

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF THE CONSOLIDATED RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED
MARCH 31, 2009**

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, 2009 and 2008.

Change in Net Assets

The Authority generated expenses over revenues of approximately \$54 million for the three months ended March 31, 2009 compared with approximately \$49 million for the three months ended March 31, 2008.

Revenue

Revenue for the three months ended March 31, 2009 increased approximately \$45 million when compared to the similar period of 2008. This increase is attributable to higher net recoveries of power supply costs (discussed below) totaling \$50 million offset by the sales mix and lower average customer usage totaling approximately \$5 million.

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.

Effective January 1, 2009, the Authority increased its FPPCA by \$129 million annually.

Fuel and purchased power costs prior to the effects of the regulatory accounting for the three months ended March 31, 2009, decreased \$58 million as compared to the same period in 2008. LIPA experienced net lower commodity costs totaling \$55 million and lower sales volumes totaling \$3 million. However, those decreases were offset by the impacts of regulatory accounting totaling \$57 million.

Operations and Maintenance

Operations and maintenance ("O&M") expense increased \$29 million primarily due to higher Power Supply Agreement (PSA) billings totaling \$17 million in accordance with the Federal Energy Regulatory Commission (FERC) PSA reset proceeding (billings are subject to refund based upon the outcome of those proceedings), higher MSA costs totaling \$5 million, higher storm restoration accruals totaling \$2 million, higher charge-offs of bad debt accounts totaling \$2 million, higher NYS assessment charges totaling \$1 million, higher clean energy costs totaling \$1 million and various other items totaling \$1 million.

Depreciation and Amortization

Depreciation and amortization increased \$1 million due to higher utility plant balances in 2009 compared to 2008.

PILOTS

PILOTS increased approximately \$1 million due to increased town and school taxes.

Other Income, Net

Other income decreased \$16 million. LIPA experienced lower investment earnings totaling approximately \$8 million as a result of lower average cash balances and lower interest rates. Sales of emissions allowance credits decreased by approximately \$1 million when compared to the same period in 2008. In addition in 2008, LIPA recognized approximately \$7 million of non-recurring income related to an interest rate swap that was terminated.

Interest Charges

Total interest charges increased approximately \$6 million due to higher interest rates on fixed rate debt which refunded variable rate securities and higher debt balances outstanding.

Other Significant Events

In January 2009, the Authority issued approximately \$436 million of its Electric System General Revenue Bonds, Series 2009A. The proceeds of these fixed rate bonds, net of discount and cost of issuance, were used to finance the Authority's on-going capital program and the remainder was used to redeem approximately \$231 million of the Authority's outstanding insured variable rate securities in a current refunding. This refunding produced an approximate \$45 million net present value savings. The 2009A bonds have an average life of 20 years and an all-in cost of 5.50%.

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

	Three Months Ended March 31,	
	2009 (unaudited)	2008 (unaudited)
Operating revenues - electric sales	\$ 833,734	\$ 788,836
Operating expenses:		
Operations - fuel and purchased power		
Fuel and purchased power costs	407,337	479,186
Recovery of 2003 Excess Fuel Costs	8,307	8,311
Refund of Prior Year Excess Recovery of Fuel Costs	-	(19,417)
Deferral of Current Year Excess Recovery of Fuel Costs	51,993	-
Total Operations- fuel and purchased power	<u>467,637</u>	<u>468,080</u>
Operations and maintenance	212,813	184,172
General and administrative	9,602	8,951
Depreciation and amortization	62,661	61,322
Payments in lieu of taxes - revenue based	13,186	13,239
Payments in lieu of taxes - property based	46,957	45,453
Total Operating Expenses	<u>812,856</u>	<u>781,217</u>
Operating Income	<u>20,878</u>	<u>7,619</u>
Nonoperating revenues and expenses:		
Other income, net		
Investment income	1,600	9,178
Carrying charges on regulatory asset	7,948	8,046
Other	777	8,682
Total other income, net	<u>10,325</u>	<u>25,906</u>
Change in net assets before interest charges and (credits)	<u>31,203</u>	<u>33,525</u>
Interest charges and (credits):		
Interest on long-term debt, net	84,800	77,262
Other interest	2,820	3,349
Allowance for borrowed funds used during construction	(2,799)	(1,752)
Total interest charges	<u>84,821</u>	<u>78,859</u>
Change in net assets before extraordinary loss	(53,618)	(45,334)
Extraordinary loss on early extinguishment of debt	<u>-</u>	<u>(3,840)</u>
Change in net assets	(53,618)	(49,174)
Net assets		
Total net assets, beginning of year	<u>289,178</u>	<u>262,836</u>
Total net assets, end of period	<u>\$ 235,560</u>	<u>\$ 213,662</u>

**Consolidated Balance Sheet
(Thousands of Dollars)**

	March 31, 2009 (unaudited)	December 31, 2008 (audited)
Current assets:		
Cash and cash equivalents	\$ 453,117	\$ 225,158
Investments	8,402	32,562
Counterparty collateral - posted by the Authority	238,070	229,285
Accounts receivable (less allowance for doubtful accounts of \$19,485)	248,656	275,755
Other accounts receivable	37,407	49,503
Fuel inventory	141,032	131,286
Material and supplies inventory	7,592	7,282
Interest receivable	151	275
Prepayments and other current assets	32,405	31,883
Total current assets	<u>1,166,832</u>	<u>982,989</u>
Noncurrent assets:		
Utility plant and property and equipment, net	5,721,325	5,725,010
Promissory Notes Receivable-KeySpan Energy	155,425	155,425
Nonutility Property and Other Investments	69,333	71,753
Other long - term receivables	80,792	80,276
Deferred loss - financial derivatives	347,056	386,462
Deferred Charges	114,216	117,622
Regulatory Assets		
Shoreham settlement	556,768	557,470
Fuel and purchased power costs	559,417	539,760
Acquisition Adjustment (net of accumulated amortization of \$1,381,785 and \$1,353,615, respectively)	2,713,727	2,741,897
Total noncurrent assets	<u>10,318,059</u>	<u>10,375,675</u>
Total assets	<u>\$ 11,484,891</u>	<u>\$ 11,358,664</u>
Current liabilities:		
Short-term debt	\$ 200,000	\$ 200,000
Current maturities of long-term debt	241,370	241,370
Current portion of capital lease obligation	104,173	102,844
Accounts payable and accrued expenses	328,090	366,897
Regulatory liability-fuel and purchased power costs	54,544	2,483
Accrued payments in lieu of taxes	19,527	37,708
Accrued interest	84,316	52,138
Customer deposits	28,035	28,049
Total current liabilities	<u>1,060,055</u>	<u>1,031,489</u>
Noncurrent liabilities:		
Long-term debt	6,612,162	6,394,364
Capital lease obligation	2,342,617	2,369,168
Asset retirement obligation	90,966	92,558
Deferred credits	274,422	299,072
Deferred credits - derivatives	841,928	854,805
Claims, damages and storm reserves	27,181	28,030
Total noncurrent liabilities	<u>10,189,276</u>	<u>10,037,997</u>
Net assets:		
Invested in capital assets net of related debt	(65,876)	(56,269)
Restricted	238,070	229,285
Unrestricted	63,366	116,162
Total net assets	<u>235,560</u>	<u>289,178</u>
Total liabilities and net assets	<u>\$ 11,484,891</u>	<u>\$ 11,358,664</u>

Statement of Cash Flows
(Thousands of Dollars)

	Three Months Ended March 31,	
	2009 (unaudited)	2008 (unaudited)
Cash flows from operating activities:		
Received from customers for the system sales, net of refunds	\$ 864,120	\$ 838,170
Other operating revenues received	17,086	9,251
Paid to suppliers and employees		
Operations and maintenance	(238,087)	(242,981)
Fuel and purchased power	(428,837)	(485,371)
Payments in lieu of taxes	(102,150)	(95,608)
Margin calls on fuel derivative transactions, net	(8,785)	190,430
Net cash provided by operating activities	<u>103,347</u>	<u>213,891</u>
Investing activities:		
Redemption and sales of investment securities	24,200	224,962
Purchase of investment securities	-	(205,866)
Earnings received on investments	1,530	4,857
Other	(82)	1,700
Net cash provided by investing activities	<u>25,648</u>	<u>25,653</u>
Cash flows from capital and related financing activities:		
Capital and nuclear fuel expenditures	(64,927)	(54,330)
Proceeds from KeySpan/National Grid promissory note	3,253	-
Proceeds from the issuance of bonds, net of discount	445,045	-
Bond issuance costs	(3,145)	-
Interest paid, net	(50,162)	(55,203)
Redemption of long-term debt	(231,100)	(200,000)
Net cash provided by (used in) capital and related financing activities	<u>98,964</u>	<u>(309,533)</u>
Net increase (decrease) in cash and cash equivalents	227,959	(69,989)
Cash and cash equivalents at beginning of period	225,158	526,531
Cash and cash equivalents at end of period	<u>\$ 453,117</u>	<u>\$ 456,542</u>
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 20,878	\$ 7,619
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	62,661	61,322
Nuclear fuel burned	1,645	1,293
Shoreham surcharge recovery (credits)	8,650	8,049
Provision for claims and damages	7,944	8,611
Accretion of asset retirement obligation	1,323	478
Amortization of settlement benefits to ratepayers	(22,928)	(8,521)
Other, net	(1,277)	3,339
Changes in operating assets and liabilities:		
Accounts receivable, net	32,503	56,883
Fuel and Material & supplies inventory	(10,056)	(17,984)
Fuel and purchased power costs, net	60,368	(12,158)
Counterparty collateral	(8,785)	190,430
Claims, damages and storm restoration	(8,793)	(8,880)
Accounts payable and accrued expenses and other	(40,786)	(76,590)
Net cash provided by operating activities	<u>\$ 103,347</u>	<u>\$ 213,891</u>