Project-ARRA	-	-	-	2,894	N/M
Solar Facilities Interconnections-ARRA	-	-	-	1,800	N/M
<b>Total Grant Income</b>	-	-	<b>68,691</b>	<b>17,361</b>	N/M

N/M=Not meaningful

Note: (1) Projection as of September 30, 2010

Long Island Power Authority and Subsidiaries  
Approved Operating Budget-2011  
Approved Capital Budgets-2011 and 2012  
Five Year Financial Projections-2011-15

**Grant Income**

This category consists of subsidies from governmental entities to partially offset the cost of: debt service associated with the issuance of qualified debt instruments to finance improvements to LIPA's transmission and distribution system; service restoration and repairs to the transmission and distribution system for severe weather-related and other catastrophic events and grants received to help fund and promote the expansion of qualified programs, such as LIPA's solar energy programs. The funding contained in the budget for 2011 consists of (1) cash subsidy payments from the United States Treasury equal to 35% of the interest payable on LIPA's debt issued as Build America Bonds pursuant to the American Recovery and Reinvestment Act of 2009 and (2) cash subsidies from governmental entities to promote the expansion of LIPA's renewable energy initiatives, including LIPA's Solar Pioneer program, and to provide partial reimbursement for the cost of interconnecting LIPA's facilities to receive solar-produced power. Also included is funding to help reduce the costs associated with LIPA's smart meter and smart grid demonstration projects.

Long Island Power Authority and Subsidiaries  
 Approved Budget - 2011

**Interest Expense**  
 (Thousands of Dollars)

	2009 <u>Actual</u>	2010		<b>Approved 2011</b>	% Chg. From Approved 2010
		<u>Approved</u>	<u>Projected <sup>(1)</sup></u>		
<b>Interest Expense on Debt Securities from Page A-12</b>	<b>\$ 313,469</b>	<b>\$ 321,968</b>	<b>\$ 315,906</b>	<b>\$ 330,420</b>	<b>2.63</b>
<b>Other Interest Expense</b>					
NYSERDA	8,075	8,075	\$ 8,075	\$ 8,075	-
Promissory Note due from KeySpan	(8,075)	(8,075)	(8,075)	(8,075)	-
Amortization of Deferred Debt Issue Costs	5,281	5,014	3,065	4,626	(7.74)
Amortization of Deferred Losses (Gains) on Debt Redemptions	11,647	11,011	6,720	11,009	(0.02)
Letter of Credit Fees	4,503	7,388	4,718	6,309	(14.60)
Broker/Dealer Fees	30	-	-	-	-
Interest on Customer Security Deposits	1,112	1,260	889	806	(36.03)
Bond Administration Costs and Bank Fees	668	798	707	823	3.13
Remarketing Fees	922	945	876	896	(5.19)
Other	652	423	(352)	588	39.01
<b>Total Other Interest Expense</b>	<b>\$ 24,815</b>	<b>\$ 26,839</b>	<b>\$ 16,623</b>	<b>\$ 25,057</b>	<b>(6.64)</b>
<b>Less: Capitalized Interest</b>	<b>8,462</b>	<b>7,440</b>	<b>7,358</b>	<b>9,565</b>	<b>28.56</b>
<b>Total Interest Expense</b>	<b>\$ 329,822</b>	<b>\$ 341,367</b>	<b>\$ 325,171</b>	<b>\$ 345,912</b>	<b>1.33</b>

Note: (1) Projection as of September 30, 2010

Long Island Power Authority and Subsidiaries  
Approved Operating Budget-2011  
Approved Capital Budgets-2011 and 2012  
Five Year Financial Projections-2011-15

### **Interest Expense**

Interest expense is budgeted at \$345.9 million, an increase of \$4.5 million, or 1.3% as compared with the level budgeted for 2010. The budgeted expense for 2011 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 planned for late 2010 range from 5% for fixed rate tax-exempt debt and a net of 4.2% (after a federal subsidy contained in Grant Income-see page A-10) for taxable fixed rate Build America Bonds. Variable rate debt is budgeted at 1.5%. Interest expense to be incurred on debt securities is detailed by issue on page A-12. (Please note that page 12 reflects interest expense related to debt securities. It does not include interest expense incurred on non-debt related liabilities such as customer deposits and overpayments and payment reconciliations with National Grid.)

The budgeted expense level for 2011 reflects the new money financing that is expected to take place late in 2010. The average level of debt outstanding for 2011 is forecasted at \$6.9 billion. The effective interest rate is 5.0%. This debt level and interest rate compare with the budgeted debt level of \$6.8 billion and an effective interest rate of 5.1% budgeted for 2010.

**Cost of Debt - 2011**

Series	Type	Maturity	2011			
			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	\$ -	\$ 74,980	5.012%	\$ 3,758
1998 A	Capital Appreciation Bonds (2)	2009-2028	143,060	139,717	5.173%	7,227
1998 B	Serial Bonds	2009-2016	-	936	4.593%	43
2000 A	Capital Appreciation Bonds (4)	2009-2028	419,676	416,691	5.387%	22,448
2001A	Serial Bonds	2013-2021	745	745	4.698%	35
2001 A	Term Bonds (3)	2025-2029	164,430	164,430	5.373%	8,835
2003 B	Serial Bonds	2009-2014	237,465	245,998	4.620%	11,365
2003 C	Serial Bonds (3)	2013-2033	70,480	70,480	5.011%	3,532
2003 C	Term Bonds (3)	2033	185,520	185,520	5.259%	9,756
2003 D-O	Variable Rate Debt (5), (7)	2029	375,225	375,225	4.525%	16,978
2004A	Serial Bonds (3)	2013-2025	33,900	33,900	4.271%	1,448
2004A	Term Bonds	2029-2034	166,100	166,100	5.084%	8,444
2006A	Serial Bonds (3)	2009-2026	839,245	839,245	4.609%	38,682
2006B	Serial Bonds	2035	4,240	4,240	4.505%	191
2006B	Term Bonds	2035	92,715	92,715	4.884%	4,528
2006C	Term Bonds (3)	2035	198,020	198,020	5.189%	10,276
2006D	Serial Bonds	2009-2025	214,855	215,315	4.454%	9,590
2006D	Serial Bonds - Variable Rate	2015	110,715	110,715	4.110%	4,550
2006E	Serial Bonds (3)	2009-2022	507,600	507,600	4.452%	22,600
2006F	Serial Bonds (3)	2009-2028	320,590	347,698	4.248%	14,771
2006F	Term Bonds	2033	112,580	112,580	4.250%	4,785
2008 A	Term Bonds	2034	605,055	605,055	5.932%	35,889
2008 B	Serial Bonds	2019-2025	96,540	96,540	5.771%	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	6.249%	4,529
2010 A	Serial Bonds	2014-2015	193,325	193,325	2.456%	4,749
2010 B	BABs - Serial Bonds	2020-2041	210,000	210,000	5.611%	11,784
2010 C	BABs - Serial Bonds		250,000	250,000	6.500%	16,250
Total Senior Lien Debt			\$ 6,040,706	\$ 6,146,395	4.952%	\$ 304,373
<b>Subordinate Debt</b>						
Series 8	Mandatory Purchase	2011	\$ -	\$ 6,620	3.761%	\$ 249
Series 2001 1A-3B	Variable Rate (5), (7)	2033	\$ 525,000	\$ 525,000	4.342%	22,798
Commercial Paper	Variable Rate (5)	Various	\$ 200,000	\$ 200,000	1.500%	3,000
Total Subordinated Debt			\$ 725,000	\$ 731,620	3.560%	\$ 26,047
<b>Total Debt Securities</b>			<b>\$ 6,765,706</b>	<b>\$ 6,878,015</b>	<b>4.804%</b>	<b>\$ 330,420</b>
<b>Other Debt-Related Interest Expense (6)</b>						<b>23,662</b>
<b>Rebates Associated with Build America Bonds (8)</b>						<b>(9,809)</b>
<b>Total Average Debt Outstanding/Embedded Cost of Debt</b>			<b>\$ 6,765,706</b>	<b>\$ 6,878,015</b>	<b>5.005%</b>	<b>\$ 344,273</b>

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 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 rates of 1.50% for 2010 and 2.50% for 2011.
- (6) Excludes interest on customer deposits and other carrying charges.
- (7) Includes a Fixed Rate Swap Arrangement.
- (8) Includes a 35% cash subsidy payment from the US Treasury under the American Recovery & Reinvestment act of 2009

**Capital Expenditures**  
(Thousands of Dollars)

	<b>Actual 2009</b>	<b>2010</b>		<b>Approved 2011</b>	<b>% Chg. From Approved 2010</b>	<b>Approved 2012</b>	<b>% Chg. From Approved 2011</b>
		<b>Approved</b>	<b>Projected <sup>(1)</sup></b>				
<b>Transmission Projects</b>							
Transmission Interconnections-New Power Plants (Major Capital)	\$ 1,712	\$ -	\$ 582	\$ -	-	\$ -	-
Transmission Interconnections-Solar Projects (Major Capital)	-	4,200	1,361	600	(85.71)	-	(100.00)
Transmission Interconnections-Neptune Cable (Major Capital)	441	-	(19)	-	-	-	-
Transmission Interconnections-NUSCO Cable (Major Capital)	48	-	-	-	-	-	-
Transmission Line-Southampton to Bridgehampton (Major Capital)	1,062	-	-	-	-	-	-
Nassau Substations and Lines (Major Capital)	13,751	26,045	21,666	27,469	5.47	23,796	(13.37)
Western Suffolk Substations and Lines (Major Capital)	9,514	7,267	1,956	23,501	223.39	26,900	14.46
Eastern Suffolk Substation and Lines (Major Capital)	40,123	16,555	14,176	9,017	(45.53)	24,012	166.30
Other Transmission (Routine Capital)	7,761	12,142	12,137	8,231	(32.21)	12,760	55.02
<b>Total Transmission Projects</b>	<b>74,412</b>	<b>66,209</b>	<b>51,859</b>	<b>68,818</b>	<b>3.94</b>	<b>87,468</b>	<b>27.10</b>
<b>Distribution Projects</b>							
Substations (Major Capital)	9,680	11,100	11,994	11,098	(0.02)	7,802	(29.70)
Substations (Routine Capital)	6,123	6,139	7,625	6,918	12.69	5,065	(26.79)
Electric Lines-New Customer Load (Routine Capital)	20,340	25,110	19,948	20,050	(20.15)	20,072	0.11
Electric Lines-Other (Routine Capital)	75,712	77,532	80,778	70,060	(9.64)	58,974	(15.82)
Storm Hardening Initiative (Routine Capital)	11,174	6,650	6,660	7,500	12.78	9,250	23.33
Purchase and Install Meters/Transformers (Routine Capital)	30,530	30,414	31,710	33,710	10.84	31,892	(5.39)
Public Works	6,945	6,000	11,504	7,450	24.17	7,599	2.00
Other Distribution (Routine Capital)	1,460	6,902	740	1,067	(84.54)	686	(35.71)
<b>Total Distribution Projects</b>	<b>161,964</b>	<b>169,847</b>	<b>170,959</b>	<b>157,853</b>	<b>(7.06)</b>	<b>141,340</b>	<b>(10.46)</b>
<b>Information Technology Projects</b>	-	-	5,901	13,530	N/M	9,679	(28.46)
<b>Project Funding for Emerging Work and Land Acquisitions</b>	<b>604</b>	<b>2,837</b>	<b>1,000</b>	<b>11,100</b>	<b>291.26</b>	<b>29,754</b>	<b>168.05</b>
<b>Total Transmission and Distribution Projects</b>	<b>236,980</b>	<b>238,893</b>	<b>229,719</b>	<b>251,301</b>	<b>5.19</b>	<b>268,241</b>	<b>6.74</b>
<b>Cost-Sharing and Other Contributions</b>	<b>(7,283)</b>	<b>(23,190)</b>	<b>(16,361)</b>	<b>(9,200)</b>	<b>(60.33)</b>	<b>(6,000)</b>	<b>(34.78)</b>
<b>Capitalized Interest and Allocations</b>	<b>18,462</b>	<b>17,400</b>	<b>17,358</b>	<b>19,565</b>	<b>12.44</b>	<b>18,794</b>	<b>(3.94)</b>
<b>Caithness Generating Plant-Gas Transportation/Supply Facilities</b>	<b>6,273</b>	-	-	-	-	-	-
<b>Nine Mile Point Two Plant Additions/Replacements/Capitalized Nuclear Fuel</b>	<b>25,110</b>	<b>31,030</b>	<b>35,346</b>	<b>43,321</b>	<b>39.61</b>	<b>15,418</b>	<b>(64.41)</b>
<b>LIPA Information Systems, Equipment and Other Capitalized Expenditures</b>	<b>673</b>	<b>12,917</b>	<b>8,328</b>	<b>9,182</b>	<b>(28.92)</b>	<b>4,131</b>	<b>(55.01)</b>
<b>Total Capital Expenditures</b>	<b>\$ 280,215</b>	<b>\$ 277,050</b>	<b>\$ 274,390</b>	<b>314,169</b>	<b>13.40</b>	<b>\$ 300,584</b>	<b>(4.32)</b>

Note: (1) Projection as of September 30, 2010

## Statements of Revenues and Expenses

(Thousands of Dollars)

	Approved Budget <u>2011</u>	Projected			
		<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Revenues</b>	<b>\$ 3,659,623</b>	<b>\$ 3,770,270</b>	<b>\$ 3,786,948</b>	<b>\$ 3,983,693</b>	<b>\$ 4,371,887</b>
<b>Expenses</b>					
Fuel and Purchased Power Costs	1,713,947	1,736,609	1,727,916	1,908,618	2,230,549
Operations and Maintenance Expenses	979,735	1,047,648	1,054,716	1,047,107	1,084,530
Salaries and Benefits Expense	19,514	20,240	20,948	21,891	22,876
Professional Services and General Expenses	26,790	24,543	25,402	26,545	27,740
Depreciation and Amortization	269,608	277,878	287,938	297,894	307,663
Revenue Taxes	58,946	62,575	64,316	66,504	71,416
Payments in Lieu of Taxes (PILOTS)	222,020	234,548	247,912	262,068	277,063
<b>Total Operating Expenses</b>	<b>3,290,560</b>	<b>3,404,041</b>	<b>3,429,147</b>	<b>3,630,626</b>	<b>4,021,836</b>
<b>Operating Income</b>	<b>369,063</b>	<b>366,229</b>	<b>357,801</b>	<b>353,067</b>	<b>350,051</b>
Other Income and Deductions	34,488	39,342	43,780	45,444	44,602
Grant Income	17,361	10,966	9,809	9,809	9,809
Interest Expense	345,912	341,537	336,391	333,321	329,463
<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>Debt Service Coverage Ratios (x):</b>					
Senior Lien Debt	2.21	2.40	2.92	2.43	2.41
Senior Lien and Subordinated Debt	2.01	2.28	2.73	2.30	2.28
Total Debt	1.98	2.25	2.69	2.27	2.25

Long Island Power Authority and Subsidiaries  
Five Year Financial Forecast

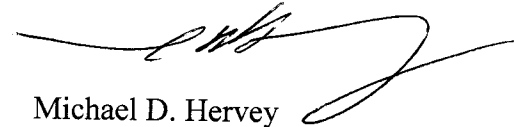
**Statements of Sources and Uses of Funds**

(Thousands of Dollars)

	Approved	Projected			
	Budget 2011	2012	2013	2014	2015
<b>FUNDS PROVIDED FROM :</b>					
<b>Excess Of Revenues Over Expenses</b>	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
<b>Plus (Minus) Non-Cash Items:</b>					
Accrual/(Amortization) of Excess Fuel Cost Recovery	(141,699)	-	-	-	-
Utilization of Settlement Benefits	(39,476)	-	-	-	-
Amortization of Deferred Shoreham Property Tax Settlement Credits	38,930	39,918	40,692	41,578	42,462
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	0	0
NMP2 Amortized Nuclear Fuel Expense	11,056	12,083	13,278	13,068	14,077
Amortization of Prepaid NMP2 Refueling Outage Costs	3,797	3,437	3,317	3,419	3,453
Amortization of Prepaid Fuel Hedging Program Costs	13,416	16,986	18,000	18,000	18,000
Asset Retirement Obligation Accretion - FASB 143	3,943	4,169	4,408	4,661	4,928
Accrual for Other Post Employment Benefits	2,673	3,050	3,203	3,363	3,531
PSA Plant and Property Tax True-Ups-Accruals	(387)	152	4,530	3,054	3,317
Depreciation and Amortization	269,608	277,878	287,938	297,894	307,663
Promissory Note Receipts from National Grid	8,075	8,075	8,075	8,075	8,075
Other	29,572	34,335	34,432	29,311	26,349
Debt Service Interest Expense	345,911	341,537	336,391	333,320	329,463
Proceeds of Bonds and Notes	-	150,000	35,000	110,000	155,000
<b>Total Sources of Funds before Interest Expense</b>	<b>\$660,179</b>	<b>\$1,006,380</b>	<b>\$904,023</b>	<b>\$944,002</b>	<b>\$994,577</b>
<b>FUNDS USED FOR :</b>					
Prepaid Fuel Hedging Program Costs	12,086	14,312	18,000	18,000	18,000
Prepaid NMP2 Refueling Outage Costs	180	6,454	180	6,726	270
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	30,254	29,525	28,816	27,968	27,021
Funding for NMP2 Plant Decommissioning	350	350	350	350	350
Amortization of Rent Credit	105	158	158	158	158
Bank and Related Fees	8,028	9,640	9,640	9,640	9,640
Interest on Customer Deposits and Overpayments	806	806	806	806	806
Debt Service Payments	562,841	595,540	495,318	594,111	598,505
Capital Expenditures	284,386	300,305	305,508	278,227	294,528
Capitalized MSA Management Fees	10,000	10,000	10,000	10,000	10,000
Acquisition of Materials & Supplies Inventory	7,667	0	0	0	0
PSA Plant and Property Tax True-Ups-Payments	588	588	588	588	588
NMP2 Cash Fuel Expense Capital Expenditures	29,783	280	31,920	239	33,826
Change in cash position due to Operating, Financing and Investing Activities	(286,895)	38,423	2,738	(2,810)	885
<b>Total Uses of Funds</b>	<b>\$660,179</b>	<b>\$1,006,380</b>	<b>\$904,023</b>	<b>\$944,002</b>	<b>\$994,577</b>

Certification

I hereby certify that, to the best of my knowledge and belief after reasonable inquiry, the budget information and financial projections contained herein for the years ending December 31, 2011 through December 31, 2015 have been developed based on reasonable assumptions and methods of estimation and that the requirements of 2 NYCRR Part 203 have been satisfied.



Michael D. Hervey  
Chief Operating Officer  
Long Island Power Authority

Dated: December 16, 2010