

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF THE CONSOLIDATED RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED
MARCH 31, 2008**

Consolidated Results of Operations

The accompanying consolidated financial information reflects the operating results of the Authority and LIPA for the three months ended March 31, 2008 and 2007.

Change in Net Assets

The Authority generated expenses over revenues of approximately \$49 million for the three months ended March 31, 2008 compared with approximately \$24 million for the three months ended March 31, 2007.

Revenue

Revenue for the three months ended March 31, 2008 increased approximately \$10 million when compared to the similar period of 2007. This increase is primarily attributable to higher recoveries of power supply costs (discussed below).

Fuel and Purchased Power Costs

LIPA's tariff includes a fuel recovery provision—the Fuel and Purchased Power Cost Adjustment ("FPPCA") that provides for the recovery of fuel and purchased power costs in the period incurred in amounts sufficient to allow the Authority to earn a financial target of \$75 million with a variance of \$50 million above or below such amount in each year. Should fuel and purchased power prices change such that LIPA would exceed or fail to meet its financial target, the FPPCA would be reduced or increased accordingly. In no event, however, can LIPA recover an amount that exceeds its fuel and purchased power costs incurred.

For 2008, the Authority increased its FPPCA by \$79 million annually in order to collect an amount of incurred fuel costs sufficient to meet its financial target.

Before the effects of the accounting adjustments required by the FPPCA tariff, fuel and purchased power costs for the three months ended March 31, 2008, increased approximately \$31 million. Approximately \$34 million is attributable to higher commodity costs offset by approximately \$3 million as a result of lower sales. In addition, fuel and purchased power costs increased approximately \$6 million as a result of the net change in the regulatory liability related to fuel cost recovery mechanisms.

Operations and Maintenance

LIPA experienced higher PSA costs totaling approximately \$3 million due primarily to higher estimated capacity costs and the recognition of costs associated with certain electric service employee benefits. This increase was offset by lower clean energy costs and lower costs associated with a bulkhead repair performed and accrued in 2007 and billed in 2008.

PILOTs

PILOTs increased approximately \$2 million due to higher Nassau and Suffolk County school and town taxes.

Other Income, Net

Other income increased approximately \$7 million. This is due primarily to the termination of two offsetting interest rate swaps on Series 2001L Bonds which were refunded in 2006. In 2003, LIPA had received an upfront premium totaling approximately \$8 million on one of those swaps. As a result of the termination of that swap and the elimination of any future obligation by LIPA, LIPA recognized the full benefits of the remaining unamortized premium totaling approximately \$7 million.

In addition, LIPA also experienced lower investment earnings totaling approximately \$1 million which was offset by higher sales of emissions allowance credits of approximately \$1 million.

Interest Charges

Total interest charges decreased approximately \$2 million due to lower debt outstanding in 2008 compared to 2007 and higher allowance for funds used during construction.

Extraordinary loss on early extinguishment of debt

In March 2008, the Authority redeemed \$200 million of its insured variable rate Electric System General Revenue Bonds to lower the risks associated with their marketability. The Authority used cash on hand to redeem these securities. The Authority had deferred charges totaling approximately \$4 million associated with these bonds that were written-off as a result of this redemption.

**Consolidated Statement of Revenues, Expenses and
Changes in Net Assets
(Thousands of Dollars)**

	Three Months Ended March 31,	
	2008 (unaudited)	2007 (unaudited)
Operating revenues - electric sales	\$ 788,836	\$ 778,656
Operating expenses:		
Operations - fuel and purchased power		
Fuel and purchased power costs	479,186	465,656
Recovery of 2003 Excess Fuel Costs	8,311	8,481
Refund of Prior Year Excess Recovery of Fuel Costs	(19,417)	(43,202)
	<u>468,080</u>	<u>430,935</u>
Operations and maintenance	184,172	184,011
General and administrative	8,951	9,122
Depreciation and amortization	61,322	61,180
Payments in lieu of taxes	58,692	55,825
	<u>781,217</u>	<u>741,073</u>
Operating Income	<u>7,619</u>	<u>37,583</u>
Nonoperating revenues and expenses:		
Other income, net		
Investment income	9,178	10,076
Carrying charges on regulatory asset	8,046	8,122
Other	8,682	1,140
Total other income, net	<u>25,906</u>	<u>19,338</u>
Change in net assets before interest charges and (credits)	<u>33,525</u>	<u>56,921</u>
Interest charges and (credits):		
Interest on long-term debt, net	77,262	78,712
Other interest	3,349	3,385
Allowance for borrowed funds used during construction	(1,752)	(818)
Total interest charges	<u>78,859</u>	<u>81,279</u>
Change in net assets before extraordinary loss	(45,334)	(24,358)
Extraordinary loss on early extinguishment of debt	<u>(3,840)</u>	<u>-</u>
Change in net assets	(49,174)	(24,358)
Net assets		
Total net assets, beginning of year	<u>262,836</u>	<u>169,790</u>
Total net assets, end of period	<u>\$ 213,662</u>	<u>\$ 145,432</u>

Consolidated Balance Sheet
(Thousands of Dollars)

	March 31, 2008 (unaudited)	December 31, 2007 (audited)
Current assets:		
Cash and cash equivalents	\$ 456,540	\$ 526,531
Investments	272,170	287,881
Accounts receivable (less allowance for doubtful accounts of \$19,485)	230,120	272,666
Other accounts receivable	79,533	101,146
Fuel inventory	161,150	143,206
Fuel derivatives	354,123	155,153
Material and supplies inventory	6,760	6,720
Interest receivable	613	690
Prepayments and other current assets	34,800	16,532
Total current assets	1,595,809	1,510,525
Noncurrent assets:		
Utility plant and property and equipment, net	5,320,116	5,320,740
Promissory Notes Receivable-KeySpan Energy	155,425	155,425
Nonutility Property and Other Investments	70,986	70,979
Other long - term receivables	98,229	90,953
Deferred loss - financial derivatives	137,408	71,599
Deferred Charges	79,890	82,208
Regulatory Assets		
Shoreham settlement	562,209	562,212
Fuel and purchased power costs	210,344	218,655
Acquisition Adjustment (net of accumulated amortization of \$1,269,105 and \$1,240,934, respectively)	2,826,407	2,854,578
Total noncurrent assets	9,461,014	9,427,349
Total assets	\$ 11,056,823	\$ 10,937,874
Current liabilities:		
Short-term debt	\$ 100,000	\$ 100,000
Current maturities of long-term debt	226,570	426,570
Current portion of capital lease obligation	202,976	202,336
Accounts payable and accrued expenses	468,909	518,687
Regulatory liability-fuel and purchased power costs	447,976	269,476
Accrued payments in lieu of taxes	23,720	38,237
Accrued interest	64,931	43,330
Counterparty collateral	193,330	2,900
Customer deposits	27,148	26,977
Total current liabilities	1,755,560	1,628,513
Noncurrent liabilities:		
Long-term debt	6,409,371	6,402,713
Capital lease obligation	1,995,760	2,018,661
Asset retirement obligation	92,019	91,541
Deferred credits	299,815	298,857
Deferred credits - derivatives	252,927	195,500
Claims, damages and storm reserves	37,709	39,253
Total noncurrent liabilities	9,087,601	9,046,525
Net assets		
Invested in capital assets net of related debt	(2,789)	(190,510)
Unrestricted	216,451	453,346
Total net assets	213,662	262,836
Total liabilities and net assets	\$ 11,056,823	\$ 10,937,874

**Statement of Cash Flows
(Thousands of Dollars)**

	Three Months Ended March 31,	
	2008 (unaudited)	2007 (unaudited)
Cash flows from operating activities:		
Received from customers for the system sales, net of refunds	\$ 838,170	\$ 830,584
Other operating revenues received	9,251	11,668
Paid to suppliers and employees		
Operations and maintenance	(242,981)	(204,133)
Fuel and purchased power	(485,371)	(391,642)
Payments in lieu of taxes	(95,608)	(95,308)
Margin calls on fuel derivative transactions, net	190,430	-
Net cash provided by operating activities	<u>213,891</u>	<u>151,169</u>
Investing activities:		
Net sales (purchases) of investment securities	15,711	(9,226)
Earnings received on investments	8,240	9,302
Other	1,700	733
Net cash provided by investing activities	<u>25,651</u>	<u>809</u>
Cash flows from capital and related financing activities:		
Capital and nuclear fuel expenditures	(54,330)	(68,820)
Bond issuance costs	-	(430)
Interest paid, net	(55,203)	(50,178)
Redemption of long-term debt	(200,000)	-
Net cash used in by capital and related financing activities	<u>(309,533)</u>	<u>(119,428)</u>
Net (decrease) increase in cash and cash equivalents	(69,991)	32,550
Cash and cash equivalents at beginning of period	526,531	501,244
Cash and cash equivalents at end of period	<u>\$ 456,540</u>	<u>\$ 533,794</u>
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 7,619	\$ 37,583
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	61,322	61,180
Nuclear fuel burned	1,293	1,310
Shoreham surcharge recovery (credits)	8,049	7,892
Provision for claims and damages	6,458	6,513
Accretion of asset retirement obligation	478	1,271
Other	(5,182)	782
Changes in operating assets and liabilities:		
Accounts receivable, net	56,883	43,304
Fuel and Material & supplies inventory	(17,984)	34,796
Fuel and purchased power costs, net	(12,158)	(26,122)
Counterparty collateral	190,430	-
Accounts payable and accrued expenses and other	(83,317)	(17,340)
Net cash provided by operating activities	<u>\$ 213,891</u>	<u>\$ 151,169</u>