March 31, 2011

Dear Reader:

The Long Island Power Authority’s Board of Trustees and LIPA Chief Operating Officer Michael Hervey are pleased to offer this 2010 final report. In this report LIPA will discuss several areas of programming that has been developed and implemented as a means of accomplishing our mission. LIPA continues to implement mechanisms and procedures that provide for more transparent operations of the Authority and serves as an economic partner with Long Island businesses stimulating Long Island’s economy through the creation of new clean energy jobs, all while providing rate stability for our customers.

As we begin 2011, LIPA’s Board of Trustees approved an Operating and Capital Budget which provided for a planned overall decrease of 2.2% for the average residential customer. This follows two decreases in 2010 as LIPA passed along energy and fuel savings to its customers. Even in these challenging economic times, prudent fiscal management has served LIPA and its ratepayers well. In 2010, LIPA received, for the first time in its history, a bond rating increase from Fitch’s Rating Service. According to the rating agency, the bond rating increase was reflective of LIPA’s solid financial performance, mature and stable T&D system, and improved cash flow, liquidity and debt service coverage.

In our ongoing commitment to energy efficiency and improving Long Island’s environment, in 2010 LIPA completed the first phase of the Nitrogen Oxide (NOX) reduction/turbine efficiency project at the Northport Power Station. The project was designed to reduce emissions and fuel use from these units. The $100 million investment involves the implementation of new steam turbine technology at the Northport plant as well as installing advanced (NOX) control systems at the Northport and Port Jefferson Plants. This project resulted in a 40 percent reduction in emissions.

In the latter part of 2010, LIPA secured federal stimulus funding in the amount of $15 million which was allocated to LIPA for residential and large-scale solar energy projects. The funding assisted LIPA in satisfying the significant demand it had experienced in its solar programs as well as provided for interconnection costs for solar panels to be installed on carports at railroad station parking lots and other facilities throughout Suffolk County.

In 2010, LIPA implemented an aggressive campaign to improve customer service. All areas of operations were taken into consideration and directives were developed to
address the need to improve customer service and communications. Initial results conclude that the campaign to improve customer satisfaction is being well received by both business and residential 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 2010 and have continued to make significant progress on many others.

**LIPA 50 MW Solar Energy Project**

In December 2009, 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 allowing for the creation of 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’s contract with Long Island Solar Farm (LISF, an affiliate of BP Solar) for a 32 MW solar photovoltaic generating facility at the Brookhaven National Laboratory was approved by the Office of the State Comptroller (OSC) in April 2010. LIPA, LISF and the NYISO completed an interconnection agreement which was submitted to and accepted by FERC in December 2010. Construction of the project commenced in December 2010.

LIPA’s contract with Eastern Long Island Solar Project (ELISP, an affiliate of enXco), for up to 17 MW of solar carport facilities was approved by the Office of the State Comptroller (OSC) in March 2010. The construction of the first of several sites commenced in January 2011.

**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.

In August of 2010, LIPA issued a Request for Proposals for up to 2,500 MW of new and or repowered generation. LIPA seeks to select projects that provide the overall best value to its ratepayers, while minimizing or limiting risks to LIPA’s customers and offering additional operational or other benefits to LIPA’s customers.

**Efficiency Long Island**

LIPA’s Efficiency Long Island program (ELI), is a commercial and residential efficiency program is designed to reduce peak demand by 500 MW and defer or eliminate the need for additional power generating facility(s). The 10-year, $924 million customer-funded program, initiated in 2009, offers 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. For the year ended December 31, 2010 actual energy efficiency and renewables results show an estimated reduction of 27.10 MW in Peak Energy Demand, compared to a goal of 33.14 MW and total actual energy savings of 169,045 MWh compared to a goal of 173,672 MWh. Combined with the 2009 achievements of the Efficiency Long Island Program, through ELI, LIPA has reduced peak load by more than 52 MW.

LIPA most recently received two recognitions from the US Environmental Protection Agency and the Department of Energy for our Home Performance with ENERGY STAR program. The awards received are as follows:

- “Partner of the Year-Established Markets Award”-highlighting LIPA leadership and best practices in implementing the Home Performance Direct program.
- “Energy Star Promotion Award”-for outstanding contributions to reducing greenhouse gas emissions by promoting energy-efficient products, services and/or homes

**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

- New PHEV (Plug-in Hybrid, Electric Vehicle) rebate program awards a one-time rebate check of $500 to LIPA customers who purchase and register a new, qualified plug-in hybrid electric vehicle (PHEV) or plug-in electric vehicle (PEV). The rebate will be available until year-end of 2011 and equates to the approximate electrical costs for yearly charging the PHEV or the cost for purchasing the optional charging station.

**Programs For Commercial Customers**

- Lighting Retrofit Program—provides significant rebates and incentives to businesses wishing to upgrade to more efficient lighting and achieve substantial savings on their energy bills
- 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.

**Smart Meters and Smart Grid**

The *Smart Energy Corridor* project is a collaborative project 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.
LIPA has completed installing smart meters in Hauppauge and is approximately 90% complete with the installation of smart meters in Bethpage as part of a pilot program for residential and commercial customers. The pilot program is designed to allow LIPA to evaluate two different vendors with two different technologies from both an operating and customer perspective, and will serve as a foundation for decisions concerning the further deployment of these meters. The pilot is expected to be completed by 4/30/12.

**Solar Pioneer Program, Solar Entrepreneur Program and Backyard Wind Initiative**

In 2009, LIPA broadened its offerings of customer sited renewable programs to include an expanded solar rebate program for commercial customers (*Solar Entrepreneur*) and also a Backyard Wind Program. With the inclusion of these two new programs along with the existing Solar Pioneer program LIPA has been able to assist residential and business customers in participating in renewable energy projects. In 2010, LIPA rebated approximately 1357 PV installations totaling $36.3 million in rebates for Solar Pioneer and Solar Entrepreneur participants.

As of December 31, 2010, LIPA has rebated over 3800 PV installations with an installed capacity of 25.7MW.

As of December 31, 2010, LIPA’s Backyard Wind Program has rebated $236,134 for 6 wind installations totaling 15.9 kW of installed capacity.

**Household Assistance Rate**

In 2009, LIPA implemented its first “*Income-Eligible Senior Energy Assistance Program,*” which provided financial assistance to qualifying seniors in paying their energy bills.

This program provided income-eligible seniors, who meet program requirements, with a one-time credit to their LIPA electric accounts of $200. Bill credits were provided to qualifying seniors on a first-come/first-served basis.

In November 2010, the LIPA Board of Trustees approved the implementation of the *Household Assistance Rate Program.* The *Household Assistance Rate* provides a reduction in the Delivery & System Charges portion of the bill. LIPA customers will qualify if they receive benefits from certain non-LIPA financial assistance programs.

**Customer Communications**

In 2010, LIPA implemented a new storm outage website which provides for more detailed information for our customers during weather events. Customers have the ability to report an outage online, obtain estimated restoration times, and request a call back from customer service personnel regarding restoration times.
LIPA has also used the capture of email addresses to communicate on a more frequent basis with our customers during an outage event and to share information with our customers about our energy savings programs and services.

**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. LIPA’s 2011 goal is that over the course of the year, LIPA’s System Average Interruption Duration Index (SAIDI) would not exceed 69 minutes. SAIDI for the period ending December 31, 2010 was 48.6 minutes. Although, 2010 was one of the stormiest years on record for Long Island, it is expected that LIPA will continue to rank in the first quartile in comparison to other New York State utilities.

National Grid, on behalf of LIPA, received the Edison Electric Institute’s (EEI) “Emergency Recovery Award” for outstanding efforts in restoring electric service following a nor’easter on Long Island in March of 2010. National Grid, on behalf LIPA, worked effectively to restore 44 percent of impacted customers within four hours; 90 percent of impacted customers after just two days; and all customer outages restored within four days. More than 100 miles of wire, 800 poles and 400 transformers were needed to replace damaged electric infrastructure.

A vigorous communications plan, involving outreach to restoration crews as well as the public at large, helped to promote public health and safety and led to an efficient response. Above all, the response was conducted safely, with no significant injuries experienced.

Michael D. Hervey  
Chief Operating Officer