

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THREE MONTHS ENDED  
MARCH 31, 2010 VERSUS 2009**

**Change in Net Assets**

The Authority experienced decreased net assets of \$69 million for the three months ended March 31, 2010 compared with \$54 million for the three months ended March 31, 2009. The main components of the variance are as follows:

**Revenue**

Revenue increased approximately \$5 million as detailed in the table below:

<i>Revenue Variances:</i>	(In Millions)
Lower power supply cost recovery due to lower rate	\$ (16)
Lower power supply cost recovery due to lower sales (weather)	(6)
New York State Assessment factor/revenues	10
Energy efficiency cost recovery rate/revenues	17
<b>Total Variance</b>	<b>\$ 5</b>

The revenue reflects a reduction of \$46 million due to the over collection of power supply costs in excess of that incurred through March. At this time last year, LIPA deferred \$52 million as a regulatory liability.

**Fuel and Purchased Power Costs**

Fuel and purchased power costs decreased \$5 million. LIPA experienced lower net commodity costs totaling \$13 million and lower consumption due to sales volumes totaling \$4 million. This decrease was partially offset by lower amortization of the KeySpan settlement bill credits of \$12 million.

**Operations and Maintenance**

Operations and maintenance expense increased \$24 million primarily due to higher storm restoration costs totaling \$11 million (net of receivable from FEMA of \$26 million), higher NYS assessment charges totaling \$10 million (which is being collected in revenues at an equal rate), higher energy efficiency and renewable costs totaling \$9 million offset by the ELI regulatory deferral of \$2 million (ELI tariff). These increases were partially offset by lower power supply agreement true up accruals totaling \$4 million. A summary of these variances is as follows:

<i>Operation and Maintenance Variances</i>	(In Millions)
Storm restoration costs	\$ 11
New York State Assessment (equal amount collected in revenues)	10
Energy efficiency and renewable costs	9
<i>offset by deferral allowance for budget overage</i>	(2)
Lower PSA true up accruals	(4)
<b>Total Variance</b>	<b>\$ 24</b>

**Depreciation and Amortization**

Increased \$2 million due to higher utility plant balances.

***PILOTS - property based***

Increased approximately \$5 million due to increased town and school taxes.

***Interest Charges***

Interest charges decreased approximately \$6 million due primarily to lower interest rates on variable rate debt resulting in a \$4 million decrease and lower outstanding debt balances resulting in a \$2 million decrease.

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

	<b>March 31, 2010 (unaudited)</b>	<b>December 31, 2009 (audited)</b>	<b>Variance</b>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 314,783	\$ 371,264	\$ (56,481)
Investments	102,719	124,283	(21,564)
Counterparty collateral - posted by the Authority	104,245	46,340	57,905
Accounts receivable (less allowance for doubtful accounts of \$21,000)	242,468	246,670	(4,202)
Other accounts receivable	82,774	104,872	(22,098)
Fuel inventory	153,936	156,029	(2,093)
Material and supplies inventory	8,611	8,276	335
Interest receivable	10	28	(18)
Prepayments and other current assets	6,127	7,440	(1,313)
Total current assets	<u>1,015,673</u>	<u>1,065,202</u>	<u>(49,529)</u>
<b>Noncurrent assets:</b>			
Utility plant and property and equipment, net	6,457,398	6,459,718	(2,320)
Promissory Notes Receivable-KeySpan Energy	155,425	155,425	-
Nonutility Property and Other Investments	76,177	74,679	1,498
Other long - term receivables	73,626	72,657	969
Deferred loss - financial derivatives	149,889	125,910	23,979
Deferred Charges	122,102	124,187	(2,085)
<b>Regulatory Assets</b>			
Shoreham settlement	551,765	552,929	(1,164)
Fuel and purchased power costs	405,640	327,184	78,456
New York State assessment	46,131	37,040	9,091
Southampton visual benefit assessment	12,061	12,070	(9)
Efficiency Long Island Budget Variations	1,925	-	1,925
Acquisition Adjustment (net of accumulated amortization)	2,601,046	2,629,216	(28,170)
Total noncurrent assets	<u>10,653,185</u>	<u>10,571,015</u>	<u>82,170</u>
Total assets	<u>\$ 11,668,858</u>	<u>\$ 11,636,217</u>	<u>\$ 32,641</u>
<b>Current liabilities:</b>			
Short-term debt	\$ 200,000	\$ 200,000	\$ -
Current maturities of long-term debt	224,960	224,960	-
Current portion of capital lease obligation	129,854	127,953	1,901
Accounts payable and accrued expenses	349,891	362,384	(12,493)
Regulatory liability-fuel and purchased power costs	178,926	164,520	14,406
Accrued payments in lieu of taxes	14,161	14,091	(26,930)
Accrued interest	85,353	52,642	32,711
Customer deposits	27,891	28,103	(212)
Total current liabilities	<u>1,211,036</u>	<u>1,201,653</u>	<u>9,383</u>
<b>Noncurrent liabilities:</b>			
Long-term debt	6,414,354	6,407,436	\$ 6,918
Capital lease obligation	2,935,477	2,970,126	(34,649)
Asset retirement obligation	75,527	73,680	1,847
Deferred credits	187,720	203,637	(15,917)
Deferred credits - derivatives	520,482	411,115	109,367
Claims, damages and storm reserves	63,141	38,866	24,275
Total noncurrent liabilities	<u>10,196,701</u>	<u>10,104,860</u>	<u>91,841</u>
Invested in capital assets net of related debt	(40,818)	(171,412)	130,594
Restricted	104,245	46,340	57,905
Unrestricted	197,694	454,776	(257,082)
Total net assets	<u>261,121</u>	<u>329,704</u>	<u>(68,583)</u>
Total liabilities and net assets	<u>\$ 11,668,858</u>	<u>\$ 11,636,217</u>	<u>\$ 32,641</u>

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

	<b>Three Months Ended March 31,</b>		
	<b>2010 (unaudited)</b>	<b>2009*</b>	<b>Variance</b>
<b>Operating revenues - electric sales</b>	\$ 786,952	\$ 781,741	\$ 5,211
<b>Operating expenses:</b>			
Operations - fuel and purchased power:			
Fuel and purchased power costs	413,257	430,265	(17,008)
Recovery of 2003 Excess Fuel Costs	8,319	8,307	12
Amortization of KeySpan 2006 settlement credits	(11,351)	(22,928)	11,577
Total Fuel and Purchased Power Expense	410,225	415,644	(5,419)
Operations and maintenance	236,455	212,813	23,642
General and administrative	9,227	9,602	(375)
Depreciation and amortization	64,941	62,661	2,280
Payments in lieu of taxes - revenue based	13,615	13,186	429
Payments in lieu of taxes - property based	51,774	46,957	4,817
Total Operating Expenses	786,237	760,863	25,374
<b>Operating Income</b>	715	20,878	(20,163)
<b>Other income and deductions, net</b>	9,523	10,325	(802)
<b>Interest charges and (credits)</b>	78,821	84,821	(6,000)
<b>Change in net assets</b>	(68,583)	(53,618)	(14,965)
<b>Net assets</b>			
Total net assets, beginning of year	329,704	289,178	40,526
Total net assets, end of period	\$ 261,121	\$ 235,560	\$ 25,561

*\*Reflects 2009 FPPCA deferral reclass of \$52 million to revenue.*

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Received from customers for system sales, net of refunds	\$ 825,722	864,120
Other operating revenues received	11,485	17,086
Paid to suppliers and employees:		
Operations and maintenance	(228,530)	(238,087)
Fuel and purchased power	(415,414)	(428,837)
Payments in lieu of taxes	(111,268)	(102,150)
Collateral on fuel derivative transactions, net	(57,905)	(8,785)
Net cash provided by operating activities	24,090	103,347
Investing activities:		
Sales of investment securities	100,824	24,200
Purchase of investment securities	(79,192)	—
Fair value adjustment - short term securities	6	—
Realized gains on short term securities	(73)	—
Earnings received on investments	195	1,530
Other	210	(82)
Net cash (used in) provided by investing activities	21,970	25,648
Cash flows from capital and related financing activities:		
Capital and nuclear fuel expenditures	(62,947)	(64,927)
Proceeds from promissory note	3,253	3,253
Proceeds from the issuance of bonds, net of discount/premium	—	445,045
Bond issuance costs	—	(3,145)
Interest paid, net	(42,847)	(50,162)
Redemption of long-term debt	—	(231,100)
Net cash used in capital and related financing activities	(102,541)	98,964
Net increase (decrease) in cash and cash equivalents	(56,481)	227,959
Cash and cash equivalents at beginning of period	371,264	225,158
Cash and cash equivalents at end of period	\$ 314,783	453,117
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 715	20,878
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	64,949	62,661
Nuclear fuel burned	1,579	1,645
Shoreham surcharges (credits), net	9,168	8,650
Provision for claims and damages	45,333	7,944

Accretion of asset retirement obligation	1,081	1,323
Amortization of settlement benefits to ratepayers	(11,351)	(22,928)
Other, net	(4,561)	(1,277)
Changes in operating assets and liabilities:		
	25,331	32,503
	(9,091)	—
	1,758	(10,056)
	22,725	60,368
	(57,905)	(8,785)
	(21,058)	(8,793)
	(44,583)	(40,786)
Net cash provided by operating activities	\$ <u>24,090</u>	<u>103,347</u>