Dear Reader:

The Long Island Power Authority ("LIPA") Board of Trustees and Chief Operating Officer, Michael Hervey, are pleased to present LIPA’s 2011 Annual Report to communicate the various ways in which LIPA has successfully performed in relation to its mission over the past year.

First and foremost, for the 13th year in a row, LIPA has ranked No. 1 in reliability for overhead electric service providers in the State as measured by the System Average Interruption Duration Index and has continued to invest in its transmission and distribution system in order to maintain its high level of reliability. LIPA has also continued to serve as an economic engine in its service territory and beyond, helping to stimulate the local and regional economies through the promotion of new clean energy jobs related to the advancement of its renewable programs, particularly with respect to our award-winning solar energy projects. This past year LIPA has also increased its commitment to energy efficiency, staying on target to achieve its ten-year Efficiency Long Island Program ("ELI") peak load reduction goals. In addition, LIPA forged important partnerships with its stakeholders related to its renewable programs, working together to develop a uniform model for the permitting of residential solar electric and solar hot water systems. During a year with an unprecedented number of storms, LIPA met its system performance index goals (System Average Interruption Duration Index (SAIDI), System Average Interruption Frequency Index (SAIFI) and Customer Average Interruption Duration Index (CAIDI)) all while delivering rate stability to its customers.

Of particular importance in 2011, the Board of Trustees unanimously approved the adoption of a new business model designed to enhance the quality of customer service, provide long-term workforce stability and allow LIPA to more effectively manage costs with greater accountability and transparency. Under the new model, a dedicated business unit will serve LIPA’s customers through a service provider starting in January 2014. The decision to adopt a new business model was the culmination of an 18-month long, comprehensive and independent review of LIPA’s strategic organizational options, which also included privatization and municipalization.

Following that decision, and for the first time since LIPA acquired the Long Island Lighting Company electric system in 1998, LIPA issued a competitive solicitation related to managing, operating and maintaining the electric system after the current contract expires on December 31, 2013. In December 2011, the Board of Trustees selected Public Service Enterprise Group ("PSEG") as the new service provider to perform the day-to-day operation of LIPA’s electric system under the new business model. PSEG brings over 100 years of experience in the electric generation, transmission and distribution industry, and has a proven record of superior customer service. The combination of new business model and new service provider promises to provide great value to LIPA’s customers in the years ahead.
**LIPA 50 MW Solar Energy Project**

In November LIPA commissioned the Long Island Solar Farm (LISF) Project. Owned by BP Solar and Met Life, the LISF installation is part of the largest solar energy project in the state of New York, the largest photovoltaic array in the eastern U.S., and among the largest in the nation constructed on federal property. The 32-megawatt (MW) LISF, which is made up of 164,312 solar panels hosted at the U.S. Department of Energy’s (DOE) Brookhaven National Laboratory, also boasts the smallest footprint for a solar array of its output, further solidifying Long Island as a national leader in clean, renewable energy.

LIPA is also moving ahead with the enXco Eastern Long Island Solar project. This solar carport project is among the largest solar carport installations in the United States and currently the largest labor project on Long Island. It is expected that over 60,000 solar modules will be installed at parking lots across Suffolk County providing up to 17 MW of solar power, enough to power 1,850 homes.

**LIPA’s Generation and Transmission Request for Proposal (RFP)**

Consistent with the LIPA Electric Resource Plan, LIPA issued an RFP for the acquisition of up to 2500 MW. In March 2011, a total of 45 proposals were received from 16 entities. In September 2011, LIPA notified several proposers that their proposals had been found to be “non-responsive” to the RFP because they did not contain all the material information required by the RFP, and such proposals would not be evaluated or considered further. Evaluation of the remaining proposals will continue into 2012.

**Glenwood and Far Rockaway Ramp Down**

Consistent with the LIPA Electric Resource Plan, LIPA executed a contract amendment to the Power Supply Agreement with National Grid to ramp down the Far Rockaway and Glenwood steam units. The ramp down is projected to save LIPA ratepayers $76 million over the 2011 to 2015 period and a total of $287 million over the 2011 to 2028 period. In July 2011, National Grid informed the New York System Independent Operator (NYISO) that it plans to retire the units once LIPA completes the necessary transmission system improvements in 2012. Work on the transmission improvements is underway and on schedule. The amendment was approved by the NYS Attorney General’s office and the NYS Comptroller’s office in September 2011.

**Managing Costs and Rate Stability**

Continuing LIPA’s recent policy of reviewing its recovery of fuel and purchased power costs on a quarterly basis, the Power Supply Charge was held constant through the 3rd quarter of 2011 in accordance with the terms of the Tariff. LIPA lowered the power supply charge at the beginning of the 2nd quarter and maintained that decrease through the summer period. All other LIPA rates also remained unchanged from the levels approved by the Trustees in accordance with the 2011 budget during the 3rd quarter of 2011. As a result of events during the third quarter, LIPA announced an increase in the Power Supply Charge that increased the typical residential bill by
The increase was the result of higher fuel costs projected through the end of 2011 and decreased earnings projected through the end of 2011. The increase to the Power Supply Charge funded increased fuel costs only, and no recovery of storm-related expenses was included in the updated charge. It should also be noted that even with the 4th quarter fuel adjustment and modest increase budget for 2012, rates are still lower than they were in October 2005.

**Efficiency Long Island**

LIPA’s Efficiency Long Island (ELI) program, which includes commercial and residential efficiency programs, is designed to reduce peak demand by 500 MW. 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.

Combined with the 2009 and 2010 achievements of the Efficiency Long Island program, LIPA has reduced peak load by more than 78 MW. Overall in the first three quarters of 2011, the combined efficiency and renewable programs accomplished 77% of the MW capacity savings goals and 83% of the Megawatt Hours (MWh) energy savings goals.

During the first quarter of 2011, LIPA completed an independent evaluation of its 2010 energy efficiency and behind-the-meter renewable programs (Solar Pioneer, Solar Entrepreneur, and Backyard Wind). An independent consultant, Opinion Dynamics Corporation, found that overall the programs saved 32.23 MW coincident peak demand (101% of goal) and 155,203 MWh (95% of goal). These results put LIPA on track to achieve its long term ELI goal. LIPA continues to work with residential, business and municipal customers to help them save energy, lower electric costs and improve the environment.

**Efficiency Long Island 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.

**Efficiency Long Island 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.

**New Expanded Energy Star® Program**

In March, LIPA and the Towns of Babylon and Southampton announced a new component of LIPA’s Home Performance with ENERGY STAR® Program making LIPA the first utility in the nation to partner with ENERGY STAR for remodeling or expanding residential homes. In addition, LIPA received the 2011 ENERGY STAR award winner for Home Performance with ENERGY STAR (HPwES) Partner of the Year-Established Markets for the second consecutive year.

**Smart Meters and Smart Grid**

In 2011 LIPA completed installing smart meters in both the Hauppauge and Bethpage areas 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 it will serve as a foundation for decisions concerning the further deployment of these meters. In April, the vendor for the Hauppauge project was removed for lack of performance. A new vendor has been selected, and all equipment has been replaced. Outreach to encourage customer participation in the use of In-Home Devices and Web Sites for the Hauppauge area continues. These devices, coupled with time variable pricing, allow customers in the pilot program to have more flexibility in their energy usage and the ability to reduce costs. First year results gathered through Market Research to determine changes in customer behavior and Load Research to determine changes in energy usage patterns initially indicate that customers did change behavior resulting in cost savings.

LIPA also continues to advance its work as part of the ARRA stimulus funding it received for its Smart Grid Corridor project along Route 110. Engineering has been completed and procurement of smart metering systems and a new meter data management system is underway. Installation of 2,000 customer smart meters is anticipated to begin in March and April 2012. Initial design work by SUNY Farmingdale for a Smart Grid connected to the Renewable Resource Center is beginning. Initial planning and engineering for Smart Grid cyber security testing and system load modeling at the Advanced Energy Center at SUNY Stony Brook is also underway.
Solar Pioneer Program, Solar Entrepreneur Program and Backyard Wind Program

LIPA continued to invest in its nationally recognized solar and wind programs in 2011 and continues to assist residential and business customers in participating in renewable energy projects. Since its inception in 2000, LIPA rebated just under 5,000 solar installations totaling over $122 million in rebates for Solar Pioneer and Solar Entrepreneur participants. As of December 31, 2011, LIPA’s Backyard Wind Program has rebated $524,202 for 11 wind installations totaling 280 kW of installed capacity.

Long Island Unified Solar Permitting Initiative

The Long Island Solar Permitting Initiative emanated from a working collaborative of stakeholders and municipal officials from across Long Island to develop a model process that could be used by all municipalities throughout Long Island to effectively and uniformly handle the application for and approval of residential solar electric and solar hot water systems in each respective jurisdiction. This regional collaboration, which includes government officials, industry representatives, renewable energy advocates and the Island’s utility as partners, is among the first effort of its kind in the country. Although only announced in September, nine of Long Island’s 13 towns already adopted this code by year’s end.

Household Assistance Rate

In December of 2011, the LIPA Board of Trustees approved the extension of the Household Assistance Rate Program. The Household Assistance Rate Program, first implemented in 2011, provides a reduction in the Delivery & System Charges portion of the bill. LIPA customers qualify if they receive benefits from certain non-LIPA financial assistance programs.

Tropical Storm Irene

Beginning in the late evening of August 27, 2011, LIPA service area began to experience the devastating effects of Tropical Storm Irene. With sustained winds of 40-50 MPH and gusts in excess of 90 MPH, Irene was the most impactful storm to hit Long Island since Hurricane Gloria in 1985. Tropical force winds, coupled with heavy rain and flooding, downed trees, poles and power lines, left more than 523,000 LIPA customers without power. Nonetheless, in just over a week, power was restored to all customers.

Customer Communications

Following the aftermath of Tropical Strom Irene which affected nearly 523,000 customers, LIPA made a pledge to improve the channels of communication with our customers regarding power outages and restoration efforts. This year alone we have deployed numerous programs and initiatives to achieve this goal such as LIPA’s Power Out? Text It In initiative. This is the first mobile texting initiative in New York State and will allow customers to report and receive
information on their power outages through texting. LIPA has also bolstered our social media efforts by adding a Twitter and Facebook storm page which provides our customers with additional tips and information about extensive power outages and restoration updates. LIPA has also begun plans to implement a new outage management system that will enable LIPA to improve dispatch times for customer power outages as well as provide automated information on the cause of customer outages. LIPA will continue to push the technology envelope to meet our customers’ needs.

**Reliability**

LIPA continues to be a 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 2012 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, 2011 was 51.6 minutes. Although, all of Long Island was affected by Tropical Strom Irene, one of the worst storms in over 25 years, affecting over 520,000 customers, it is expected that LIPA will continue to rank in the first quartile in comparison to other New York State utilities.

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Michael Hervey  
Chief Operating Officer