
AGREEMENT AND PLAN OF MERGER

by and among

BL HOLDING CORP.,
LONG ISLAND LIGHTING COMPANY,
LONG ISLAND POWER AUTHORITY
AND
LIPA ACQUISITION CORP.

Dated as of June 26, 1997

AGREEMENT AND PLAN OF MERGER (the "Agreement"), dated as of June 26, 1997, by and among BL HOLDING CORP., a corporation to be formed as a New York corporation as contemplated herein ("Parent"), LONG ISLAND LIGHTING COMPANY, a New York corporation ("Company"), LONG ISLAND POWER AUTHORITY, a corporate municipal instrumentality and political subdivision of the State of New York ("Authority"), and LIPA ACQUISITION CORP., a New York corporation ("LIPA Sub").

W I T N E S S E T H

WHEREAS, Authority is authorized under the Long Island Power Authority Act, Public Authorities Law Section 1020 et seq. (the "Act") to acquire all or any part of Company's securities or assets; and

WHEREAS, the Act confers upon Authority the power to condemn the securities and/or assets of Company, including the common stock of Company to be acquired in the proposed transaction, and Authority has previously publicly announced its intention to consider exercising its condemnation power to acquire the common stock or assets of Company if a negotiated transaction cannot be achieved; and

WHEREAS, The Brooklyn Union Gas Company, a New York corporation ("BU"), Company and Parent have entered into an Amended and Restated Agreement and Plan of Exchange and Merger, dated as of June 26, 1997 (the "Exchange Agreement"), which provides for the business combination of BU and Company as peer firms and the formation of Parent as a holding company to manage their combined businesses; and

WHEREAS, Authority, Company and BU have undertaken negotiations as to various methods of accomplishing the objectives set forth in the Act and in connection with such negotiations, the parties have reached definitive agreement as to the transactions described herein; and

WHEREAS, the Boards of Directors of Company and LIPA Sub and the Board of Trustees of Authority have each determined that it is advisable for Authority to cause LIPA Sub to merge with and into Company upon the terms and subject to the conditions set forth herein; and

WHEREAS, in furtherance of such combination, the Boards of Directors of Company and LIPA Sub and the Board of Trustees of Authority have each approved the merger (the "Merger") of LIPA Sub with and into Company, in accordance with the applicable provisions of the New York Business Corporation Law (the "NYBCL"), and upon the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants, agreements, and conditions contained herein, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I
THE MERGER; RELATED TRANSACTIONS

Section 1 The Merger. Upon the terms and subject to the conditions of this Agreement, at the Effective Time (as defined in Section 1.3), LIPA Sub shall be merged with and into Company (the "Merger") in accordance with the laws of the State of New York. Company shall be the surviving corporation in the Merger and shall continue its corporate existence under the laws of the State of New York. Company as the surviving corporation after the Merger is hereinafter sometimes referred to as the "Surviving Corporation."

Section 2 Effect of the Merger. At the Effective Time, (i) the certificate of incorporation of the Company, as in effect immediately prior to the Effective Time, shall be the certificate of incorporation of the Surviving

Corporation until thereafter amended as provided by law and in such certificate of incorporation and (ii) the by-laws of Company, as in effect immediately prior to the Effective Time, shall be the by-laws of the Surviving Corporation until thereafter amended as provided by law, in the certificate of incorporation of the Surviving Corporation and in such by-laws. Subject to the foregoing, the additional effects of the Merger shall be as provided in the applicable provisions of the NYBCL.

Section 3 Effective Time of the Merger. As promptly as practicable after the satisfaction or waiver of the conditions set forth in Article VIII and the consummation of the transactions contemplated by Section 1.4(d), the parties hereto shall cause the Merger to be consummated by filing a certificate of merger as contemplated by the NYBCL (the "Certificate of Merger"), together with any required related certificates, with the Secretary of State of the State of New York, in such form as required by, and executed in accordance with the relevant provisions of, the NYBCL (the time of such filing being the "Effective Time").

Section 4 Related Transactions. In addition to the Merger, the following transactions will be consummated at or prior to the Closing (as defined below):

(a) Formation of Subsidiaries. Parent and Company shall take all necessary action to form prior to the Closing such subsidiaries (which may be limited liability companies) of Parent (the "Transferee Subsidiaries") which, at the direction of Parent, will, as applicable, (i) enter into at the Closing a management services agreement in the form of Exhibit A attached hereto (the "Management Services Agreement"), a power supply agreement in the form of Exhibit B attached hereto (the "Power Supply Agreement"), an energy management agreement in the form of Exhibit C attached hereto (the "Energy Management Agreement"), a generation purchase right agreement in the form of Exhibit D attached hereto (the "Generation Purchase Right Agreement") and a guaranty agreement in the form of Exhibit E attached hereto (the "Guaranty Agreement") and/or (ii) receive the assets and properties of Company set forth on Schedule A attached hereto (the "Transferred Assets"). Parent, upon written notice to the parties hereto, may direct any portion of the Transferred Assets to be distributed to a particular Transferee Subsidiary; provided, however, that the Transferee Subsidiary which is designated by Parent to receive the assets contemplated by the Generation Purchase Right Agreement to be subject to Company's rights thereunder shall be the Transferee Subsidiary that enters into the Generation Purchase Right Agreement.

(b) Company shall, reasonably prior to the anticipated Closing Date, form a new New York corporation to act as Parent hereunder and to own, directly or indirectly, all of the stock or other equity interests of the Transferee Subsidiaries, shall provide Authority and LIPA Sub with written notice of such formation and shall cause such new corporation to execute and deliver a counterpart hereof, whereupon such new corporation shall become Parent for all purposes hereof and each other Basic Agreement (as hereinafter defined).

(c) Company will use reasonable efforts to transfer to a wholly-owned subsidiary of Company its ownership interest in the Nine Mile Point Two Nuclear Power Plant and its interest in all related nuclear fuel and nuclear decommissioning trust funds ("Nine Mile"), but Company's failure to obtain any required consent thereto of any governmental agency or other owner of any interest therein shall not constitute a breach of this Agreement.

(d)(i) Immediately prior to the Effective Time, Company shall transfer the Transferred Assets to the Transferee Subsidiaries in exchange for, and Parent shall deliver to Company, (i) the Designated Number (as hereinafter defined) of shares of the common stock, par value \$0.01 per share, of Parent ("Parent Common Stock") and (ii) up to \$75,000,000 face amount of Parent preferred stock in an aggregate face amount and having the rights and terms to be specified in a notice delivered by Parent to each party hereto not later than the date on which the notices of redemption are issued pursuant to Section 1.11 (the "New Parent Preferred Stock"). The "Designated Number"

shall be the number of shares of Parent Common Stock specified in a notice delivered by Parent to each party hereto not later than the date on which such notices of redemption are issued pursuant to Section 1.11 and representing Parent's good faith estimate of the net fair market value of the Transferred Assets less the face amount of New Parent Preferred Stock delivered by Parent pursuant to this Section 1.4(d). Concurrently with such delivery and immediately prior to the Effective Time, Company shall sell for cash in a private placement all shares of New Parent Preferred Stock to one or more persons or entities which are not otherwise shareholders of Company or BU at the Effective Time.

(ii) Notwithstanding clause (i) of this Section 1.4(d), if the BUGLILCO Transactions (as defined in Section 2.1(b)) have been consummated prior to the Effective Time, the transfer of the Transferred Assets as contemplated by such clause (i) shall be made without the delivery by Parent of any Parent Common Stock or New Parent Preferred Stock.

Section 5 Description of Assets. To the extent that Schedule A hereto (the "Transferred Asset Schedule") does not provide for a full legal description of the Transferred Assets referred to therein, the parties hereto shall revise the Transferred Asset Schedule prior to the Closing in accordance with the principles and procedures set forth on Schedule B attached hereto.

Section 6 Liabilities.

(a) At the Closing, Parent and each Transferee Subsidiary will execute and deliver to Authority and Surviving Corporation a liabilities undertaking and indemnification agreement in substantially the form of Exhibit F attached hereto (the "Parent Liabilities Undertaking").

(b) At the Closing, the Authority and the Surviving Corporation will execute and deliver to Parent and each Transferee Subsidiary a liabilities undertaking and indemnification agreement in substantially the form of Exhibit G attached hereto (the "Authority Liabilities Undertaking").

Section 7 Transition Work. The parties agree to take the respective actions set forth on Schedule C attached hereto to prepare for an orderly transition under the Basic Agreements at the Effective Time.

Section 8 Resignations. Parent shall cause each officer and director of Company to resign from each position any such person then holds with Company, effective at the Effective Time.

Section 9 Formation of LIPA Sub. Reasonably prior to the anticipated Closing Date, Authority shall cause LIPA Sub to be duly incorporated as a New York corporation and shall cause LIPA Sub to execute a counterpart of this Agreement. Each representation and warranty set forth in Article V with respect to LIPA Sub shall be deemed to have been made on the date of such execution.

Section 10 Charter Amendment. Authority shall cause the Amended and Restated Certificate of Incorporation of Company to be amended as contemplated in the request for a ruling from the Internal Revenue Service with respect to Section 115 of the Internal Revenue Code of 1986, as amended (the "Code"), not later than the tenth business day after the Effective Time.

Section 11 Certain Other Preferred Stock. Promptly after all conditions to the Closing set forth in Article VIII have been satisfied or waived in accordance therewith (other than Section 8.1(b), provided Company has received assurances satisfactory to Company that such condition can be satisfied), Company shall issue notices of redemption for all outstanding shares of Company Preferred Stock (as defined in Section 4.3) (other than the Series AA Preferred Stock and the other series thereof specifically referred to in Section 2.1(c)(iii)) and shall pay all amounts due in respect of such redemption as promptly as practicable in accordance with the applicable terms of Company's Amended and Restated Certificate of Incorporation.

ARTICLE II
TREATMENT OF SHARES

Section 1 Effect of the Merger on Capital Stock. At the Effective Time, by virtue of the Merger and without any action on the part of any holder of any capital stock of Parent, Company or LIPA Sub:

(a) Cancellation of Certain Stock. (i) Each share of Company Common Stock and each share of Company Preferred Stock that is owned by Company as treasury stock, and each share of Company Preferred Stock owned by any direct or indirect wholly owned Subsidiary (as defined in Section 4.1) of Parent immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the holder thereof, cease to be outstanding, be cancelled and retired without payment of any consideration therefor and cease to exist.

(ii) Each share of the common stock of LIPA Sub, by virtue of the Merger and without any action on the part of the holder thereof, shall be cancelled and converted into the right to receive one fully paid and, subject to Section 630 of the NYBCL, non-assessable share of common stock of the Surviving Corporation.

(b) Treatment of Company Common Stock. (i) Each issued and outstanding share of Company Common Stock, other than shares cancelled pursuant to Section 2.1(a) and Company Dissenting Shares (as defined in Section 2.2), shall be cancelled and converted into the right to receive (x) an amount of cash equal to the Cash Purchase Price (as defined in Section 2.1(d)(i)) divided by the number of shares of Company Common Stock outstanding on the Closing Date (the "Common Stock Conversion Amount") and (y) a number of shares of Parent Common Stock (the "Transferred Assets Stock Portion") equal to the number of shares of Parent Common Stock received by Company pursuant to clause (i) of Section 1.4(d) divided by the number of shares of Company Common Stock outstanding on the Closing Date. Each holder of any such share of Company Common Stock shall be deemed hereby to have appointed the Exchange Agent (as defined in Section 2.3(a)) as its agent to subscribe for shares of Parent Common Stock by applying the aggregate Common Stock Conversion Amount for such purchase. The number of shares of Parent Common Stock to be purchased for the Common Stock Conversion Amount shall be (x) 0.880 shares of Parent Common Stock less the Transferred Assets Stock Portion if the transactions contemplated by the Exchange Agreement (the "BUGLILCO Transactions") will be consummated contemporaneously with the transactions contemplated hereby or (y) one share of Parent Common Stock less the Transferred Assets Stock Portion if the BUGLILCO Transactions will not be consummated contemporaneously with the transactions contemplated hereby. Upon such cancellation, all such shares of Company Common Stock shall cease to exist, and each holder of a certificate formerly representing any such shares shall cease to have any rights with respect thereto, except the right to receive Parent Common Stock purchased pursuant to the second sentence of this Section 2.1(b) and distributed pursuant to clause (y) of the first sentence of this Section 2.1(b).

(ii) Notwithstanding clause (i) of this Section 2.1(b), if the BUGLILCO Transactions have been consummated prior to the Effective Time, each issued and outstanding share of Company Common Stock shall be cancelled and converted into the right to receive only an amount of cash equal to the Common Stock Conversion Amount and the transactions contemplated by the second and third sentences of such clause (i) shall not occur.

(c) Treatment of Company Preferred Stock. (i) Each issued and outstanding share of Series AA Preferred Stock other than shares cancelled pursuant to Section 2.1(a) and Company Dissenting Shares shall be cancelled and converted into the right to receive one fully paid and, subject to Section 630 of the NYBCL, non-assessable share of preferred stock, par value \$25 per share, of Parent ("Parent Preferred Stock") with identical rights (including dividend rates) and designations to the Series AA Preferred Stock as set forth

in the Certificate of Designation attached hereto as Exhibit H. Upon such conversion, each holder of a certificate formerly representing any shares of Series AA Preferred Stock shall cease to have any rights with respect thereto, except the right to receive the shares of Parent Preferred Stock in consideration therefor upon the surrender of such certificate in accordance with Section 2.3.

(ii) Each issued and outstanding share of Company Preferred Stock that is subject to optional redemption by Company at or before the Closing Date (other than shares cancelled pursuant to Section 2.1(a) (collectively, "Redeemable Preferred Stock") shall be called for redemption by Company as provided in Section 1.11 and all such shares shall be redeemed for cash by Company in accordance with the terms applicable to such shares. The aggregate amount of accrued but unpaid dividends and redemption premiums payable by Company in respect of such redemptions (the "Aggregate Redemption Premium") shall be paid by Parent to Company not later than two business days prior to the date the applicable redemption price is payable.

(iii) Each issued and outstanding share of Company Preferred Stock (other than shares cancelled pursuant to Section 2.1(a), Company Dissenting Shares, shares of Series AA Preferred Stock and Redeemable Preferred Stock) (collectively, "Nonredeemable Preferred Stock") shall be cancelled and converted into the right to receive cash in the amount of the sum of (x) the Make-Whole Amount (as hereinafter defined) and (y) accrued but unpaid dividends in respect of such share through the Closing Date. As used herein, "Make-Whole Amount" with respect to each share of Nonredeemable Preferred Stock means an amount equal to the present value of (A) the face or liquidation preference amount, whichever is applicable, of such share and (B) the remaining dividend payments due on such share between the Closing Date and the earliest date on which Company may redeem such share, computed using a discount rate equal to the applicable Fair Market Rate divided by 0.95. "Fair Market Rate" is defined as the Generic General Obligation Fair Market Yield for Baa rated Low/Medium Coupon General Municipal Obligations at the time of the computation as reported on Bloomberg, with a maturity most nearly equal to the period between cancellation and final redemption of such series of Nonredeemable Preferred Stock. The period between cancellation and redemption refers to the period between the Closing Date and: (A) August 1, 2002, with respect to the Series CC Preferred Stock, (B) March 1, 1999, with respect to the Series GG Preferred Stock, (C) May 1, 2001, with respect to the Series QQ Preferred Stock, and (D) October 16, 2018, with respect to the Series UU Preferred Stock. The amount by which the aggregate amount payable pursuant to this Section 2.1(c)(iii) exceeds 100% of the aggregate face or liquidation preference amounts, whichever is applicable, for all shares of Nonredeemable Preferred Stock shall be paid by Parent to the Surviving Corporation at the Effective Time.

(d) Cash Purchase Price; Adjustment. (i) The "Cash Purchase Price" to be paid by Authority shall be \$2,497,500,000.

(ii) The Cash Purchase Price has been determined based upon the net book value of the Retained Assets (as defined in Section 4.4(b)) of \$2,500,800,000 as set forth in the pro forma consolidated balance sheet of Company as of December 31, 1997 prepared by Company (the "Pro Forma Balance Sheet"). The Cash Purchase Price is based upon the assumption that the total long-term indebtedness of Company on the Closing Date shall not exceed \$3,576,000,000 (the "Retained Debt Amount"). The Retained Debt Amount shall be adjusted in accordance with the adjustment referred to in Section 2.1(d)(vi) (the "Adjustment").

(iii) No later than 60 days after the Closing Date, Parent shall prepare and deliver to Authority, with a copy to Authority's independent accountants, Price Waterhouse LLP ("Price Waterhouse"), the audited consolidated balance sheet of Company as of the Closing Date (the "Closing Date Balance Sheet") and a statement, as of the Closing Date (the "Statement"), setting forth the amount of the Adjustment and the calculations thereof in reasonable detail and showing the differences between each account contained in the Pro Forma Balance Sheet and the corresponding account in the

Closing Date Balance Sheet. The Closing Date Balance Sheet and the Statement shall be prepared in accordance with generally accepted accounting principles used by Company in the preparation of its financial statements for the year ended December 31, 1996 ("GAAP"), using allocation procedures consistent with the procedures used by Company to prepare the Pro Forma Balance Sheet and its audited historical financial statements. During the period required to prepare the Closing Date Balance Sheet, Surviving Corporation will make available the books and records of Surviving Corporation to Parent, its authorized representatives and Parent's independent auditors, Ernst & Young ("E&Y").

(iv) During the 60-day period following receipt by Authority of the Closing Date Balance Sheet and the Statement, Parent shall make available and shall direct E&Y to make available to Authority and Price Waterhouse copies of the working papers, books and records used in the preparation of the Closing Date Balance Sheet and the Statement, as reasonably requested by Authority. The Closing Date Balance Sheet and the Statement shall become final and binding upon the parties at the close of business on the sixtieth day following receipt thereof by Authority, except to the extent that Authority gives written notice of its disagreement with the Closing Date Balance Sheet or the Statement ("Notice of Disagreement") to Parent prior to such date, or if such day is not a business day, the next following business day. Any Notice of Disagreement shall specify in reasonable detail the nature of any disagreement so asserted.

(v) During the 30-day period following the delivery of a Notice of Disagreement, Parent and Authority shall seek in good faith to resolve in writing any differences which they may have with respect to the matters specified in the Notice of Disagreement. During such period, Parent and E&Y shall have access to the working papers of Price Waterhouse prepared in connection with their analysis of any matter specified in the Notice of Disagreement, as reasonably requested by Parent, and Authority and Price Waterhouse shall have access to the working papers of E&Y prepared in connection with the Closing Date Balance Sheet and the Statement, as reasonably requested by Authority. At the end of such 30-day period, Parent and Authority shall submit to an independent accounting firm (the "Accounting Firm") for review and resolution of any and all matters which remain in dispute and which were included in the Notice of Disagreement. The Accounting Firm shall be KPMG Peat Marwick or, if such firm is unable or unwilling to act, such other nationally recognized independent public accounting firm as shall be agreed upon by Parent and Authority in writing. If Parent and Authority do not agree on the selection of a nationally recognized independent accounting firm, Price Waterhouse and E&Y shall select a third accounting firm to act as the Accounting Firm hereunder. The Adjustment as determined by Parent, as modified (if at all) by resolution of Parent and Authority or by the Accounting Firm, is referred to herein as the "Final Adjustment." The determination of the Accounting Firm as to such matters shall be final and binding on the parties hereto, and Parent and Authority agree that judgment may be entered upon the determination of the Accounting Firm in any court having jurisdiction over the party against which such determination is to be enforced. The fees and expenses of the Accounting Firm incurred pursuant to this Section 2.1(d)(v) shall be borne by Parent and Authority in inverse proportion as they may prevail on matters resolved by the Accounting Firm, which proportionate allocations shall also be determined by the Accounting Firm at the time the determination of the Accounting Firm is rendered on the merits of the matters submitted. The fees and disbursements of E&Y incurred in connection with their certification of the Closing Date Balance Sheet and the Statement and review of any Notice of Disagreement shall be borne by Parent and the fees and disbursements of Price Waterhouse incurred in connection with their review of the Closing Date Balance Sheet, and the Statement shall be borne by Surviving Corporation or Authority.

(vi) The Retained Debt Amount shall be (A) increased by the amount, if any, by which the net book value of the Retained Assets exceeds \$2,500,800,000 or (B) decreased by the amount, if any, by which the net book value of the Retained Assets is less than \$2,500,800,000.

(vii) The Transferred Assets shall include all cash held by Company at the Closing except for the net proceeds of the sale of New Parent Preferred Stock. The accounts payable retained by Company immediately following the Closing shall be \$101.7 million plus or minus the New Parent Preferred Stock Adjustment as hereinafter defined. To the extent that the amount of such net proceeds from the sale of the New Parent Preferred Stock is more (the "Excess") or less than \$75 million (the "Shortfall") the accounts payable retained by the Company immediately following the Closing shall be increased or decreased by the amount of the Excess or Shortfall, respectively, (the "New Parent Preferred Stock Agreement").

(e) Retained Debt. At the Closing, Parent shall execute and deliver and shall cause each Transferee Subsidiary to execute and deliver, to Company such promissory notes as shall have an aggregate principal amount equal to the excess, if any, of (i) the indebtedness of Company outstanding on the Closing Date (the "Closing Date Debt Amount") over (ii) the Retained Debt Amount and as shall have such rates and maturities (including, without limitation, accelerated maturities resulting from default and voluntary and mandatory prepayments) as shall correspond, to each portion of debt underlying the indebtedness of Company on the Closing Date (the "Promissory Notes"); provided, however, that such interest and principal payment dates shall be adjusted to require payment by Parent, 30 days prior to the corresponding payment dates on the underlying debt, of an amount which, including amounts assured to be earned by Authority while such funds are held by it, will be sufficient to make the corresponding payments. The aggregate excess principal amount shall be allocated to each Promissory Note on a pro rata basis such that the ratio of (x) the principal amount of each Promissory Note to (y) the aggregate excess principal amount shall correspond to the ratio of (A) the principal amount of the corresponding underlying portion of debt to (B) the Closing Date Debt Amount. The Closing Date Debt Amount shall, for the purpose of calculating the aggregate principal amount of such Promissory Notes, be the amount set forth in a certificate signed by the Chief Financial Officer of Company and delivered to Parent and Authority on the Closing Date. Such amount shall be reviewed by E&Y in accordance with Section 2.1(d)(iii) and the actual amount thereof shall be set forth in the Statement. The actual amount shall be subject to review by Price Waterhouse, in accordance with the procedures set forth in Section 2.1(d)(iv), with any disagreements being resolved in accordance with the procedures set forth in Section 2.1(d)(v). Upon the final determination of such amount, the Promissory Notes shall be adjusted on a pro rata basis to reflect the principal amount so determined.

(f) Credit Rating. (i) If, at any time when any Promissory Notes are outstanding, a Material Decline in Parent's Credit Standing (as defined below) occurs, then within 10 days after such occurrence, Parent shall provide credit enhancement of the Promissory Notes hereunder at its sole cost and expense in the form of a letter of credit securing the Promissory Notes hereunder in a face amount equal to the aggregate outstanding balances of the Promissory Notes, issued by a financial institution whose long-term senior debt is or would be rated "A", or better by at least two nationally recognized rating services.

(ii) For purposes of this Section, a "Material Decline in Parent's Credit Standing" shall be deemed to have occurred if (1) Parent has long-term senior debt outstanding which is rated by a nationally recognized rating service and Parent's long-term senior debt outstanding is not rated at least "A" by two or more such rating services, or (2) in the sole reasonable opinion of the Authority, in the event that Parent does not have long-term senior debt outstanding or such debt is not rated by at least two nationally recognized rating services, or the credit standing of Parent declines to a level which is insufficient to support at least an "A" credit rating by two or more nationally recognized rating services, whether or not any such debt is outstanding. Parent shall immediately notify the Authority of any Material Decline in Parent's Credit Standing.

(iii) Upon the occurrence of a Material Decline in Parent's

Credit Standing, Parent shall have the right to economically defease the Promissory Notes by delivering to Authority U.S. treasury securities of such maturities and in such principal amounts as shall be sufficient, as reasonably determined by Authority, to produce cash at the times and in the amounts required to pay all amounts due in respect of the indebtedness underlying the Promissory Notes.

(g) Treatment of Debt at Closing. (i) The parties shall cooperate with each other to effect refinancings, repayments, amendments of Company's outstanding indebtedness and other related transactions with the intention of minimizing the aggregate principal amount of the Promissory Notes and maximizing the amount of Company's tax-exempt indebtedness at the Effective Time.

(ii) No party shall be required by this Section 2.1(g) to effect any transaction that it reasonably determines to be financially adverse to it by comparison to the transactions contemplated by Section 2.1(e).

(h) Assumption of Certain Debt. Subject to obtaining all required consents, Parent will assume at Closing (i) the 7.3% Debentures due July 15, 1999, with an approximate aggregate principal amount currently outstanding of \$397 million and (ii) the 8.20% Debentures due March 15, 2023, with an approximate aggregate principal amount currently outstanding of \$270 million. Certain other tax exempt authority financing notes will be identified by the parties and assumed by Parent (subject to obtaining all required consents and to the parties' tax counsel's concurrence).

(i) Accounts Receivable and Accrued Unbilled Revenues. Parent will be entitled to/responsible for any over/undercollection in excess of \$500,000 of the retained customer accounts receivable and accrued unbilled revenues on the Closing Date Balance Sheet. Prior to the Closing Date, the parties will develop a mutually agreed upon methodology that will measure such collections.

Section 2 Dissenting Shares. Shares of Common Stock, Series AA Preferred Stock or Nonredeemable Preferred Stock held by any holder entitled to relief as a dissenting shareholder under Section 910 of the NYBCL (the "Company Dissenting Shares") shall not become the right to receive the Common Stock Conversion Amount in cash (in the case of any such share of Company Common Stock), Parent Preferred Stock (in the case of any such share of Series AA Preferred Stock) or any cash amount payable pursuant to Section 2.1(c)(iii) (in the case of any such share of Nonredeemable Preferred Stock), but shall be cancelled and converted into such consideration as may be due with respect to such shares pursuant to the applicable provisions of the NYBCL, unless and until the right of such holder to receive fair cash value for such Company Dissenting Shares terminates in accordance with Section 623 of the NYBCL. If such right is terminated otherwise than by the purchase of such shares by Company or LIPA Sub, then such shares shall cease to be Company Dissenting Shares and shall represent the right to receive the Common Stock Conversion Amount in cash (in the case of any such share of Company Common Stock), Parent Preferred Stock (in the case of any such share of Series AA Preferred Stock) or any cash amount payable pursuant to Section 2.1(c)(iii) (in the case of any such share of Nonredeemable Preferred Stock).

Section 3 Issuance of Parent Shares.

(a) Deposit with Exchange Agent. As soon as practicable after the Effective Time, Parent shall deposit with such bank or trust company as shall have been mutually agreeable to Company and Authority prior to the Effective Time (the "Exchange Agent"), certificates representing Parent Shares required to effect the issuances referred to in Section 2.1(b) and Section 2.1(c)(i). If Company and Authority shall not have agreed on the Exchange Agent prior to the Effective Time, the bank or trust company then serving as registrar and transfer agent for the Series AA Preferred Stock shall be selected to act as Exchange Agent for the Series AA Preferred Stock. The shares of Parent Common Stock subscribed for by the Exchange Agent as agent for the holders of Company Common Stock pursuant to Section 2.1(b) and the shares of Parent Common Stock constituting the Transferred Assets Stock Portion, together with the shares of Parent Preferred Stock for which the shares of Series AA Preferred Stock are to be exchanged pursuant to Section 2.1(c)(i), are referred to herein collectively as the "Parent Shares."

(b) Procedures for Issuance of Parent Shares. As soon as practicable after the Effective Time, the Exchange Agent shall mail to each holder of record of a certificate or certificates (the "Certificates") which immediately prior to the Effective Time represented outstanding shares of Series AA Preferred Stock or Company Common Stock, as applicable (the "Cancelled Shares") that were cancelled and became instead, directly or indirectly, the right to receive the applicable Parent Shares, (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon actual delivery of the Certificates to the Exchange Agent) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing Parent Shares. Upon surrender of a Certificate to the Exchange Agent for cancellation (or to such other agent or agents as may be appointed by agreement of Company and Authority), together with a duly executed letter of transmittal and such other documents as the Exchange Agent shall require, the holder of such Certificate shall be entitled to receive a certificate representing that number of Parent Shares which such holder has the right to receive pursuant to the provisions of this Article II. In the event of a transfer of ownership of Cancelled Shares which is not registered in the transfer records of Company a certificate representing the proper number of Parent Shares may be issued to a transferee if the Certificate representing such Cancelled Shares is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and by evidence satisfactory to the Exchange Agent that any applicable stock transfer taxes have been paid. Until surrendered as contemplated by this Section 2.3, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the certificate representing Parent Shares as contemplated by this Section 2.3.

(c) Distributions with respect to Unsurrendered Shares. No dividends or other distributions declared or made after the Effective Time with respect to the Parent Shares with a record date after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the Parent Shares represented thereby until the holder of record of such Certificate shall surrender such Certificate. Subject to the effect of unclaimed property, escheat and other applicable laws, following surrender of any such Certificate, there shall be paid to the record holder of the certificates representing Parent Shares issued in consideration therefor, without interest, (i) at the time of such surrender, the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such Parent Shares and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to surrender and a payment date subsequent to surrender payable with respect to such Parent Shares.

(d) Closing of Transfer Books. From and after the Effective Time, the stock transfer book of the Company shall be closed and no transfer of any capital stock of the Company shall thereafter be made. If, after the

Effective Time, Certificates are presented to the Company, they shall be cancelled and exchanged for certificates representing the appropriate number of Parent Shares, as provided in this Section 2.3.

(e) Termination of Exchange Agent. Any certificates representing Parent Shares deposited with the Exchange Agent pursuant to Section 2.3(a) and not exchanged within one year after the Effective Time pursuant to this Section 2.3 shall be returned by the Exchange Agent to Parent, which shall thereafter act as Exchange Agent. Parent shall not be liable to any person for such shares delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

ARTICLE III CLOSING

Section 1 Closing. Upon the terms and subject to the conditions of this Agreement, the consummation of the transactions contemplated by this Agreement (the "Closing") will take place on the second business day following the redemption of all series of Company Preferred Stock contemplated to be redeemed pursuant to Section 1.11 at 10:00 a.m., at such place on Long Island or other time as shall be agreed upon by the parties. The date on which the Closing occurs is referred to herein as the "Closing Date."

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF PARENT AND COMPANY

Each of Parent and Company hereby represents and warrants to Authority and LIPA Sub as follows:

Section 1 Organization and Qualification. Except as contemplated by Section 1.4, as set forth in Section 4.1 of the Parent Disclosure Schedule (as defined in Section 7.4), each of Parent, Company and each of the Company Subsidiaries (as defined below) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite corporate power and authority, and has been duly authorized by all necessary approvals and orders to own, lease and operate its assets and properties to the extent owned, leased and operated and to carry on its business as it is now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its assets and properties makes such qualification necessary. As used in this Agreement, (a) the term "Subsidiary" of a person shall mean any corporation or other entity (including partnerships, limited liability companies and other business associations) of which at least a majority of the outstanding capital stock or other voting securities having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or entity shall at the time be held, directly or indirectly, by such person and (b) the term "Company Subsidiary" shall mean a Subsidiary of Company.

Section 2 Subsidiaries. Section 4.2 of the Parent Disclosure Schedule sets forth a description as of the date hereof of all Company Subsidiaries and Joint Ventures of Company ("Company Joint Ventures"), including (a) the name of each such entity and Company's interest therein, and (b) a brief description of the principal line or lines of business conducted by each such entity. Except as set forth in Section 4.2 of the Parent Disclosure Schedule, none of Company Subsidiaries is a "public utility company", a "holding company", a "subsidiary company" or an "affiliate" of any public utility company within the meaning of Section 2(a)(5), 2(a)(7), 2(a)(8) or 2(a)(11) of the Public Utility Holding Company Act of 1935 (the "1935 Act"), respectively. Except as set forth in Section 4.2 of the Parent Disclosure Schedule, all of the issued and outstanding shares of capital stock of Company and of each Company Subsidiary are validly issued, fully paid, nonassessable and free of preemptive rights, and, as of the Closing Date, will be owned directly or indirectly by Parent free and clear of any liens, claims, encumbrances, security interests, equities, charges and options of any nature whatsoever and there are no outstanding subscriptions, options, calls,

contracts, voting trusts, proxies or other commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement, obligating any such Company Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of its capital stock or obligating it to grant, extend or enter into any such agreement or commitment. As used in this Agreement, (a) the term "Joint Venture" of a person shall mean any corporation or other entity (including partnerships and other business associations) that is not a Subsidiary of such person, in which such person or one or more of its Subsidiaries owns an equity interest and (b) the term "Company Joint Venture" shall mean those of the joint ventures of Company or any Company Subsidiary identified as a Company Joint Venture in Section 4.2 of the Parent Disclosure Schedule.

Section 3 Capitalization. The authorized capital stock of Company is as set forth in the Transition Report on Form 10-Q for the transition period from January 1, 1997 to March 31, 1997. The number of issued and outstanding shares of common stock, par value \$5 per share, of Company ("Company Common Stock") and preferred stock of Company (the "Company Preferred Stock"), and each series thereof, as of December 31, 1996, are as set forth in Company's Annual Report on Form 10k for the year ended December 31, 1996, and Company has neither issued, sold, redeemed or repurchased any shares of Company Preferred Stock since December 31, 1996. All of the issued and outstanding shares of the capital stock of Company are validly issued, fully paid, nonassessable (subject to Section 630 of the NYBCL) and free of preemptive rights. Except as set forth in Section 4.3 of the Parent Disclosure Schedule, as of the date hereof, there are no outstanding subscriptions, options, calls, contracts, voting trusts, proxies or other commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement, obligating Parent, Company or any of the Company Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of the capital stock of Company, or obligating Parent to grant, extend or enter into any such agreement or commitment. There are no outstanding stock appreciation rights of Company which were not granted in tandem with a related stock option and no outstanding limited stock appreciation rights or other rights to redeem for cash options or warrants of Company.

Section 4 Authority; Non-Contravention; Statutory Approvals; Compliance.

(a) Authority. Each of Parent and Company has all requisite power and authority to enter into each of this Agreement, the Management Services Agreement, the Power Supply Agreement, the Energy Management Agreement, the Generation Purchase Right Agreement, the Guaranty Agreement, the Parent Liabilities Undertaking, the Authority Liabilities Undertaking and the Promissory Notes (collectively, the "Basic Agreements") to which it is a party, and, subject to the Parent Required Statutory Approvals (as defined in Section 4.4(c)), to consummate the transactions contemplated hereby and thereby. Each of the applicable Transferee Subsidiaries will, at the Effective Time, have all requisite power and authority to enter into each of the Basic Agreements to which it is a party, and, subject to the Parent Required Statutory Approvals, to consummate the transactions contemplated hereby. The execution and delivery of each of the Basic Agreements to which Parent or Company is a party and the consummation by Parent and Company of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of Parent and Company, other than the Company Shareholder Approval (as defined in Section 4.11). The execution and delivery of each of the Basic Agreements to which the applicable Transferee Subsidiaries are a party and the consummation of the transactions contemplated thereby will, at the Effective Time, be duly authorized by all necessary corporate action on the part of such Transferee Subsidiaries. This Agreement has been duly and validly executed and delivered by Parent and Company and, assuming the due authorization, execution and delivery hereof by the other signatories hereto (other than LIPA Sub), constitutes the valid and binding obligation of Parent and Company, enforceable against each of them in accordance with its terms.

(b) Non-Contravention. Except as set forth in Section 4.4(b) of the Parent Disclosure Schedule, the execution and delivery of this Agreement by Parent and Company and each of the other Basic Agreements to which Parent or Company is a party does not, and the consummation of the transactions contemplated hereby and thereby will not, in any material respect, violate, conflict with, or result in a material breach of any provision of, or constitute a material default (with or without notice or lapse of time or both) under, or result in the termination or modification of, or accelerate the performance required by, or result in a right of termination, cancellation, or acceleration of any obligation or the loss of a material benefit under, or result in the creation of any material lien, security interest, charge or encumbrance upon any of the properties or assets contemplated hereby to be owned at the Effective Time (x) by Company or (y) by any Company Subsidiary or Company Joint Ventures not constituting a portion of the Transferred Assets (collectively, and as described in Schedule G, the "Retained Assets") (any such violation, conflict, breach, default, right of termination, modification, cancellation or acceleration, loss or creation, a "Violation" with respect to Parent, Company or any Company Subsidiaries, such term when used in Article V having a correlative meaning with respect to Authority and LIPA Sub) pursuant to any provisions of (i) the certificate of incorporation, by-laws or similar governing documents of Parent, Company or any of the Company Subsidiaries or the Company Joint Ventures, (ii) subject to obtaining the Parent Required Statutory Approvals and the receipt of the Company Shareholder Approval, any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any Governmental Authority (as defined in Section 4.4(c)) applicable to Parent or Company or any of the Company Subsidiaries or the Company Joint Ventures or any Retained Asset or (iii) subject to obtaining the third-party consents set forth in Section 4.4(b) of the Parent Disclosure Schedule (the "Parent Required Consents"), any material note, bond, mortgage, indenture, deed of trust, license, franchise, permit, concession, contract, lease or other instrument, obligation or agreement of any kind to which Parent or Company or any of the Company Subsidiaries or the Company Joint Ventures is a party or by which any Retained Asset may be bound or affected.

(c) Statutory Approvals. No declaration, filing or registration

with, or notice to or authorization, consent or approval of, any court, federal, state, local or foreign governmental or regulatory body (including a stock exchange or other self-regulatory body) or authority (each a "Governmental Authority") is necessary for the execution and delivery of this Agreement by Parent and Company and each of the other Basic Agreements to which Parent, Company or a Transferee Subsidiary is a party or the consummation by Parent, Company and the Transferee Subsidiaries of the transactions contemplated hereby and thereby, except as described in Section 4.4(c) of the Parent Disclosure Schedule (the "Parent Required Statutory Approvals," it being understood that references in this Agreement to "obtaining" such Parent Required Statutory Approvals shall mean making such declarations, filings or registrations; giving such notices; obtaining such authorizations, consents or approvals; and having such waiting periods expire as are necessary to avoid a violation of law).

(d) Compliance. Except as set forth in Section 4.4(d) or Section 4.9 of the Parent Disclosure Schedule, Schedule D (Tax Matters) or Schedule E (Employment Matters) hereto, or as disclosed in the Parent SEC Reports (as defined in Section 4.5) filed prior to the date hereof (i) neither Parent, Company nor any of the Company Subsidiaries nor, to the knowledge of Parent or Company, any Company Joint Venture is, with respect to any Retained Asset, in material violation of, is, with respect to any Retained Asset, under investigation with respect to any material violation of, or, with respect to any Retained Asset, has been given notice or been charged with any material violation of, any law, statute, order, rule, regulation, ordinance or judgment (including, without limitation, any applicable Environmental Law, ordinance or regulation) of any Governmental Authority, and (ii) (other than as covered under clause (i) of this Section 4.4(d)) neither Company nor any of the Company Subsidiaries nor, to the knowledge of Parent or Company, any Company Joint Venture, is in material violation of, is under investigation with respect to any material violation of, or has been given notice or been charged with any material violation of, any law, statute, order, rule, regulation, ordinance or judgment (including, without limitation, any applicable Environmental Law, ordinance or regulation) of any Governmental Authority. Except as set forth in Section 4.4(d) of the Parent Disclosure Schedule or in Section 4.9 of the Parent Disclosure Schedule, Company and the Company Subsidiaries and Company Joint Ventures have all permits, licenses, franchises and other governmental authorizations, consents and approvals necessary to conduct their businesses as presently conducted in all material respects. Except as set forth in Section 4.4(d) of the Parent Disclosure Schedule, Company and each of the Company Subsidiaries is not in material breach or violation of or in material default in the performance or observance of any term or provision of, and no event has occurred which, with lapse of time or action by a third party, could result in a material default under, (i) its certificate of incorporation or by-laws or (ii) any material contract, commitment, agreement, indenture, mortgage, loan agreement, note, lease, bond, license, approval or other instrument to which it is a party or by which it is bound or to which any Retained Asset is subject.

Section 5 Reports and Financial Statements. The filings required to be made by Parent, Company and the Company Subsidiaries since January 1, 1994 under the Securities Act of 1933 (the "Securities Act"), the Securities Exchange Act of 1934 (the "Exchange Act"), the 1935 Act, the Federal Power Act, the Atomic Energy Act and applicable state laws and regulations have been filed with the Securities and Exchange Commission (the "SEC"), the Federal Energy Regulatory Commission ("FERC"), the Nuclear Regulatory Commission or the appropriate state public utilities commission, as the case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, and complied, as of their respective dates, in all material respects with all applicable requirements of the appropriate statute and the rules and regulations thereunder. Parent or Company has made available to Authority or LIPA Sub a true and complete copy of each report, schedule, registration statement and definitive proxy statement filed by Parent or Company with the SEC since January 1, 1994 (as such documents have since the time of their filing been amended, the "Parent SEC Reports"). As of their respective dates,

the Parent SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements of Company included in the Parent SEC Reports have been prepared in accordance with GAAP (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q of the SEC) and fairly present the financial position of Company as of the dates thereof and the results of its operations and cash flows for the periods then ended, subject, in the case of the unaudited interim financial statements, to normal, recurring audit adjustments. True, accurate and complete copies of the respective certificates of incorporation and by-laws of Parent and Company, as in effect on the date hereof, are included (or incorporated by reference) in the Parent SEC Reports.

Section 6 Absence of Certain Changes or Events. Except as disclosed in the Parent SEC Reports filed prior to the date hereof or as set forth in Section 4.6 of the Parent Disclosure Schedule, since December 31, 1995, Parent, Company and each of the Company Subsidiaries have conducted their business only in the ordinary course of business consistent with past practice and there has not been, and no fact or condition exists which would have or, insofar as reasonably can be foreseen, could have, a material adverse effect on the Retained Assets or the properties, business, operations, financial condition or prospects of the business relating to the Retained Assets taken as a whole or a material adverse decline in the electric rate savings projections presented to the Authority at its June 16, 1997 meeting to be realized after the Closing (a "Material Adverse Effect").

Section 7 Litigation. Except as disclosed in the Parent SEC Reports filed prior to the date hereof or as set forth in Section 4.7 or Section 4.9 of the Parent Disclosure Schedule, (i) there are no material claims, suits, actions or proceedings, pending or, to the knowledge of Parent and Company, threatened, nor are there, to the knowledge of Parent and Company, any material investigations or reviews pending or threatened against, relating to or affecting Company or any of the Company Subsidiaries, (ii) there have not been any significant developments since December 31, 1996 with respect to such disclosed claims, suits, actions, proceedings, investigations or reviews and (iii) there are no material judgments, decrees, injunctions, rules or orders of any court, governmental department, commission, agency, instrumentality or authority or any arbitrator applicable to Company or any of the Company Subsidiaries.

Section 8 Registration Statement and Proxy Statement. None of the information supplied or to be supplied by or on behalf of Company for inclusion or incorporation by reference in the proxy statement, in definitive form, relating to the meeting of the Company shareholders to be held in connection with the Merger (the "Proxy Statement") will, at the date mailed to shareholders and at the time of the meeting of shareholders to be held in connection with the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement will comply as to form in all material respects with the provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder.

Section 9 Environmental Protection. Except as set forth in Section 4.9 of the Parent Disclosure Schedule or in the Parent SEC Reports filed prior to the date hereof:

(a) Compliance. The operation and activities of the Company and each of the Company Subsidiaries are, and have been, in material compliance with all Environmental Laws (as defined in Section 4.9(g)(ii)) applicable to the Retained Assets; and neither Parent, Company nor any of the Company Subsidiaries has received any communication (written or oral), from any person or Governmental

Authority that alleges that Company or any of the Company Subsidiaries is not in such compliance with applicable Environmental Laws.

(b) Environmental Permits. Company and each of the Company Subsidiaries has obtained or has applied for all material environmental health and safety permits and all other governmental licenses, permits, and authorizations (collectively, the "Environmental Permits") necessary for the construction of facilities constituting part of the Retained Assets or the ownership or operation of such facilities or Retained Asset, and all such Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed and is pending agency approval, and Company and the Company Subsidiaries are in material compliance with all terms and conditions of the Environmental Permits.

(c) Environmental Claims. There is no material Environmental Claim (as defined in Section 4.9(g)(i)) pending (i) against Company or any of the Company Subsidiaries or Company Joint Ventures, (ii) to the best knowledge of Parent and Company, against any person or entity whose liability for any Environmental Claim Company or any of the Company Subsidiaries has or may have retained or assumed either contractually or by operation of law, or (iii) against any real or personal property or operations which Company or any of the Company Subsidiaries owns or formerly owned or, to the best knowledge of Parent and Company, any real or personal property or operations which Company or any of the Company Subsidiaries leases or manages or formerly leased or managed, in each case, in whole or in part.

(d) Releases. Parent and Company have no knowledge of any material Releases (as defined in Section 4.9(g)(iv)) of any Hazardous Material (as defined in Section 4.9(g)(iii)), that would be reasonably likely to form the basis of any material Environmental Claim against Company or any of the Company Subsidiaries, or against any person or entity whose liability for any material Environmental Claim Parent or any of the Company Subsidiaries has or may have retained or assumed either contractually or by operation of law.

(e) Predecessors. Parent and Company have no knowledge, with respect to any predecessor of Company or any of the Company Subsidiaries, of any material Environmental Claim pending or threatened, or of any Release of Hazardous Materials that would be reasonably likely to form the basis of any material Environmental Claim.

(f) Disclosure. Parent and Company have disclosed to Authority or LIPA Sub all material facts which Parent reasonably believes form the basis of a material Environmental Claim arising from (i) the cost of Company pollution control equipment currently required or known to be required in the future with respect to the Retained Assets; (ii) current Company remediation costs or Company remediation and site monitoring costs known to be required in the future with respect to the Retained Assets; or (iii) any other environmental matter affecting Company with respect to the Retained Assets.

(g) As used in this Agreement:

(i) "Environmental Claim" means any and all administrative, regulatory or judicial actions, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or notices of noncompliance or violation (written or oral) by any person or entity (including any Governmental Authority) alleging potential liability (including, without limitation, potential responsibility for or liability for enforcement, investigatory costs, cleanup costs, governmental response costs, removal costs, remedial costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from (A) the presence, or Release or threatened Release into the environment, of any Hazardous Materials at any location, whether or not owned, operated, leased or managed by Company or any of the Company Subsidiaries or Company Joint Ventures and constituting a portion of the Retained Assets (for purposes of this Section 4.9); or (B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law with respect to the Retained Assets; or (C) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence or Release of any Hazardous Materials with respect to the Retained Assets.

(ii) "Environmental Laws" means all federal, state, local laws, ordinances, rules and regulations relating to health and safety, pollution, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or protection of human health as it relates to the environment including, without limitation, laws and regulations relating to Releases or threatened Releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

(iii) "Hazardous Materials" means (A) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, and transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls ("PCBs"); and (B) any chemicals, materials or substances which are now defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous wastes", "restricted hazardous wastes", "toxic substances", "toxic pollutants", or words of similar import, under any Environmental Law; and (C) any other chemical, material, substance or waste, exposure to which is now prohibited, limited or regulated under any Environmental Law in a jurisdiction in which Company or any of the Company Subsidiaries or Company Joint Ventures operates using any Retained Assets (for purposes of this Section 4.9).

(iv) "Release" means any release, spill, emission, leaking, injection, deposit, disposal, discharge, dispersal, leaching or migration into the atmosphere, surface or subsurface soil, surface water, saltwater shoreline or floor bottom, groundwater or property from or affecting any Retained Assets.

Section 10 Regulation as a Utility. Except as set forth in Section 4.10 of the Parent Disclosure Schedule, neither Company nor any "subsidiary company" or "affiliate" (as such terms are defined in the 1935 Act) of Company is subject to regulation as a public utility or public service company (or similar designation) by any state in the United States other than New York or any foreign country.

Section 11 Vote Required. The following are the only votes ("Company Shareholder Approval") of the holders of any class or series of the capital stock of Company or any of its subsidiaries required to adopt this Agreement, the other Basic Agreements and the other transactions contemplated hereby and thereby:

(a) the adoption of this Agreement by two-thirds of the votes

entitled to be cast by all holders of Company Common Stock and Company Preferred Stock (other than the Redeemable Preferred Stock redeemed in accordance with Section 2.1(c)(ii)), voting together as a single class (with each share entitled to one vote, except that Company Preferred Stock with \$25 par value is entitled to only 1/4 vote per share);

(b) the adoption of this Agreement by a majority of the votes entitled to be cast by all holders of Company Preferred Stock (other than such Redeemable Preferred Stock), voting together as a single class (with each share entitled to one vote, except that Company Preferred Stock with \$25 par value is entitled to only 1/4 vote per share);

(c) the adoption of this Agreement by a majority of the votes entitled to be cast by all holders of Company Common Stock, voting separately as a class; and

(d) the adoption of this Agreement by a majority of the votes entitled to be cast by holders of Series AA Preferred Stock and each series of Nonredeemable Preferred Stock, in each case voting as a separate class.

Section 12 Insurance. Except as set forth in Section 4.12 of the Parent Disclosure Schedule, Company and each of the Company Subsidiaries is, and has been continuously since January 1, 1991, insured with financially responsible insurers in such amounts and against such risks and losses as are customary in all material respects for companies conducting the business as conducted by Company and the Company Subsidiaries during such time period. Except as set forth in Section 4.12 of the Parent Disclosure Schedule, neither Parent, Company nor any of the Company Subsidiaries has received any notice of cancellation or termination with respect to any material insurance policy of Company or any of the Company Subsidiaries. The insurance policies of Company and each of the Company Subsidiaries are valid and enforceable policies in all material respects.

Section 13 Disclosure. No representations or warranties by Parent or Company in this Agreement and no statement contained in any document furnished by Parent or Company to Authority or LIPA Sub pursuant to the provisions of, or in connection with the transactions contemplated by this Agreement, will contain any untrue statement of material fact or omit any material fact necessary, in light of the circumstances under which it was made, in order to make such statement not misleading.

ARTICLE V REPRESENTATIONS AND WARRANTIES OF AUTHORITY AND LIPA SUB

Authority represents and warrants to Parent and Company as follows:

Section 1 Organization. Authority is a corporate municipal instrumentality and political subdivision of the State of New York and was created by legislation of the State of New York (Chapter 517 of the 1986 Laws of New York). LIPA Sub is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization. Each of Authority and LIPA Sub has all requisite corporate power and authority, and has been duly authorized by all necessary approvals and orders to own, lease and operate its assets and properties to the extent owned, leased and operated and to carry on its business as it is now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its assets and properties makes such qualification necessary.

Section 2 Authority; Non-Contravention; Statutory Approvals; Compliance.

(a) Authority. Each of Authority and LIPA Sub has all requisite power and authority to enter into this Agreement and each of the other Basic Agreements to which it is a party and, subject to the Authority Required

Statutory Approvals (as defined in Section 5.2(c)) to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement by each of Authority and LIPA Sub and each of the other Basic Agreements to which it is a party and the consummation by each of Authority and LIPA Sub of the transactions contemplated hereby and thereby have been duly authorized by the Board of Trustees of Authority and the Board of Directors of LIPA Sub; no other corporate proceedings on the part of each of Authority and LIPA Sub are necessary to authorize this Agreement, each of the other Basic Agreements to which it is a party or to consummate the transactions contemplated hereby and thereby. This Agreement has been duly and validly executed and delivered by Authority and LIPA Sub and, assuming the due authorization, execution and delivery hereof by the other signatories hereto, this Agreement constitutes the valid and binding obligation of Authority and LIPA Sub, enforceable against each of Authority and LIPA Sub in accordance with its terms.

(b) Non-Contravention. The execution and delivery of this Agreement and each of the other Basic Agreements by Authority or LIPA Sub does not, and the consummation of the transactions contemplated hereby and thereby will not, result in a material Violation pursuant to any provisions of (i) the certificate of incorporation, by-laws or similar governing documents of LIPA Sub, (ii) subject to obtaining the Authority Required Statutory Approvals, any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any Governmental Authority applicable to Authority or LIPA Sub or (iii) any provisions of any material note, bond, mortgage, indenture, deed of trust license, franchise, permit, concession, contract, lease or other instrument, obligation or agreement of any kind to which Authority or LIPA Sub is a party or by which it or any of its properties or assets may be bound.

(c) Statutory Approvals. No declaration, filing or registration with, or notice to or authorization, consent or approval of, any Governmental Authority is necessary for the execution and delivery of this Agreement and each of the other Basic Agreements by each of Authority and LIPA Sub or the consummation by each of Authority and LIPA Sub of the transactions contemplated hereby and thereby, except as set forth in writing by Authority (the "Authority Required Statutory Approvals").

Section 3 Disclosure. No representations or warranties by Authority or LIPA Sub in this Agreement and no statement contained in any document furnished by Authority or LIPA Sub to Parent or Company pursuant to the provisions of, or in connection with the transactions contemplated by, this Agreement, will contain any untrue statement of material fact or omit any material fact necessary, in light of the circumstances under which it was made, in order to make such statement not misleading.

Section 4 Ownership of LIPA Sub; No Prior Activities. LIPA Sub is a direct, wholly owned subsidiary of Authority and was formed solely for the purpose of engaging in the transactions contemplated by this Agreement. As of the date hereof and the Effective Time, except for obligations or liabilities incurred in connection with its incorporation or organization and the transactions contemplated by this Agreement and except for this Agreement and any other agreements or arrangements contemplated by this Agreement, LIPA Sub has not and will not have incurred, directly or indirectly, through any subsidiary or affiliate, any obligations or liabilities or engaged in any business activities of any type or kind whatsoever or entered into any agreements or arrangements with any person.

Section 5 Ownership of Company Common Stock. Neither Authority nor LIPA Sub "beneficially owns" (as such term is defined for purposes of Section 13(d) of the Exchange Act) any shares of Company Common Stock or Company Preferred Stock.

ARTICLE VI
COVENANTS

Section 1 Covenants of Parent and Company. After the date hereof and prior to the Closing Date or earlier termination of this Agreement, Parent and Company agree as follows, as to themselves and to each of the Company Subsidiaries, as the case may be, except as expressly contemplated or permitted in this Agreement, the other Basic Agreements or to the extent the other parties hereto shall otherwise consent in writing:

(a) Ordinary Course of Business. With respect to the Retained Assets only, Company and the Company Subsidiaries shall carry on their respective businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and use all commercially reasonable efforts to preserve intact their present business organizations and goodwill and preserve the goodwill and relationships with customers, suppliers and others having business dealings with them. Company and the Company Subsidiaries may, with the prior approval of Authority or LIPA Sub, engage in transactions out of the ordinary course of business relating to the Retained Assets, such approval not to be unreasonably withheld or delayed; provided, however, that the following will not be subject to Authority's or LIPA Sub's prior approval: any transaction involving the Transferred Assets; provided, however, that such approval will be required for (A) any transaction that would impair the applicable Transferee Subsidiary's ability to perform its obligations under any Basic Agreement or that would violate any term of the Generation Purchase Right Agreement or (B) any transaction whereby Company enters into a capacity or transmission purchase agreement relating to the purchase of more than 75 megawatts of capacity or having a term which extends beyond March 19, 1999.

Except as set forth in Section 6.1(a) of the Parent Disclosure Schedule or as contemplated in this Section 6.1(a), neither Company nor any of the Company Subsidiaries shall make any change in the line of business involving the Retained Assets in which it engages as of the date hereof which involves any material investment of assets or resources or any material exposure to liability or loss to the Retained Assets taken as a whole.

(b) Charter Documents. Company shall not amend nor propose to amend its certificate of incorporation, by-laws or regulations, or similar organizational documents, except as contemplated herein or as set forth in Section 6.1(b) of the Parent Disclosure Schedule.

(c) No Acquisitions. Except as set forth in Section 6.1(c) of the Parent Disclosure Schedule or as contemplated in Section 6.1(a), neither Company nor any of the Company Subsidiaries shall acquire, or publicly propose to acquire, or agree to acquire, by merger or consolidation with, or by purchase or otherwise, in a transaction relating to the Retained Assets, a substantial equity interest in or a substantial portion of the assets of, any business or any corporation, partnership, association or other business organization or division thereof, nor shall any party acquire or agree to acquire, in a transaction relating to the Retained Assets, a material amount of assets other than in the ordinary course of business consistent with past practice.

(d) Capital Expenditures. Except as set forth in Section 6.1(d) of the Parent Disclosure Schedule, or as required by law, neither Company nor any of the Company Subsidiaries shall make capital expenditures or commitments relating to the Retained Assets in an aggregate amount significantly less or significantly more than the amounts projected therefor in Company's 1996 electric rate filing.

(e) No Dispositions. Except as set forth in Section 6.1(e) of the Parent Disclosure Schedule or as contemplated by Section 6.1(a),

singularly or in the aggregate, neither Company nor any of the Company Subsidiaries shall sell, lease, license, encumber or otherwise dispose of, any of the Retained Assets, other than encumbrances or dispositions in the ordinary course of its business consistent with past practice and other than dispositions of Retained Assets by Company and the Company Subsidiaries of less than \$10 million in the aggregate; provided, however, that notwithstanding the foregoing, neither Company nor any of the Company Subsidiaries shall sell, lease, license, encumber or otherwise dispose of, any attachment or similar rights.

(f) Indebtedness. Except as contemplated by any Basic Agreement, neither Company nor any of the Company Subsidiaries shall incur or guarantee any indebtedness (including any debt borrowed or guaranteed or otherwise assumed including, without limitation, the issuance of debt securities or warrants or rights to acquire debt) or enter into any "keep well" or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing other than incurrences to refinance existing indebtedness, incurrences of debt that will be assumed by Parent and/or one or more Transferee Subsidiaries at the Closing and other than as set forth in Section 6.1(f) of the Parent Disclosure Schedule.

(g) Transmission, Generation. Except as required pursuant to tariffs on file with the FERC as of the date hereof, in the ordinary course of business consistent with past practice, or as set forth in Section 6.1(g) of the Parent Disclosure Schedule, neither Company nor any of the Company Subsidiaries shall (i) commence construction of any additional electric generating, transmission or delivery capacity, or (ii) obligate itself to purchase or otherwise acquire, or to sell or otherwise dispose of, or to share, any additional electric generating, transmission or delivery capacity except as provided in clause (B) of the second proviso to Section 6.1(a) or as set forth in the budget of Company on the date hereof as set forth in Section 6.1(d) of the Parent Disclosure Schedule.

(h) Accounting. Except as set forth in Section 6.1(h) of the Parent Disclosure Schedule, Parent and Company shall not, nor shall Parent and Company permit any of the Company Subsidiaries to, make any changes in their accounting methods or principles, except as required by law, rule, regulation or GAAP.

(i) Affiliate Transactions. Except as set forth in Section 6.1(i) of the Parent Disclosure Schedule, neither Company nor any of the Company Subsidiaries shall enter into any material agreement or arrangement with any of their respective affiliates (other than those wholly-owned subsidiaries which will constitute Retained Assets) on terms materially less favorable to such party than could be reasonably expected to have been obtained with an unaffiliated third party on an arm's-length basis.

(j) Cooperation, Notification. Parent and Company shall, and shall cause the Company Subsidiaries to, (i) confer on a regular and frequent basis with one or more representatives of Authority or LIPA Sub to discuss, subject to applicable law, material operational matters and the general status of its ongoing operations; (ii) promptly notify Authority or LIPA Sub of any significant changes in its business, properties, assets, condition (financial or other), results of operations or prospects; (iii) advise Authority or LIPA Sub of any change or event which has had or, insofar as reasonably can be foreseen, is reasonably likely to result in a Material Adverse Effect; and (iv) promptly provide Authority or LIPA Sub with copies of all filings made by Parent or Company or any of the Company Subsidiaries with any state or federal court, administrative agency, commission or other Governmental Authority in connection with any Basic Agreement and the transactions contemplated hereby and thereby or the Retained Assets.

(k) Rate Matters. Parent and Company shall, and shall cause the Company Subsidiaries to, notify Authority or LIPA Sub of any changes in its or Company's rates or charges (other than pass-through fuel rates or charges, but including, without limitation, gas rates or charges), standards of service or accounting from those in effect on the date hereof. Without the consent of Authority (which consent will not be unreasonably withheld), Company shall not file or prosecute any rate case or other nonroutine proceeding before the Public Service Commission of the State of New York (the "PSC") or FERC or any appeal therefrom, except for cases or proceedings (i) relating solely to pass-through fuel or gas rates or charges, (ii) required to be made by order of the PSC or FERC, (iii) relating solely to the Transferred Assets or (iv) involving commercial or contractual disputes which are required to be resolved through such proceedings; provided, however, that if Company reasonably believes that a matter threatens the financial viability of Company, it may defend or prosecute such matter before the PSC or FERC. Either in seeking consent from Authority or if Company has the right to defend or prosecute a matter as contemplated herein, Company shall provide 30 days prior notice to Authority (including, upon request of Authority, copies of draft documentation) of any proposed filing with the PSC or FERC unless Company reasonably determines that circumstances require action within such 30 day period, in which event Company shall provide Authority with as prompt notice as is practicable. The parties will consult with each other with respect to all matters described in the preceding two sentences.

(l) Third-Party Consents. Parent and Company shall, and shall cause the Company Subsidiaries to, use all commercially reasonable efforts to obtain all Parent Required Consents. Parent shall promptly notify Authority or LIPA Sub of any failure or prospective failure to obtain any such consents and, if requested by Authority or LIPA Sub, shall provide copies of all Parent Required Consents obtained by Parent or Company to Authority or LIPA Sub.

(m) No Breach, Etc. Parent and Company shall not, nor permit any of the Company Subsidiaries to, willfully take any action that would or is reasonably likely to result in a material breach of any provision of any Basic Agreement, as the case may be, or in any of its representations and warranties set forth in any Basic Agreement, as the case may be, being untrue on and as of the Closing Date or any condition to their obligation to close not being satisfied.

(n) Tax-Exempt Status. Parent and Company shall not, nor shall Parent and Company permit, any Company Subsidiary to, take any action that would likely jeopardize the qualification of Company's outstanding revenue bonds which qualify on the date hereof under Section 142(a) of the Code as "exempt facility bonds" or as tax-exempt industrial development bonds under Section 103(b)(4) of the Internal Revenue Code of 1954, as amended, prior to the Tax Reform Act of 1986.

(o) Tax Matters. Except with respect to the matters set forth in the LILCO Tax Matters Disclosure Schedule attached to Schedule D, Parent and Company shall not make or rescind any material express or deemed election relating to taxes, settle (other than within established reserves) or compromise any material claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to taxes, or change any of its methods of reporting income or deductions for federal income tax purposes from those employed in the preparation of their respective federal income tax returns for the taxable year ending December 31, 1995, except as may be required by applicable law.

(p) Contracts. Subject to Section 6.1(a) and except as set forth in Section 6.1(p) of Parent Disclosure Schedule, Parent and Company shall not, other than in the ordinary course of business consistent with past practice, modify, amend, terminate, renew or fail

to use reasonable business efforts to renew any material franchise, contract or agreement to which Company or any Company Subsidiary is a party or waive, release or assign any material rights or claims, provided, however, that Parent and Company shall not enter into new power supply agreements, or amend existing power supply or transmission agreements, without prior approval of Authority (which approval will not be unreasonably withheld).

(q) Insurance. Parent and Company shall, and shall cause the Company Subsidiaries to, maintain with financially responsible insurance companies insurance in such amounts and against such risks and losses as are customary for companies engaged in the electric and gas utility industry and employing methods of generating electric power and fuel sources similar to those methods employed and fuels used by Parent, Company or the Company Subsidiaries.

(r) Permits. Parent and Company shall, and shall cause the Company Subsidiaries to, use reasonable efforts to maintain in effect all existing governmental permits pursuant to which Company or the Company Subsidiaries own and operate any Retained Asset.

(s) Compliance with Law: Permits. The operations and activities of Company, and the ownership, possession, maintenance and operation of the Retained Assets, have complied and are in compliance, in all respects, with all applicable federal, state and local laws, statutes, acts, regulations, codes, ordinances, rules, judgments, orders, decrees, judgments, injunctions, or notices or demand letters issued or promulgated or approved thereunder ("Applicable Law"). Except as set forth in Section 6.1(s) of Parent Disclosure Schedule, Company has all material federal, state, and local governmental licenses, permits, approvals, franchises and other authorizations ("Permits") as are necessary in order for it to conduct the business conducted with the Retained Assets. No material violations have been recorded in respect of any Permits and no proceeding is pending or, to the knowledge of Parent or Company, threatened with respect to the limitation or revocation of any Permit.

Section 2 Covenants of Authority and LIPA Sub.

(a) Filings. Authority and LIPA Sub shall promptly provide Parent and Company with copies of all filings made by Authority or LIPA Sub with any state or federal court, administrative agency, commission or other Governmental Authority in connection with this Agreement or any Basic Agreement and the transactions contemplated hereby and thereby.

(b) Third-Party Consents. Authority and LIPA Sub shall use all commercially reasonable efforts to obtain all Authority Required Consents. Authority shall promptly notify Parent and Company of any failure or prospective failure to obtain any such consents and, if requested by Parent or Company, shall provide copies of all Authority Required Consents obtained by Authority and LIPA Sub to Parent and Company.

(c) No Breach, Etc. Authority and LIPA Sub shall not willfully take any action that would or is reasonably likely to result in (x) a material breach of any provision of this Agreement or any other Basic Agreement, as the case may be, (y) any of their representations and warranties set forth in this Agreement or in any other Basic Agreement being untrue on and as of the Closing Date or (z) any condition to their obligations to close not being satisfied.

ARTICLE VII
ADDITIONAL AGREEMENTS

Section 1 Access to Information. Upon reasonable notice, each party shall afford to the officers, employees, accountants, counsel, investment bankers, financial advisors, engineers and other representatives of the other (collectively, "Representatives") reasonable access, during normal business hours throughout the period prior to the Effective Time, to all of its properties, books, contracts, commitments and records and, during such period, each party shall furnish promptly to the other (i) access to each report, schedule and other document filed or received by it pursuant to the requirements of federal or state securities laws or filed with or sent to the SEC, the FERC, the NRC, the Department of Justice, the Federal Trade Commission, the PSC or any other federal or state regulatory agency or commission, and (ii) access to all information concerning themselves, their subsidiaries, directors and officers and such other matters as may be reasonably requested by the other party in connection with any filings, applications or approvals required or contemplated by this Agreement or for any other reason related to the transactions contemplated by this Agreement. In addition, Company and Parent shall promptly furnish to Authority upon request all such information as may be necessary or desirable in order that Authority may obtain the financing referred to in Section 8.1(f).

Section 2 Proxy Statement and Registration Statement. Company will prepare and file with the SEC as soon as reasonably practicable after the date hereof the registration statement relating to the Parent Shares (the "Registration Statement") and the Proxy Statement. The parties hereto shall each use reasonable efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as practicable after such filing. Each of the parties hereto shall furnish all information concerning itself which is required or customary for inclusion in the Proxy/Registration Statement.

Section 3 Shareholder Approval. Company shall, as soon as reasonably practicable after the date hereof, (i) take all steps necessary to duly call, give notice of, convene and hold a special meeting of its shareholders for the purpose of securing the approval of its shareholders, (ii) distribute to its shareholders the Proxy Statement in accordance with applicable federal and state law and with its Restated Certificate of Incorporation and by-laws, (iii) subject to the fiduciary duties of its Board of Directors, recommend to its shareowners the adoption of this Agreement and the transactions contemplated hereby and (iv) cooperate and consult with Authority with respect to each of the foregoing matters. In the event that during the special meeting of shareholders referred to above the Company Shareholder Approval is initially not obtained, Company shall adjourn the meeting for a reasonable period and Company and Parent shall take such actions as may be necessary or desirable in order to obtain the Company Shareholder Approval when such meeting is reconvened.

Section 4 Disclosure Schedule. (a) On the date hereof, Parent has delivered to Authority a schedule (the "Parent Disclosure Schedule"), accompanied by a certificate signed by the Chief Financial Officer of Company stating that the Parent Disclosure Schedule is being delivered pursuant to this Section 7.4(a). The Parent Disclosure Schedule constitutes an integral part of this Agreement and modifies the representations, warranties, covenants or agreements of Parent hereto contained herein to the extent that such representations, warranties, covenants or agreements expressly refer to the Parent Disclosure Schedule.

(b) Not later than 30 days before the date scheduled for the Closing, Parent shall deliver to Authority a revised Parent Disclosure Schedule (the "Updated Parent Disclosure Schedule"), accompanied by a certificate signed by the Chief Financial Officer of Company stating that the Updated Parent Disclosure Schedule is being delivered pursuant to this Section 7.4(b). The Updated Parent Disclosure Schedule shall contain the information Parent believes would be required to comply with the condition set forth in

Section 8.2(b) (but for purposes solely of this Section 7.4(b), as if such Section 8.2(b) did not contain any reference to Material Adverse Effect). No liability shall arise under any Basic Agreement by reason of the delivery of the Updated Parent Disclosure Schedule or, after the Effective Time, by reason of any matter disclosed therein.

Section 5 Regulatory Matters. Each party hereto shall cooperate and use its best efforts to promptly prepare and file all necessary documentation and to effect all necessary applications, notices, petitions, filings and other documents, and shall use all commercially reasonable efforts to obtain all necessary permits, consents, approvals and authorizations of all Governmental Authorities necessary or advisable to consummate the transactions contemplated by this Agreement, including, without limitation, the Parent Required Statutory Approvals and the Authority Required Statutory Approvals. Parent, Company, Authority and LIPA Sub shall cooperate in good faith and consult with each other on all components of, significant steps towards the completion of, and significant amendments to, the applications to obtain the Parent Required Statutory Approvals and the Authority Required Statutory Approvals, and with respect to material filings, communications, agreements, arrangements or consents, written or oral, formal or informal, relating to applications for such Approvals.

Section 6 Public Announcements. Parent, Company, Authority and LIPA Sub will cooperate with each other in the development and distribution of all news releases and other joint public information disclosures with respect to this Agreement and any other Basic Agreement or any of the transactions contemplated hereby.

Section 7 Confidentiality. (a) Company Request. The parties acknowledge that certain information that may be furnished pursuant to the provisions of this Agreement may be confidential and proprietary to Company. The Company and Parent each acknowledges that Authority may be required to disclose information upon request under applicable law. The Company shall have the right to request Authority in writing not to publicly disclose any information which Company believes to be confidential or proprietary and not subject to public disclosure under applicable law, and such request will be accompanied by an explanation of its reasons for such belief. Any information which is the subject of such a request shall be clearly marked on all pages, shall be bound, and shall be physically separate from all non-confidential and non-proprietary information. At Company's request, Authority and its Representatives given access to such information shall execute and comply with the terms of a confidentiality agreement in a mutually acceptable form, subject to applicable law.

(b) Authority Non-Disclosure. If Authority receives a request from the public for the disclosure of any information designated as confidential or proprietary by Company pursuant to subsection (a) of this Section 7.7, Authority (1) shall use reasonable efforts, consistent with applicable law, to provide notice to Company of the request prior to any disclosure, and (2) shall use reasonable efforts, consistent with applicable law, to keep in confidence and not disclose such information unless it is entitled to do so pursuant to the provisions of subsection (c) of this Section 7.7. Company shall indemnify, hold harmless and defend Authority against all losses incurred from the withholding from public disclosure of information designated as confidential or proprietary by Company or otherwise requested by Company to be withheld.

(c) Previously Furnished Information. Company hereby permits Authority and its Representatives to obtain all information previously furnished by Company to Bear, Stearns & Co. Inc. and certain other persons pursuant to the letter dated October 11, 1995, (as amended to date) subject to the terms and conditions of this Section 7.7. Authority agrees that all such information (other than information described in clauses (1), (2) or (3) of Section 7.7(e)) shall be deemed to be delivered to Authority pursuant to the procedures set forth in Section 7.7(a) for the purpose of identifying confidential or proprietary information.

(d) Restriction on Use. Authority and LIPA Sub may not use any confidential or proprietary information disclosed to either of them by Company (other than information described in clauses (1), (2) or (3) of Section 7.7(e)) in taking any action described in clauses (a), (b), (c) or (d) of Article X at any time after the date hereof.

(e) Permitted Disclosures. Notwithstanding any confidential or proprietary designation thereof by Company, Authority may disclose the following: (1) information which is known to Authority without any restriction as to disclosure or use at the time it is furnished, (2) information which is or becomes generally available to the public without breach of any agreement, (3) information which is received from a third party without limitation or restriction on such third party or Authority at the time of disclosure, or (4) following notice to Company pursuant to subsection (b) of this Section, information which, in the opinion of counsel for Authority, is required to be disclosed under any applicable law, an order of a court of competent jurisdiction, or a lawful subpoena.

Section 8 Certain Litigation.

(a) Class Settlement. After the date hereof, Company and Authority shall jointly file an appropriate motion before the court having jurisdiction over the Class Settlement (as hereinafter defined) to obtain a modification of the final order approving such Class Settlement which would permit the payment in full at the Closing of all amounts remaining unpaid with respect to such Class Settlement, discounted to such present value as Authority and Company may agree and such court may approve. As used herein, "Class Settlement" shall mean the class settlement which became effective on June 28, 1989 and resolved a civil lawsuit against Company brought under the federal Racketeer Influenced and Corrupt Organizations Act.

(b) Tax Cases. With respect to all tax cases relating to property taxes or payments in lieu of property taxes assessable against any of the assets and properties of Company as of the date hereof, and other similar tax claims arising prior to the Closing Date (which shall constitute Retained Assets), Company will enter into appropriate standstill agreements and maintain the current status of such cases; provided, however, if any taxing authority increases, directly or indirectly, or purports to increase, directly or indirectly, the assessed value of any Transferred Asset (other than in respect of property additions or general increases in assessments), then Company may pursue any judicial remedy it deems advisable in connection therewith. Notwithstanding the foregoing, if any taxing authority, at any time prior to the Closing, asserts a claim for property taxes or payments in lieu of property taxes which Company reasonably believes is not authorized by statute or asserts a right to value a taxable property in a method other than in accordance with applicable New York State rules and regulations, then Company may take such actions as it reasonably determines to be necessary or advisable to protect its interests, but shall not otherwise pursue its claims pending the Closing or the termination of this Agreement.

(c) Phase I Rebates. Upon the Closing, Parent will immediately pay Authority \$15 million in respect of the Phase I judgment relating to the Shoreham property tax case for distribution to ratepayers.

Section 9 Expenses. All costs and expenses incurred in connection with this Agreement and any other Basic Agreement and the transactions contemplated hereby (including, without limitation, any termination fees and expense reimbursements payable by Company pursuant to the Exchange Agreement or to its officers or directors in respect of severance, change of control or similar agreements) shall be paid by the party incurring such expenses. Any such cost or expense of Company not paid or otherwise discharged at or prior to the Closing shall be paid or reimbursed by Parent and the Transferee Subsidiaries pursuant to the Parent Liabilities Undertaking and shall not be included in the Closing Date Balance Sheet.

Section 10 Further Assurances. Each party will, and will cause its Subsidiaries to, execute such further documents and instruments and take such further actions as may reasonably be requested by any other party in order to consummate the transactions contemplated hereby in accordance with the terms hereof.

Section 11 Purchase Price Allocation. At or prior to the Closing, the parties shall jointly prepare and agree to an allocation for federal income tax purposes pursuant to Section 1060 of the Code of the purchase price payable by Parent in respect of the transfer of the Transferred Assets.

Section 12 Receipt of Consents and Approvals. Each party agrees to respond promptly to any request for any consent or approval from any other party contemplated by this Agreement and any third party consent or statutory approval required hereunder. Each party shall designate representatives who shall be authorized to address any request for any such consents or approvals. Any act of any such representative with respect to such approvals and consents shall be binding upon the party that designates such representative.

Section 13 Certain Other Matters. The provisions set forth in Schedules D (Tax Matters), E (Employment Matters) and F (Future Rights) attached hereto are hereby incorporated by reference as if set forth herein in their entirety.

Section 14 Opinions of Counsel. In addition, Parent and Company shall deliver to Authority such opinions of counsel for Parent and Company as to the agreements to be entered into in connection with the transactions contemplated by the Basic Agreements, in customary form for financing transactions, as to the matters of law covered by the representations of Parent and Company and the Transferee Subsidiaries in the Basic Agreements, similar matters of law with respect to such other agreements and as to such other matters of law as Authority may reasonably request, together with appropriate certified authorizing resolutions and incumbency certificates.

ARTICLE VIII CONDITIONS

Section 1 Conditions to Each Party's Obligations. The respective obligations of each party to effect the transactions contemplated by this Agreement shall be subject to the satisfaction on or prior to the Closing Date of the following conditions:

(a) No Injunction. No temporary restraining order or preliminary or permanent injunction or other order by any federal or state court preventing consummation of the transactions contemplated by this Agreement and the other Basic Agreements shall have been issued and be continuing in effect, and this Agreement and the other Basic Agreements and the transactions contemplated hereby and thereby shall not have been prohibited under any applicable federal or state law or regulation.

(b) Statutory Approvals. The Parent Required Statutory Approvals and the Authority Required Statutory Approvals shall have been obtained at or prior to the Closing Date, such approvals shall have become Final Orders (as defined below) and such Final Orders shall not impose terms or conditions which, in the aggregate, would have, or insofar as reasonably can be foreseen, could have, a material adverse effect on the business, assets, financial condition or results of operations Parent, which would be materially inconsistent with the agreements of the parties contained herein or in the Basic Agreements or would have (or, insofar as reasonably can be foreseen could have) a Material Adverse Effect. A "Final Order" means action by the relevant regulatory authority which has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by law before the transactions contemplated hereby may be consummated has expired, and as to which all conditions to the consummation of such transactions prescribed by law, regulation or order have been satisfied.

(c) Basic Agreements. The relevant parties shall have entered into each other Basic Agreement.

(d) Tax Rulings. Favorable private letter rulings reasonably satisfactory to each of the parties hereto shall have been received from the IRS with respect to the application of Section 337(d) of the Code.

(e) Consummation of Exchange Transaction. Either (i) the transactions contemplated by the Exchange Agreement shall have been consummated, (ii) the Exchange Agreement shall have been terminated or (iii) all conditions to such consummation shall have been satisfied or waived in accordance with the terms of the Exchange Agreement and such transactions will be consummated promptly after the Closing.

(f) Financing. Authority shall have obtained financing in an amount sufficient to acquire the Common Stock and the Non-Redeemable Preferred Stock and redeem the Redeemable Preferred Stock and the bonds issued in connection therewith shall have received ratings pursuant to rating applications which contemplate the issuance of up to \$7.3 billion for such purpose and for the purpose of refinancing Company debt.

Section 2 Conditions to Obligations of Authority and LIPA Sub. The obligations of Authority and LIPA Sub to effect the transactions contemplated by this Agreement and the other Basic Agreements shall be further subject to the satisfaction on or prior to the Closing Date, of the following conditions, except as may be waived by Authority or LIPA Sub in writing pursuant to Section 9.5:

(a) Performance of Obligations of Parent and Company. Each of Parent and Company shall have performed in all material respects its agreements and covenants contained in or contemplated by this Agreement and the other Basic Agreements required to be performed by it at or prior to the Closing Date.

(b) Representations and Warranties. The representations and warranties of Parent and Company set forth in this Agreement and the other Basic Agreements shall be true and correct (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that expressly speak only as of a specific date or time other than the date hereof or the Closing Date which need only be true and correct as of such date or time) except in each of cases (i) and (ii) for such failures of representations or warranties to be true and correct (without regard to any materiality qualifications contained therein) which, individually or in the aggregate, would not be reasonably likely to result in a Material Adverse Effect.

(c) Closing Certificates. Authority shall have received a certificate signed on behalf of Parent and Company by the Chief Financial Officer of Parent, dated the Closing Date, to the effect that, to the best of such Officer's knowledge, the conditions set forth in Section 8.2(a) and Section 8.2(b) have been satisfied.

(d) Material Adverse Effect. No Material Adverse Effect shall have occurred and there shall exist no fact or circumstance which is reasonably likely to have a Material Adverse Effect.

(e) Parent Required Consents. The Parent Required Consents shall have been obtained, except for those consents the failure of which to obtain would not have a Material Adverse Effect.

(f) Formation of Parent Subsidiaries. The Transferee Subsidiaries will have been duly formed and organized.

(g) Tax Rulings. Favorable private letter rulings reasonably

satisfactory to Authority shall have been received from the IRS with respect to the application of Sections 103 and 115 of the Code.

(h) Rate Savings Determination. Authority shall have made the final rate savings determination required under its governing statute.

Section 3 Conditions to Obligations of Parent and Company. The obligations of Parent and Company to effect the transactions contemplated by this Agreement and the other Basic Agreements shall be further subject to the satisfaction on or prior to the Closing Date of the following conditions, except as may be waived by Parent and Company in writing pursuant to Section 9.5:

(a) Performance of Obligations of Authority and LIPA Sub. Authority and LIPA Sub shall have performed in all material respects its agreements and covenants contained in or contemplated by this Agreement and the other Basic Agreements required to be performed at or prior to the Closing Date.

(b) Representations and Warranties. The representations and warranties of each of Authority and LIPA Sub set forth in this Agreement and the other Basic Agreements shall be true and correct (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that expressly speak only as of a specific date or time other than the date hereof or the Closing Date which need only be true and correct as of such date or time) except in each of cases (i) and (ii) for such failures of representations or warranties to be true and correct (without regard to any materiality qualifications contained therein) which, individually or in the aggregate, would not be reasonably likely to result in a Material Adverse Effect.

(c) Closing Certificates. Parent shall have received a certificate signed on behalf of Authority by the Executive Director of Authority, dated the Closing Date, to the effect that, to the best of such Executive Director's knowledge, the conditions set forth in Section 8.3(a) and Section 8.3(b) have been satisfied.

(d) Material Adverse Effect. No Material Adverse Effect shall have occurred and there shall exist no fact or circumstance which is reasonably likely to have a Material Adverse Effect.

ARTICLE IX TERMINATION AND AMENDMENT

Section 1 Termination. This Agreement may be terminated prior to the Closing Date:

(a) by mutual written consent of the Board of Directors of Company and the Board of Trustees of Authority;

(b) by either Parent and Company, on the one hand, or Authority and LIPA Sub, on the other hand, if the Closing shall not have occurred on or before August 31, 1998 (the "Initial Termination Date"); provided, however, that the right to terminate the Agreement under this Section 9.1(b) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur on or before this date; and provided, further, that if on the Initial Termination Date the conditions to the Closing set forth in Sections 8.1(b), 8.1(d) or 8.2(e) shall not have been fulfilled but all other conditions to the Closing shall be fulfilled or shall be capable of being fulfilled, then the Initial Termination Date shall be extended to April 28, 1999.

(c) by Parent or Company, upon two days' prior notice to Authority, if, as a result of a tender offer or any written offer or proposal

with respect to a merger, sale of a material portion of its assets or other business combination made by a party other than Authority or any of its affiliates prior to Company having obtained Company Shareholder Approval, the Board of Directors of Company determines in good faith that their fiduciary obligations under applicable law require that such tender offer or other written offer or proposal be accepted; provided, however, that (i) the Board of Directors of Company shall have been advised in a written opinion of outside counsel that notwithstanding a binding commitment to consummate an agreement of the nature of this Agreement entered into in the proper exercise of their applicable fiduciary duties, and notwithstanding all concessions which may be offered by Authority in negotiations entered into pursuant to clause (ii) below, such fiduciary duties would also require the directors to reconsider such commitment as a result of such tender offer or other written offer or proposal; and (ii) prior to any such termination, Company shall, and shall cause its respective financial and legal advisors to, negotiate with Authority to make such adjustments in the terms and conditions of this Agreement as would enable Company to proceed with the transactions contemplated herein on such adjusted terms;

(d) by Authority, by written notice to Parent and Company, if (i) there exist breaches of the representations and warranties of Parent and Company made herein as of the date hereof which breaches, individually or in the aggregate, would or would be reasonably likely to result in a Material Adverse Effect, and such breaches shall not have been remedied within 20 days after receipt by Parent and Company of notice in writing from Authority, specifying the nature of such breaches and requesting that they be remedied, (ii) Parent or Company shall have failed to perform and comply with, in all material respects, its agreements and covenants hereunder or under any other Basic Agreement and such failure to perform or comply shall not have been remedied within 20 days after receipt by Parent and Company of notice in writing from Authority, specifying the nature of such failure and requesting that it be remedied; or (iii) the Board of Directors of Parent or any committee thereof (A) shall withdraw or modify in any manner adverse to Authority or LIPA Sub its approval or recommendation of this Agreement or the other Basic Agreements, (B) shall fail to reaffirm such approval or recommendation upon Authority's or LIPA Sub's request, or (C) shall resolve to take any of the actions specified in clause (A) or (B);

(e) by Parent or Company, by written notice to Authority and LIPA Sub, if (i) there exist material breaches of the representations and warranties of Authority and LIPA Sub made herein as of the date hereof which breaches, individually or in the aggregate, would or would be reasonably likely to result in a Material Adverse Effect, and such breaches shall not have been remedied within 20 days after receipt by Authority of notice in writing from Parent, specifying the nature of such breaches and requesting that they be remedied, (ii) Authority shall have failed to perform and comply with, in all material respects, its agreements and covenants hereunder or under any other Basic Agreements, and such failure to perform or comply shall not have been remedied within 20 days after receipt by Authority or LIPA Sub of notice in writing from Parent, specifying the nature of such failure and requesting that it be remedied, or (iii) the Board of Trustees of Authority or any committee thereof (A) shall withdraw or modify in any manner adverse to Parent or Company its approval or recommendation of this Agreement or any of the other Basic Agreements, (B) shall fail to reaffirm such approval or recommendation upon Parent's or Company's request, or (C) shall resolve to take any of the actions specified in clause (A) or (B); or

(f) by either Parent and Company, on the one hand, or Authority and LIPA Sub, on the other hand, by written notice to the other party, if any of the conditions of either party's obligation to effect the transactions cannot be satisfied.

Section 2 Effect of Termination. In the event of the termination of this Agreement, the provisions in this Section 9.2, in Sections 7.7, 7.9 and Article X (and Section 11.7 to the extent it is applicable to such Sections and Article) shall survive the termination and no party shall be

relieved of any liability for any breach of this Agreement.

Section 3 Survival. All of the covenants in the Schedules attached hereto shall survive the Effective Time. All representations and warranties in this Agreement shall not survive the Effective Time, except as otherwise provided in this Agreement.

Section 4 Amendment. This Agreement may be amended at any time by the parties hereto, but only by an instrument in writing signed by each of the parties hereto; provided, however, that Authority and LIPA Sub shall not unreasonably withhold their consent to any amendment proposed by Company with respect to Sections 2.1(b) and (c).

Section 5 Extension; Waiver. At any time prior to the Closing, the parties hereto may (a) extend the time for the performance of any of the obligations or other acts of the parties hereto, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or, to the extent permitted by applicable law, conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed by such party.

ARTICLE X STANDSTILL

Section 10.1 Standstill. In the event Authority terminates this Agreement, Authority and its affiliates will not (and will not assist or encourage others to), directly or indirectly, without the prior consent of Parent and Company, prior to the date that is six months after the date of termination, if any, of this Agreement by Authority pursuant to Section 9.1:

(a) acquire or agree, offer, seek or propose to acquire, or cause to be acquired, ownership (including, but not limited to, beneficial ownership as defined in Rule 13d-3 under the Exchange Act of any of Company's (or any successor's) assets or businesses or any securities issued by Company (or any successor) or any rights or options to acquire such ownership, including from a third party;

(b) condemn or agree, offer, seek or propose to condemn, or cause to be condemned, any of Company's (or any successor's) assets or businesses or any securities issued by Company (or any successor);

(c) make, or in any way participate, in any solicitation of proxies or consents with respect to any securities of Parent or Company which are, or may be, entitled to vote in the election of Parent's or Company's directors, as the case may be ("Voting Securities"), become a "participant" in any "election contest" (as such terms are defined or used in Rule 14a-11 under the Exchange Act) with respect to Parent or Company; or seek to advise, encourage or influence any person or entity with respect to the voting of any of Parent's or Company's Voting Securities; or demand a copy of Parent's or Company's stock ledger, list of Parent's or Company's shareholders or other books and records; or call or attempt to call any meeting of the shareholders of Parent or Company; or

(d) enter into any discussions, negotiations, arrangements or understandings with any third party or agency with respect to any of the matters described in clause (a), (b) or (c) of this Section 10.1.

ARTICLE XI MISCELLANEOUS

Section 1 Certain Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(a) "affiliate" or "associate" of any specified person means any

other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For the purposes of this definition, "control" when used with respect to any specified person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing;

(b) "business day" means any day (other than a Saturday or a Sunday) on which banking institutions in New York City, New York are not authorized or obligated by law or executive order to close; and

(c) "person" means any individual, corporation, firms, companies, trusts, business trusts, legal entities general partnership, limited partnership, joint venture, association, joint-stock company, trust, limited liability company, unincorporated organization or government or any agency or political subdivision thereof.

Section 2 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given upon receipt if delivered personally or mailed by registered or certified mail (return receipt requested) or overnight delivery service to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Authority or LIPA Sub, to:

Long Island Power Authority
333 Earle Ovington Boulevard
Suite 403
Uniondale, New York 11553
Telephone: (516) 222-7700
Attention: Executive Director

with a copy to:

Richard Kessel
Chairman of the Board
Long Island Power Authority
333 Earle Ovington Blvd., Suite 403
Uniondale, New York 11553

Patrick Foye
Deputy Chairman of the Board
Long Island Power Authority
333 Earle Ovington Blvd., Suite 403
Uniondale, New York 11553

Winthrop, Stimson, Putnam & Roberts
One Battery Park Plaza
New York, New York 10004
Telephone: (212) 858-1000
Attention: Stephen R. Rusmisl

(b) if to Parent or Company, to:

Long Island Lighting Company
175 East Old County Road
Hicksville, New York 11801
Telephone: (516) 545-4800
Attention: Chief Executive Officer

with a copy to:

Kramer, Levin, Naftalis & Frankel
919 Third Avenue

New York, New York 10022
Telephone: (212) 715-9100
Attention: Thomas E. Constance

Section 3 Descriptive Headings. The descriptive headings herein are inserted for convenience only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

Section 4 Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement.

Section 5 Entire Agreement; Assignment. This Agreement, including the annexes and exhibits hereto and the documents, schedules (including, without limitation, the Disclosure Schedule), certificates and instruments referred to herein constitute the entire agreement, and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof. This Agreement shall not be assigned by operation of law or otherwise.

Section 6 Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of New York, without regard to any applicable principles of conflicts of law. Except as otherwise provided in Section 11.10, any action arising out of or relating to this Agreement shall be brought in New York State Court or Federal District Court.

Section 7 Specific Performance. The parties hereto agree that if any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached, irreparable damage would occur, no adequate remedy at law would exist and damages would be difficult to determine, and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

Section 8 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other person or persons any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

Section 9 Severability. This Agreement shall be deemed severable; the invalidity or unenforceability of any term or provision of this Agreement shall not affect the validity or enforceability of this Agreement or of any other term hereof, which shall remain in full force and effect.

Section 10 Alternative Dispute Resolution.

(a) Any dispute arising out of or relating to any covenant contained in any Schedule to this Agreement shall be resolved in accordance with the procedures specified in this Section 11.10, which shall constitute the sole and exclusive procedures for the resolution of such disputes, except to the extent any such Schedule expressly provides another dispute resolution process.

(b) The parties agree to use their best efforts to settle promptly any disputes or claims arising out of or relating to this Agreement through negotiation conducted in good faith between executives having authority to reach such a settlement. If either party hereto shall so request, the parties shall mutually agree on the selection of a mediator who shall mediate the negotiations, which shall be non-binding.

All negotiations and mediation discussions pursuant to this paragraph are confidential and shall be treated as compromise and settlement negotiations for purposes of Federal Rule of Evidence 408 and applicable state rules of evidence.

(c) Any dispute arising out of relating to any Schedule to this

Agreement or the breach, termination, or validity thereof, which dispute has not been resolved by a negotiation or mediation as provided in paragraph (b) hereof within 60 days from the date that either negotiations or mediation shall have been first requested, shall be settled by binding arbitration before three independent and impartial arbitrators in accordance with the then current rules of the American Arbitration Association, except to the extent such rules are inconsistent with any provision of this Agreement, in which case the provisions of this Agreement shall be followed, and except that the arbitrations under this Agreement shall not be administered by the American Arbitration Association. The Arbitrators shall be (i) independent of the parties and disinterested in the outcome of the dispute, (ii) attorneys, accountants, investment bankers, commercial bankers or engineers familiar with contracts governing the operation of electric utility assets, and (iii) qualified in the subject area of the issue in dispute. For purposes of the preceding sentence, residents of Long Island shall not be considered interested merely by virtue of their residence. The Arbitrators shall be chosen by the parties, with each party choosing one arbitrator and those arbitrators choosing the third arbitrator. Judgment on the award rendered by the Arbitrators may be entered in any court in the State of New York having jurisdiction thereof. If either party refuses to participate in good faith in the negotiations or mediation proceedings described in paragraph (b) hereof, the other may initiate arbitration at any time after such refusal without waiting for the expiration of the 60 day period. Except as provided in Paragraph (d) hereof relating to provisional remedies, the Arbitrators shall decide all aspects of any dispute brought to them including attorney disqualification and the timeliness of the making of any claim.

(d) Either party may, without prejudice to any negotiation, mediation, or arbitration procedures, proceed in any court of competent jurisdiction to seek provisional judicial relief if, in such party's sole discretion, such action is necessary to avoid imminent irreparable harm or to preserve the status quo pending the conclusion of the dispute procedures specified in this Section 11.10.

(e) The Arbitrators shall have no authority to award punitive damages or any other damages aside from the prevailing party's actual and consequential damages, plus interest thereon at the Base Interest Rate (as defined in the Management Services Agreement) accrued from the date such damages were incurred. The Arbitrators shall not have the authority to make any ruling, finding, or award that does not conform to the terms and conditions of this Agreement.

(f) The Arbitrators may award reasonable attorneys' fees and costs of the arbitration.

(g) Any claim under any Schedule to this Agreement shall be time-barred, regardless of any statute of limitations periods provided by state or federal law, unless negotiation or mediation with respect thereto is commenced with respect to such claim within twelve months after the basis for such claim has been discovered.

(h) The Arbitrators shall have the discretion to order a pre-hearing exchange of information by the parties, including, without limitation, the production of requested documents, the exchange of summaries of testimony of proposed witnesses, and the examination by deposition of parties. Each of the parties agrees to produce all such requested documents and to deliver to the other a certificate, executed by a senior executive of such party, stating that all such documents have been so produced.

(i) The site of any arbitration proceeding brought pursuant to this Agreement shall be Mineola or Hauppauge, New York.

(j) The Arbitrators' award shall be in writing and shall set forth the factual and legal bases for the award.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

LONG ISLAND LIGHTING COMPANY

By: _____
Name: Dr. William J. Catacosinos
Title: Chief Executive Officer

LONG ISLAND POWER AUTHORITY

By: _____
Name: Richard M. Kessel
Title: Chairman

By: _____
Name: Patrick Foye
Title: Deputy Chairman

LIPA ACQUISITION CORP.

By: _____
Name:
Title:

As contemplated by Section 1.4 hereof, the undersigned has executed and delivered this Agreement as Parent:

BL HOLDING CORP.

By: _____
Name:
Title:

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