

Schedule E

Employment Matters

I. Compensation and Benefits

Discharge of Company liability with respect to employee & executive compensation and benefits.

1. Parent will become the successor employer to Company under the collective bargaining agreements to which Company is a party. All employees of Company will be offered employment by Parent or an affiliate of Parent, effective as of the Closing. Employees who do not accept employment with Parent or an affiliate shall be terminated.
2. Company will make the following arrangements with respect to payment of its liabilities under its compensation and benefit plans and programs prior to the end of the tax year within which the date of the Closing falls:
 - a. With respect to any welfare benefit plan providing post-retirement welfare benefits that under PSC rules in effect at the date hereof is a ratepayer expense, Company, prior to Closing, and Parent, prior to the close of the tax year which includes the date of the Closing, may fund any such liability by paying to the trustee of any employee benefit trust the amount of the projected benefit obligation accrued up to the Closing for welfare benefits under such plans (whether vested or unvested) which Company or Parent (as the case may be) has a reasonable basis to believe is deductible for Federal income tax purposes. To the extent not otherwise charged to Company pursuant to the Basic Agreements or any other contractual relationship between Parent, any affiliate of Parent, Authority or Company (and otherwise without regard to any other contractual relationships between Parent, Company or Authority), Authority shall pay Parent an amount equal to the amount of the portion of the post-retirement liability described in this paragraph that under the rules of the PSC in effect at the date hereof is an Electric ratepayer expense (an estimate of which amount is reflected as a regulatory asset of Company on the Pro Forma Balance Sheet, at the same time and for the same amount that the Electric ratepayers would have had the cost attributable to such post-retirement liability included in the cost of their service under the rules of the PSC in effect at the date hereof until such liability is fully amortized.
 - b. Notwithstanding any other provision of the Agreement, Company, prior to Closing, and Parent, prior to the close of the tax year which includes the date of the Closing, shall pay or arrange for the funding of any employee compensation or benefit previously accrued (or which would be accrued upon an employee's termination of employment from Company) which, in the judgment of Company or Parent (as the case may be), is reasonable and which under rules of the PSC in effect at the date hereof is not a ratepayer expense.
 - c. With respect to any employee or former employee (or his or her spouse, or other dependent or beneficiary) who qualifies for a benefit under a welfare benefit (including severance) plan or workers' compensation plan because of an illness, accident or other event (including termination of

employment) that occurred on or prior to the Closing, Authority shall pay or provide for the cost of continuing coverage of any such benefit not described in paragraph a, b, d, or e of this Section I.2, to the extent and at the time the cost of such coverage is an Electric ratepayer expense under PSC rules in effect at the date hereof. Company prior to Closing, and Parent, prior to the close of the tax year which includes the date of the Closing, may, subject to paragraph h below, contribute funds to a trust to provide for such benefits.

- d. With respect to any liability for the projected benefit obligations accrued up to the Closing for pension benefits that under PSC rules in effect at the date hereof is an Electric ratepayer expense (including, but not limited to, benefits under either qualified or nonqualified plans which alone or together with other benefits are non-discriminatory), Company prior to Closing, and Parent, prior to the close of the tax year which includes the date of the Closing, may, subject to paragraph h below, fund such benefits (vested or non-vested) under the actuarial methods, factors or assumptions set forth in the latest actuarial reports with respect to such plans by contributing to the appropriate trust up to the amount which Company or Parent (as the case may be) has a reasonable basis to believe is deductible for Federal tax purposes.
- e. Company prior to Closing, and Parent, prior to the close of the tax year which includes the date of the Closing, may, subject to paragraph h below, pay any accrued benefit or compensation including accrued vacation pay that under the rules of the PSC in effect at the date hereof is a ratepayer expense.
- f. Any liabilities Company incurs for payments by Company referred to in paragraphs a, c, d and e of this Section I.2 that are attributable to employees who were not, prior to the Closing, employed by, or whose compensation was not allocable to, Company's gas business shall be assumed by Parent at the Closing subject to Authority's obligations pursuant to the last sentence of paragraph a and pursuant to paragraph c.
- g. Any liabilities Company incurs for payments by Company referred to in paragraphs a, c, d and e of this Section I.2 and attributable to employees who, prior to the Closing, were employed by, or whose compensation is allocated to, Company's gas business, and any liabilities Company incurs for payments by the Company referred to in paragraph b of this Section I.2, shall be assumed by Parent at the Closing.
- h. In the case of liabilities attributable to employees who were not, prior to the Closing, employed by, or whose compensation was not allocable to, Company's gas business, prefunding or prepayment of such liabilities under paragraph c, d or e of this Section I.2 shall require the prior written consent of Authority, which shall not be unreasonably withheld.

3. Provision for certain employee liabilities.
- a. Effective as of the Closing, Parent shall assume, or shall cause one or more of its affiliates to assume, all of the "Employee Plans" described in Section II.1 of this Schedule E, including all liabilities and assets thereunder, and the Parent (or such affiliate) as plan sponsor shall have the sole authority to appoint the plan trustees and named fiduciaries.
 - b. Notwithstanding the foregoing, and subject to the limitations set forth in this Section I.3, Parent or such affiliate(s) shall be entitled to charge Authority for the cost of funding and maintaining the following Employee Plans and related trusts, to the extent such cost is attributable to employees who have been employed by Company prior to the Closing (other than employees employed by or who provided services solely to the Company gas business) or who after the Closing provide services to Company or Authority under any Basic Agreement or other contractual relationship between Parent or an affiliate of Parent and Company or the Authority:
 - (i) any qualified pension plan and trust;
 - (ii) any benefit plan and trust providing post-retirement health or life insurance benefits; and
 - (iii) any other Employee Plan and related trust which, under the current rules of the PSC in effect at the date hereof, provides benefits which are properly a ratepayer expense.
 - c. No cost shall be charged to Authority pursuant to Section I.3.b to the extent such cost has been or will be charged to Authority pursuant to the Ancillary Agreements or any other contractual relationship between Parent or any affiliate of Parent and Company or the Authority.
 - d. The cost to be charged to Authority pursuant to Section I.3.b shall be subject to the following:
 - (i) With respect to any liability which depends upon actuarial methods, factors or assumptions, Authority shall be liable for, or be credited with the effect of, the difference between the amount funded by Authority and the amount actually required to provide the employee benefits with respect to the services rendered by the employee to Authority either as (A) an employee of Company or Authority or (B) an employee of Parent or its affiliates providing services to Company or Authority. The proportion of the total liability which shall be funded by Authority shall be the amount of the actual liability multiplied by a fraction the numerator of which is the total months of service by the employee for Company or service for Parent or any affiliate which is properly charged to Company or Authority and the denominator of which is the total number of months of service of the employee to both Company and Parent or its affiliate.
 - (ii) To the extent that any liability for benefits incurred after the Closing reflects the amount of compensation of the employee, the proportion of any such liability which shall be funded by Authority shall be the proportion of the employee's compensation properly

charged to Authority. For example, if an employee of Parent is charged only 50 percent to Authority after the Closing, Authority's responsibility for his pension benefit shall be one half of the amount of the liability attributable to the employee's benefit for such period of service.

- e. Parent and its affiliates shall have the right to alter the benefits provided to their employees. However, except as Parent, and Authority may otherwise agree, to the extent any such change in benefits result in increased costs, the effect of such change shall not be charged to Authority and Authority's liability and contribution with respect to any such employee who continues to render services to Authority shall be determined as if the plans and trusts of Company continued without amendment, change or termination.
- f. The amount of any payments which Authority is required to make to any trustee under any employee pension benefit plan as that term is defined in Section 3(2) of ERISA or any employee welfare benefit plan as defined in Section 3(1) of ERISA shall be paid in time and amount as such amount would be included in the costs charged to ratepayers in accordance with the rules of the PSC at the date hereof, with respect to the plans of utilities regulated by it, but in all events shall be in compliance with applicable funding rules under ERISA, the Code or other applicable Federal law. Any costs incurred by any trust with respect to the determination of the time and amount of any payment by Authority to such trust shall be borne by Authority in proportion to the Authority's pro rata share of the total benefit liabilities of such trust (on a present value basis), and otherwise by Parent or an affiliate of Parent.
- g. (i) Parent and the affiliates of Parent maintaining the Employee Plans after the Closing shall submit within 30 days after the end of each calendar quarter one consolidated invoice for the cost to be charged to Authority pursuant to Section I.3.b for such quarter, together with such supporting documentation as may be reasonably requested by Authority. Authority shall have thirty days from date of receipt to pay such invoice.
 - (ii) Notwithstanding the foregoing, (A) if Authority reasonably requests additional supporting documentation or an explanation for a particular invoice, Authority shall have at least thirty days following receipt of such documentation or explanation to make such payment, and (B) in the case of any invoice exceeding 125% of the invoice for the immediately preceding calendar quarter, Authority shall have the option to pay such invoice over a period of up to twelve months, with interest payable quarterly at an effective interest rate equal to Parent's effective cost of borrowing.
 - (iii) If there is a dispute with respect to actuarial calculations that cannot be resolved between Parent's actuary and Authority's actuary, the dispute shall be referred to a third actuary selected by Parent and Authority, the cost of whom shall be borne equally by Parent and Authority. Any costs (including without limitation reasonable attorneys' fees) incurred in connection with any legal action taken to collect the amount so determined to be payable by Authority shall

be payable by Authority.

- h. If any Basic Agreement is terminated and, as a result thereof, Parent or an affiliate thereof is replaced as service-provider, Authority shall require that any successor to Parent or such affiliate shall assume Parent's and such affiliate's rights and obligations under this Section I.3, and Parent, Authority and Company shall enter into such agreements as are necessary to separate the obligations for which the new service-provider will be responsible from all other obligations of Parent and its affiliates. If any new service-provider who assumes such liabilities fails to discharge same, Parent and its affiliates shall pursue their rights against such service-provider as their primary right of recourse in such event, but Company and Authority shall not be relieved of their obligations to Parent and its subsidiaries under this Schedule E with respect to liabilities not in fact discharged by such service-provider.
- i. The obligations of Company and Authority under this Schedule E shall not be limited by, and shall survive the expiration of, any other contractual relationship between Company or Authority and Parent or any of its affiliates.

II. Employee Benefit Plans

- 1. The Employment Matters Disclosure Schedule annexed to this Schedule E as Annex A ("Annex A") lists all plans, contracts and other arrangements in which Company or any Company Subsidiary participates or with respect to which Company, any Company Subsidiary, or any other corporation whose stock is being acquired by Authority under the Agreement or any of its Subsidiaries (collectively, the "Employers"), has or may have any liability or obligation and which (a) is an employee benefit plan (as defined in Section 3(3) of ERISA), or similar plan provided with respect to directors, independent contractors or their dependents, (b) provides stock-based compensation, or (c) provides any bonus, incentive profit sharing, employee severance, change in control, vacation, medical, sick leave, cafeteria, or fringe benefit or is a deferred compensation or similar arrangement (the "Employee Plans"). True and complete copies of all Employee Plans and those related documents and records described in Annex A have been made available to Authority. Except as required by the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (COBRA), or as described in Annex A, none of the Employee Plans provides medical or life insurance or other welfare benefits to or with respect to former employees, independent contractors or their dependents. No party has failed to materially comply with any law or regulation applicable to any Employee Plan or with the terms of any Employee Plan. The Employee Plans provide all compensation and benefits required to be provided employees of Company and their dependents under all applicable law. Each of the Employee Plans intended to meet the requirements for qualification under Section 401(a) of the Code has been determined by the IRS to be so qualified, and to the best knowledge of Company, no circumstances exist that are reasonably expected by Company to result in the revocation of any such determination. No excise tax, or encumbrance on any of the assets with respect to Company has arisen or, based on events which have already occurred, may arise with respect to any Employee Plan. Except as set forth in Annex A, the transactions contemplated by the Agreement will not in and of themselves give rise to any liability or obligation of Company or any other Employer, with respect to any Employee Plan. Each Employee Plan may be amended or terminated by Company or by one of the other Employers at any time on or after the Closing Date

without violating its terms or any law or regulation. Except as required by law, Company has not agreed to any changes to any Employee Plan that would cause an increase in benefits under any such Employee Plan (or the creation of new benefits) or change any employee coverage which would cause an increase in the expense of maintaining any such plan. In all material respects Company and each of the other Employers have made all required contributions and paid all applicable premiums to, or with respect to, the Employee Plans as and when due. Neither Company nor any other party has made any promises or commitments with respect to any Employee Plan, other than in accordance with a reasonable interpretation of the terms of such Employee Plan. Except as set forth in Annex A, no suit, action or other litigation or claim (excluding claims for benefits incurred in the ordinary course of plan activities) has been threatened or brought against or with respect to any Employee Plan nor is Company aware of any facts or circumstances which might reasonably give rise thereto.

2. Except as set forth in Annex A, no liability under Subtitle C or D of Title IV of ERISA has been or is reasonably expected to be incurred by Company with respect to any "single-employer plan," within the meaning of Section 4001(a)(15) of ERISA, currently or formerly maintained or contributed to by Company ("Pension Plan") or the single-employer plan of any entity (an "ERISA Affiliate") which is or was considered one employer with the Company under Section 4001 of ERISA or Section 414(b), (c), (m) or (o) of the Code (an "ERISA Affiliate Plan"). The Pension Benefit Guaranty Corporation has not instituted proceedings to terminate any Pension Plan or ERISA Affiliate Plan, and no condition exists that presents a material risk that such proceedings will be instituted. Company neither has nor will have any material liability of any nature whatsoever (contingent or otherwise) arising out of or relating to any ERISA Affiliate Plan. None of the Pension Plans is a "multiemployer plan" (within the meaning of Section 4001(a)(3) of ERISA), and neither Company nor any ERISA Affiliate currently has an obligation to contribute to or has contributed to or had any obligation to contribute to a multiemployer plan during the six-year period immediately preceding the date of the Agreement. No notice of a "reportable event," within the meaning of Section 4043 of ERISA for which the thirty (30)-day reporting requirement has not been waived, has been required to be filed by Company or Parent as a result of the transactions contemplated herein. No Pension Plan has an "accumulated funding deficiency" (whether or not waived) within the meaning of Section 412 of the Code or Section 302 of ERISA and neither Company nor any ERISA Affiliate has an outstanding funding waiver. Company has not provided and is not required to provide, security to any Pension Plan or to any ERISA Affiliate Plan pursuant to Section 401(a)(29) of the Code.
3. All contributions required to be made under the terms of any Pension Plan have been timely made when due and have been properly reported in the financial statements included in the SEC Reports.
4. Except as disclosed in Annex A, under each Pension Plan which is a single-employer plan and under each ERISA Affiliate Plan, as of the last day of the most recent plan year ended prior to the date hereof, the actuarially determined present value of all "benefit liabilities", within the meaning of Section 4001(a)(16) of ERISA (as determined on the basis of the actuarial assumptions contained in the respective plan's most recent actuarial valuation), did not exceed the then current value of the assets of such plan, and there has been no material adverse change in the financial condition of any such plan since the last day of the most recent plan year. All contributions with respect to each Pension Plan

have been made when due.

5. Payments resulting from the transactions. (a) The consummation or announcement of any transaction contemplated by the Agreement will not (either alone or upon the occurrence of any additional or further acts or events) result in any (i) payment (whether of severance pay or otherwise) becoming due from Company or any of the Company Subsidiaries to any officer, employee, former employee or director thereof or to the trustee under any "rabbi trust" or similar arrangement, or (ii) benefit under any Employee Plan being established or becoming accelerated, vested or payable and (b) neither Company or any of the Company Subsidiaries is a party to (i) any management, employment deferred compensation, severance (including any payment, right or benefit resulting from a change in control), bonus or other contract for personal services with any officer, director or employee, (ii) any consulting contract with any person who prior to entering into such contract was a director or officer of Company or (iii) any plan, agreement, arrangement or understanding similar to any of the foregoing.

6. Labor Agreements. As of the date hereof, except as set forth in the Company SEC Reports filed prior to the date of the Agreement, neither Company nor any of the Company Subsidiaries is a party to any collective bargaining agreement or other labor agreement with any union or labor organization. To the best knowledge of Company, as of the date of the Agreement, except as set forth in Annex A, there is no current union representation question involving employees of Company or any of the Company Subsidiaries, nor does Company know of any activity or proceeding of any labor organization (or representative thereof) or employee group to organize any such employees. Except as disclosed in the Company SEC Reports filed prior to the date of the Agreement or in Annex A, (a) there is no unfair labor practice, employment discrimination or other material complaint against Company or any of the Company Subsidiaries pending, or to the best knowledge of Company, threatened, (b) there is no strike, or lockout or material dispute, slowdown or work stoppage pending, or to the best knowledge of Company, threatened, against or involving Company, and (c) there is no proceeding, claim, suit, action or governmental investigation pending or, to the best knowledge of Company, threatened, in respect of which any director, officer, employee or agent of Company or any of the Company Subsidiaries is or may be entitled to claim indemnification from Company or such Company Subsidiary pursuant to their respective certificates of incorporation or by-laws or as provided in the indemnification agreements listed in Annex A.

Annex A to Schedule E

Employment Matters Disclosure Schedule

II. 1.

Employee Plans:

Retirement Income Plan
Officers Supplemental Retirement Plan
401(k) Capital Accumulation Plan - Union and Non-Union
Director's Retirement Plan
Employment Contracts for each Officer
Union Severance Plan
Educational Assistance Program
Long Term Disability Plan - Union and Non-Union
Retirement Benefits Restoration Plan
Executive Incentive Plans - Annual and Long Term
Company Managed Care Program (active employees and retirees)
Company Dental Expense Plan
Disability Leave Program
Employees Group Life Insurance Plans (active employees and retirees)
Travel Accident Plans
Supplemental Flexible Spending Medical Plan and Dependent Assistance Plan Care
Supplemental Death & Disability Plan
Separation Allowance Plan
Contract Retirement Benefits
Split life Insurance Plan
Death in Family Leave
Flexible Spending Plan
Deferred Compensation Trust

Unless a change in control sooner occurs pursuant to the Exchange Agreement, consummation of the transaction contemplated by the Agreement could result in (i) payments to each officer of Company and acceleration of benefits under the Officers Supplemental Retirement Plan pursuant to employment agreements entered into with each officer and acceleration of other accrued compensation or benefit payments as a result of the termination of executive and employee employment at LILCO as such employees become employed at the Parent.

Pension Litigation involving Company and the Plan Administrator (an officer of Company): Becher, et al. v. Long Island Lighting Company, et al.

II. 2. No exceptions.

II. 4. Any underfunding is only as described in the Form 5500's furnished in connection with due diligence.

II. 6. See Section II.1 of this Annex A.