Dear Reader:

The Long Island Power Authority (LIPA) Board of Trustees and LIPA President and Chief Executive Officer Kevin Law have been aggressive in their efforts to promote energy efficiency, increasing LIPA's renewable energy portfolio, making LIPA more transparent with respect to its overall operations and working to stimulate Long Island’s economy through the creation of new clean energy jobs, all while stabilizing rates which have been reduced to 2006 levels.

LIPA intends to make strategic planning for Long Island's energy future the priority for 2010. Transforming and reforming LIPA was a priority in 2008. In 2009, LIPA set the foundation for a clean energy future: launching Efficiency Long Island, the largest energy efficiency program for any public utility in the country, securing the largest solar energy project in the State of New York; planning for what could be the largest off-shore wind project in the country; and began to introduce Smart Meters, the prelude to a Smart Grid, throughout Long Island. Now, as we begin 2010, LIPA is examining if the current public/private business model it now has with National Grid is the best model for delivering electricity for our customers.

Our mission is to provide highly reliable and economical electric service through our valued workforce with a commitment to superior customer service, accountability and transparency in all of our operations, while being recognized as a leader in the advancement of efficiency and renewable energy. Toward that end, we have accomplished a number of key initiatives in 2009 and have continued to make significant progress on many others.

**Long Island – New York City Offshore Windfarm**

On June 30, 2009, The LI-NYCC Wind Collaborative consisting of the Long Island Power Authority, Con Edison, New York Power Authority and a host of other state and city agencies issued a Request for Information (RFI) marking the next step in the development of what could be the largest offshore wind farm proposal in the country.

The intent of the RFI was to gauge the level of interest on the part of the wind power industry and other interested parties in developing the project and to garner insight and creativity as to how the project, as envisioned, can be enhanced. The RFI will serve as precursor to a Request for Proposals (RFP) anticipated for release in 2010.

This project could provide significant market development benefits to the wind industry, create clean-tech jobs, and help diversify the state’s electricity system. In addition, any project resulting from this work could demonstrate that we can meet the state’s energy supply needs in an environmentally-sound manner while benefiting the state’s economy by reducing dependence on imported energy.

LIPA and Con Edison met initially in October 2008 to begin discussions on a joint feasibility study of an off-shore wind project. The two teams developed a proposed scope of work for the project including an examination of the LIPA and Con Edison transmission systems for the potential
points to interconnect an off-shore wind project. A joint feasibility study released earlier this year by the two utilities concluded that an interconnection of up to 700 MW of wind power, located at least 13 miles off the Rockaway Peninsula in the Atlantic Ocean, would be feasible with upgrades to their respective transmission systems.

The LI-NYC Collaborative includes Long Island Power Authority (LIPA), Con Edison, New York Power Authority (NYPA), New York City, New York State Energy Research and Development Authority (NYSERDA), The Port Authority of New York and New Jersey, and Metropolitan Transportation Authority (MTA).

**LIPA 50 MW Solar Energy Project**

In December, the Long Island Power Authority announced that the LIPA Board of Trustees approved power purchase agreements (PPAs) with BP Solar International Inc. (BP Solar) and enXco Development Corp. (enXco) thereby creating the state’s largest source of solar power on Long Island. LIPA’s Solar Energy Project will introduce approximately 50MW of clean renewable energy generated on Long Island onto LIPA’s electric grid, enough to power 6,500 households and reduce carbon dioxide emissions by more than 45,300 tons per year as well as reducing other pollutants such as NOX and SOX emissions.

LIPA has entered into PPAs with BP Solar and enXco to provide up to 32MW and 17MW of capacity, energy and RECs from their projects. The costs to LIPA under the PPA for BP Solar’s ground-mounted solar project at Brookhaven National Laboratory are estimated to total approximately $298 million (including interconnection costs) over the contracted 20-year term. The costs to LIPA under the PPA for enXco’s solar project on car ports within existing parking lots, at railroad stations and other facilities owned by Suffolk County are estimated to total approximately $125 million (including interconnection costs) over the contracted 20-year term. Both PPAs require the companies to construct, operate and maintain the project and achieve full operation by mid 2011.

The 50MW of solar energy builds on the success of LIPA’s Solar Pioneer program, which boasts approximately 2,400 participants and has resulted in more than $59 million in LIPA rebates since its inception in 2000. LIPA and Long Island have been leading the way in this regard. LIPA has been recognized for a second straight year by the Solar Electric Power Association (SEPA) as one of the top ten utilities in the country for integrating photovoltaics into its programs.

The new 50MW will be the single largest block of solar energy in New York State.

**Electric Resource Plan-2010-2020**

The 2010-2020 Electric Resource Plan (the Plan) provides the analytical support and policy framework necessary to enable LIPA to continue providing safe and reliable electricity service to its customers at stable costs. The Plan expands the clean energy and environmental initiatives currently underway and supports investment in new technologies to maintain continued high levels of system reliability and customer service.

LIPA projects a need for 200 MW of new electric generation or efficiency and demand response resources in 2020 to meet customers’ demands for power in LIPA’s service area. The determination of need is based on an updated demand forecast reflecting projected economic growth in LIPA’s service area; updated fossil energy prices; mandatory regulatory reserve requirements of the New York State Reliability Council for on-Island resources; and the planned additions of new resources.
over the decade, including several conventional and renewable generation alternatives and expanded energy efficiency and demand response resources. The Plan provides LIPA with a decision making framework for meeting customer demand in a fiscally prudent and environmentally responsible manner. The Plan addresses goals established by New York State for adoption of efficiency and renewable resources.

The Plan is consistent with Governor Patterson’s “45 by 15” program, which established a goal for the state to meet 45% of its electricity needs through improved energy efficiency and renewable resources by the year 2015.

**Efficiency Long Island**

In January 2009, LIPA launched Efficiency Long Island (ELI), a 10-year, $924 million initiative offering residential and business customers an array of programs to help reduce their energy usage resulting in savings on future bills and achieving significant environmental benefits.

Efficiency Long Island is expected to reduce peak electric demand by 500 Megawatts (MW) by 2018. Such a reduction will result in the deferral or elimination of the equivalent of one large or two medium-sized power plants from LIPA’s capacity expansion plan and avoid high-cost, on-peak energy production equivalent to saving 2.2 million barrels of oil.

This new program succeeds and expands on LIPA’s Clean Energy initiative offering more programs while continuing to promote clean, renewable electric generation technologies and energy conservation and efficiency.

Under the ELI program, residential and commercial customers will have easy access via the internet or telephone to enroll in the following five programs:

**For Residential Customers**

- Efficient Products – Purchases of lighting, appliances, consumer electronics, in-wall air conditioners and dehumidifiers from retail outlets
- ENERGY STAR Labeled Homes – includes building shell upgrades, HVAC, hot water, duct seals, lighting and high efficiency appliances
- Existing Homes – duct sealing and tune-ups for central air conditioners, whole house retrofit assistance and installation services, Residential Energy Affordability Program (REAP), and properly installed higher than code efficiency central air and heat pump equipment

**For Commercial Customers**

- Commercial & Industrial (“C&I”) New Construction – targets all new buildings and major renovations
- C&I Existing Buildings – addresses equipment purchases stemming from natural replacement at the end of useful life and retro-fits (discretionary replacement of functioning inefficient equipment)

LIPA has deemed the Efficiency Long Island program the most cost effective resource option currently available. It is estimated that implementation of Efficiency Long Island will reduce CO2 emissions by about 12 million metric tons compared to the CO2 emissions that would be produced from new power plants burning natural gas. This is equivalent to removing 2.5 million cars from Long Island roads.
Caithness Long Island Energy Center

The Caithness Long Island Energy Center, a 350 MW natural gas fired power plant, commenced commercial operations on August 1, 2009. Having broken ground in April 2007, the Caithness Long Island Energy Center is the first major baseload power plant to be constructed on Long Island in over thirty years. Located in the Town of Brookhaven, Caithness represents a new class of clean burning, efficient power generation to meet the demand for electricity on Long Island. The combined-cycle generating station is much more efficient and produces significantly less emissions than the other plants on LIPA’s system.

Smart Meters and Smart Grid

With a smart meter pilot project in the Hauppauge and Bethpage Industrial Parks already implemented, the Long Island Power Authority announced in November that it was awarded $12.5 million from the U.S. Department of Energy for its Smart Energy Corridor project. U.S. Secretary of Energy Steven Chu announced $620 million for 32 demonstration projects nationally. The funding from the American Recovery and Reinvestment Act will be leveraged with $1 billion in funds from the private sector to support more than $1.6 billion in total Smart Grid projects nationally.

The Smart Energy Corridor project is a collaboration between LIPA, Stony Brook University and Farmingdale State College to create the first Smart Grid on LI. This initiative will assist residential, commercial and industrial LIPA customers in monitoring and reducing energy usage and costs, increase electric reliability, encourage energy efficiency and create clean energy jobs.

The Smart Energy Corridor runs along Route 110 from Rte 109 in Babylon to the Long Island Expressway in Huntington, Long Island’s “Main Street.” The project would integrate a suite of smart grid technologies; smart meters, distribution automation, distributed energy resources and electric vehicle charging stations. The project will also include testing of cyber security systems, identifying the optimal combination of features to encourage consumer participation and educating the public about the tools and techniques available with the Smart Grid.

In addition, LIPA will create the first NYS Smart Energy Campus at Farmingdale College, to include a Renewable Energy Resource Center to demonstrate and provide hands on training for the new Green Jobs that will be required in the installation, operation and maintenance of renewable technologies

Backyard Wind Power Program

Building on the success of its solar programs, in January of 2009 LIPA launched its Backyard Wind Power program. The new program provides rebates to homeowners, businesses, municipalities, and nonprofits seeking to harness power from the wind through the use of land-based wind turbines.

The initiative is consistent with Governor David Paterson’s recently announced “45 X 15” program that establishes the goal of New York State meeting 45% of its electricity needs through improved energy efficiency and renewable sources by the year 2015.

LIPA’s wind initiative will help transform the market for wind systems on Long Island by achieving the following:
Increasing consumer awareness and market demand for wind systems;
Accelerating the development of a robust, self-sustaining local infrastructure for the delivery
and the maintenance of quality wind systems;
Developing a mechanism to overcome financial market barriers;
Accelerating the cost reduction of wind systems while increasing reliability and performance

Although still in its infancy, LIPA has already seen this program act as a catalyst for economic
growth on the East End. One local company, E-2 Energy Systems has expanded staff after taking
advantage of LIPA’s rebates for the installation of two wind turbines, one of which is a 100KW
system installed at Half Hollow Nurseries in Laurel and is the largest Wind Turbine on Long Island.
LIPA has 11 more pending applications for this growing program.

Income-Eligible Senior Assistance Program

In August, LIPA announced its first “Income-Eligible Senior Energy Assistance Program,” which
provides financial assistance to qualifying seniors in paying their energy bills.

This $10 million dollar program provides income-eligible seniors, who meet program requirements,
with a one-time credit to their LIPA electric accounts of $200. Bill credits will be made to
qualifying seniors on a first-come/first-served basis, based on the availability of program funds.

The Income-Eligible Senior Energy Assistance Program was funded from a rate mitigation package
of funds realized largely through a settlement of disputed payments under a previous Management
Services Agreement (MSA) with KeySpan and through savings obtained under the renegotiated
MSA with National Grid after its announced merger with KeySpan.

Reliability

LIPA continues to be the leading New York utility in key reliability indices for overhead electric
transmission and distribution systems. LIPA also continues to be a leader among other state electric
utilities with overhead systems with the shortest customer average interruption duration index, the
frequency of interruptions, and in average power outage time.

Kevin S. Law
President and CEO