

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED
JUNE 30, 2009**

Consolidated Results of Operations

The accompanying consolidated financial information reflects the operating results of the Authority and LIPA for the six months ended June 30, 2009 and 2008.

Change in Net Assets

The Authority experienced decreased net assets of \$84 million for the six months ended June 30, 2009 compared with \$89 million (before the effects of the extraordinary loss of approximately \$4 million) for the six months ended June 30, 2008.

Revenue

Revenue increased approximately \$34 million due to higher net recoveries of power supply costs (discussed below) totaling \$70 million offset by the negative effects of weather totaling \$14 million and lower average customer usage totaling approximately \$22 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. As a result of significantly lower-than-budgeted fuel and purchased power costs, effective May 1, 2009, the Authority reduced its FPPCA by approximately \$93 million for the remaining months in 2009.

Fuel and purchased power costs prior to the effects of the regulatory accounting decreased \$241 million. LIPA experienced net lower commodity costs totaling \$207 million and lower sales volumes totaling \$34 million. However, those decreases were offset by the impacts of regulatory accounting totaling \$164 million, which consists primarily of the liability related to the current year excess recovery of fuel and purchased power costs totaling \$148 million.

Operations and Maintenance

Operations and maintenance ("O&M") expense increased \$60 million primarily due to higher Power Supply Agreement (PSA) billings totaling \$36 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 assessment charges totaling \$10 million due to the recently-enacted Temporary State Energy and Utility Service Conservation Assessment, higher MSA costs totaling \$4 million, higher clean energy costs totaling \$3 million, higher storm restoration accruals totaling \$2 million, an increase in the allowance for doubtful accounts totaling \$2 million, higher charge-offs of bad debt accounts totaling \$1 million and other various items totaling \$2 million.

Depreciation and Amortization

Increased \$4 million due to higher utility plant balances in 2009 compared to 2008.

PILOTS

Increased approximately \$4 million due to increased town and school taxes.

Other Income, Net

Decreased \$25 million due primarily to lower investment earnings totaling \$14 million as a result of lower average cash balances and lower interest rates. Sales of emissions allowance credits decreased by \$2 million and miscellaneous income decreased \$2 million when compared to the same period in 2008. In addition in 2008, LIPA recognized \$7 million of non-recurring income related to an interest rate swap that was terminated.

Interest Charges

Increased approximately \$12 million due to higher interest rates on fixed rate debt which refunded variable rate securities and higher debt balances outstanding.

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

	Six Months Ended June 30,		
	2009	2008	Variance
	(unaudited)		
Operating revenues - electric sales	\$ 1,662,196	\$ 1,628,528	\$ 33,668
Operating expenses:			
Operations - fuel and purchased power:			
Fuel and purchased power costs	786,587	1,027,418	(240,831)
2009 Fuel revenue recoveries in excess of costs incurred	147,790	-	147,790
Recovery of 2003 Excess Fuel Costs	16,503	16,859	(356)
Refund of Prior Year Excess Recovery of Fuel Costs	-	(45,891)	45,891
Amortization of KeySpan 2006 settlement credits	(46,548)	(16,968)	(29,580)
Total Fuel and Purchased Power Expense	904,332	981,418	(77,086)
Operations and maintenance	426,821	366,335	60,486
General and administrative	18,705	18,554	151
Depreciation and amortization	126,523	123,023	3,500
Payments in lieu of taxes - revenue based	26,318	26,515	(197)
Payments in lieu of taxes - property based	93,890	89,742	4,148
Total Operating Expenses	1,596,589	1,605,587	(8,998)
Operating Income	65,607	22,941	42,666
Other income, net	18,612	43,389	(24,777)
Interest charges and (credits)	167,764	155,482	12,282
Change in net assets before extraordinary loss	(83,545)	(89,152)	5,607
Extraordinary loss on early extinguishment of debt	-	(3,840)	3,840
Change in net assets	(83,545)	(92,992)	9,447
Net assets			
Total net assets, beginning of year	289,178	262,836	26,342
Total net assets, end of period	\$ 205,633	\$ 169,844	\$ 35,789

Consolidated Balance Sheet
(Thousands of Dollars)

	June 30, 2009 (unaudited)	December 31, 2008 (audited)
Current assets:		
Cash and cash equivalents	\$ 405,867	\$ 225,158
Investments	5,016	32,562
Counterparty collateral - posted by the Authority	130,415	229,285
Accounts receivable (less allowance for doubtful accounts of \$21,501 and \$19,485, respectively)	235,889	275,755
Other accounts receivable	38,202	49,503
Fuel inventory	136,480	131,286
Material and supplies inventory	7,738	7,282
Interest receivable	134	275
Prepayments and other current assets	47,997	31,883
Total current assets	1,007,738	982,989
Noncurrent assets:		
Utility plant and property and equipment, net	5,742,913	5,725,010
Promissory Notes Receivable-KeySpan Energy	155,425	155,425
Nonutility Property and Other Investments	70,714	71,753
Other long - term receivables	82,125	80,276
Deferred loss - financial derivatives	196,573	386,462
Deferred Charges	122,636	117,622
Regulatory Assets		
Shoreham settlement	556,713	557,470
Fuel and purchased power costs	449,743	539,760
Acquisition Adjustment (net of accumulated amortization)	2,685,557	2,741,897
Total noncurrent assets	10,062,399	10,375,675
Total assets	\$ 11,070,137	\$ 11,358,664
Current liabilities:		
Short-term debt	\$ 200,000	\$ 200,000
Current maturities of long-term debt	201,400	241,370
Current portion of capital lease obligation	105,516	102,844
Accounts payable and accrued expenses	323,808	366,897
Regulatory liability-fuel and purchased power costs	149,986	2,483
Accrued payments in lieu of taxes	14,426	37,708
Accrued interest	53,533	52,138
Customer deposits	28,354	28,049
Total current liabilities	1,077,023	1,031,489
Noncurrent liabilities:		
Long-term debt	6,509,072	6,394,364
Capital lease obligation	2,315,658	2,369,168
Asset retirement obligation	93,950	92,558
Deferred credits	249,380	299,072
Deferred credits - derivatives	588,565	854,805
Claims, damages and storm reserves	30,856	28,030
Total noncurrent liabilities	9,787,481	10,037,997
Invested in capital assets net of related debt	21,249	(56,269)
Restricted	130,415	229,285
Unrestricted	53,969	116,162
Total net assets	205,633	289,178
Total liabilities and net assets	\$ 11,070,137	\$ 11,358,664

Statement of Cash Flows
(Thousands of Dollars)

	Six Months Ended June 30,	
	2009 (unaudited)	2008 (unaudited)
Cash flows from operating activities:		
Received from customers for the system sales, net of refunds	\$ 1,704,620	\$ 1,642,912
Other operating revenues received	35,273	16,103
Paid to suppliers and employees		
Operations and maintenance	(465,425)	(404,605)
Fuel and purchased power	(787,665)	(951,292)
Payments in lieu of taxes	(198,002)	(192,830)
Margin calls on fuel derivative transactions, net	98,870	926,375
Net cash provided by operating activities	387,671	1,036,663
Investing activities:		
Redemption and sales of investment securities	27,546	432,821
Purchase of investment securities	-	(487,173)
Earnings received on investments	2,034	14,178
Other	(148)	3,073
Net cash provided by (used in) investing activities	29,432	(37,101)
Cash flows from capital and related financing activities:		
Capital and nuclear fuel expenditures	(139,090)	(134,653)
Proceeds from KeySpan/National Grid promissory note	4,038	-
Proceeds from the issuance of bonds, net of discount	445,045	-
Bond issuance costs	(3,112)	(341)
Interest paid, net	(162,475)	(151,409)
Redemption of long-term debt	(380,800)	(338,755)
Net cash used in by capital and related financing activities	(236,394)	(625,158)
Net increase in cash and cash equivalents	180,709	374,404
Cash and cash equivalents at beginning of period	225,158	526,531
Cash and cash equivalents at end of period	\$ 405,867	\$ 900,935
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 65,607	\$ 22,941
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	126,523	123,023
Nuclear fuel burned	3,312	2,602
Shoreham surcharge recovery (credits)	17,348	15,798
Provision for claims and damages	15,890	13,917
Accretion of asset retirement obligation	2,646	2,758
Amortization of settlement benefits to ratepayers	(46,548)	(16,968)
Other	(237)	4,687
Changes in operating assets and liabilities:		
Accounts receivable, net	47,302	(21,254)
Fuel and Material & supplies inventory	(5,650)	(42,795)
Fuel and purchased power costs, net	164,006	(29,115)
Counterparty collateral	98,870	926,375
Accounts payable and accrued expenses and other	(101,398)	34,694
Net cash provided by operating activities	\$ 387,671	\$ 1,036,663