Dear Reader:

The Long Island Power Authority (LIPA) is pleased to offer this report of activities and accomplishments for 2013, which was a time of significant challenges, opportunities and changes for LIPA as together the staff and Trustees proceeded to successfully:

- Maintain the reliability of and strategically invest in the transmission and distribution infrastructure to provide reliable and economical electric service to our 1.1 million customers in Nassau and Suffolk counties and the Rockaway peninsula in Queens;
- Invest in base-load generation, energy efficiency measures, and renewable technologies to diversify our energy portfolio pursuant to our 2010 Electric Resource Plan while meeting all regulatory and reliability requirements;
- Adopt a 2014 Operating and 2014-2015 Capital budget that freezes non-power supply related rates for a second straight year;
- Transition all day-day-to-management and operation of the electric system to our new service provider, PSEG Long Island on January 1, 2014;
- Implement the provisions of the New York State LIPA Reform Act;
- Engage staff of the newly established Long Island office of NYS Department of Public Service (DPS LI) that is responsible for conducting rate hearings coincident with the filing of the 2016 operations and capital budget and overseeing the Amended and Restated Operating Services Agreement between LIPA and PSEG Long Island;
- Establish and engage a new 9-member Board of Trustees;
- Establish and engage a new 3-member Utility Securitization Authority;
- Institute monthly pass-through of power supply charges to transparently and accurately reflect the price of energy;
- Undertake a refinancing of a portion of outstanding debt at significantly lower interest rates.

Over the past 14 years, LIPA’s investments in the transmission and distribution system have resulted in LIPA being the most reliable electric utility in New York State based on three major indices:

- System Average Interruption Duration Index (SAIDI), which measures total power outages time the average customer experiences in a year;
- System Average Interruption Frequency Index (SAIFI), which measures number of times the average customer was interrupted during the year; and,
- Customer Average Interruption Duration Index (CAIDI), which measures, on average, how long it took to restore power to customers interrupted during the year.
As required by the LIPA Reform Act and consistent with the call for rate stability, LIPA continues to address its finances in a responsible and sustainable manner having successfully completed the first-ever municipal utility “AAA” rated refinancing of $2.138 billion of outstanding debt at significantly lower interest rates through the new Utility Debt Securitization Authority. LIPA’s outgoing Board of Trustees also demonstrated ongoing budget discipline by adopting a 2014 budget that maintained delivery rates at current levels for the second year-in-a-row while providing operating and capital spending that will allow PSEG Long Island to carry out its responsibilities.

The 2014 budget continues the historical commitment by the Trustees to invest in a comprehensive energy plan that ensures that we will be able to meet our customers energy needs using a diverse mix of energy resources and efficiency measures that are reliably, economically, and environmentally sustainable.

Through a competitive Request for Proposals that attracted proposals from 45 companies to provide base-load generation, LIPA selected Caithness Long Island II, L.L.C. to move forward in finalizing a power purchase agreement for up to 750MW of new combined cycle generation on Long Island. The Town of Brookhaven is serving as the “lead agency” as it conducts a full environmental review of the project pursuant to the New York State Environmental Quality Review Act. Such review must be completed prior to authorizing the execution of any resulting power purchase agreement, which would be considered separately by the LIPA Trustees and when completed would be subject to review and approval of the New York State Attorney General and the Office of the New York State Comptroller.

In 2013, LIPA issued two new Requests for Proposals; one is for up to 280MW of new, on-island, renewable capacity and energy such as solar, offshore wind, and fuel cells to come on line by 2018 and the other is to begin replacement of Long Island's fleet of "peaking" generation facilities. Both RFPs are part of a comprehensive long-term energy strategy approved by the LIPA Trustees in October 2012 that includes increasing renewable energy projects and energy efficiency to a total of more than 1,000 MW by 2022.

LIPA’s Efficiency Long Island Program continued to expand as designed to reduce peak demand by approximately 524 MW by 2018. Combined with the 2009-2012 achievements, LIPA forecasts peak load to be reduced by more than 191 MW (90% of cumulative goal) at the end of 2013, just as spending levels remain below those budgeted since inception indicating prudent expenditures in these cost effective energy efficiency programs.

LIPA continued its long-standing commitment to growing its renewable energy portfolio through its Backyard Wind and highly successful Solar Pioneer and Entrepreneur programs. In 2013, we continued to incentivize the purchase of electric vehicles by our customers. Some highlights:
• Since its inception, LIPA will have rebated over 7,500 solar installations totaling over $163 million in rebates for Solar Pioneer and Solar Entrepreneur participants.
• Since 2006, LIPA’s Solar Entrepreneur Program has paid $6,300,000 in rebates for solar electric generating (PV) systems installed on 89 Long Island schools.
• In 2013, LIPA rebated approximately 1,500 photovoltaic installations, while providing the ability for commercial renewable installations to remote net meter and authorizing residential solar leasing in December 2012.
• LIPA’s Backyard Wind Program has rebated approximately $723,200 for 17 installations totaling 350 kW of installed capacity.
• In 2010, LIPA became the first utility in the State to initiate a plug-in (hybrid) electric vehicle rebate program. By the end of 2013, LIPA expects to have processed 221 rebates through this program.

LIPA initiated the 50MW Clean Solar Initiative feed-in tariff in July 2012. At the end of 2013, 13 projects totaling 4.2 MW of capacity are expected to be operating. Additionally, LIPA will have executed 33 additional agreements for 31.4 MW of capacity that are forecasted to come online during 2014. Lastly, LIPA expects to execute 17 additional agreements in the beginning of 2014 for 13.2 MW that are anticipated to come online in late-2014 or early-2015.

In 2013, LIPA launched in 2013 its Clean Solar Initiative II feed-in tariff soliciting up to 100MW of solar energy, capacity, and renewable energy credits. In its Clean Solar Initiative II, LIPA took another new industry approach to pricing by using a competitive bid model in lieu of an administratively set price, and also set out additional incentives for projects that were able to provide benefit in load constrained areas. The new program provides additional enhancements to LIPA’s existing program that include limiting size of projects to 2MW and allowing time for public entities to procure service and file applications.

Lastly, LIPA initiated a public process to establish a 20MW Clean Alternative Renewable Energy feed-in tariff at end of 2013. This tariff which is similar in structure to LIPA’s Clean Solar Initiative II feed-in tariff will focus on all renewable technologies that would qualify for the New York Renewable Portfolio Standard other than photovoltaics.

Building on this previous record of accomplishment, as calendar year 2013 ended, LIPA’s organizational structure changed, along with its mission. Through an interactive process that included discussion and input from staff and the new Board of Trustees, a new Mission Statement for LIPA was formally adopted:

Our Mission is to ensure the provision of reliable, economical, and responsive electric service to 1.1 million customers on Long Island and in the Rockaways,
meet the expectations of our bond holders and be a trusted, valued member of the community. We will oversee the performance of our Service Provider, PSEG Long Island, maintain a consistent focus on energy efficiency and renewable energy and carry out our public service, fiscal and contractual duties faithfully, transparently and professionally.

Also among the early actions taken by the newly constituted Board of Trustees was to revise the By-Laws to reinforce their accountability to our 1.1 million customers and reflect the regulatory, managerial, financial, and administrative changes in the LIPA Reform Act. Incorporated in the amended By-Laws is the continued importance, reliance, and use of committees, each of which focus on a particular area or element of LIPA’s operations. The committees that are in place for 2014, which are each integral for the functioning of and accountability by LIPA’s Board of Trustees, include:

- Finance and Audit Committee
- Governance Committee
- Personnel and Compensation Committee
- Contract Oversight Committee

Finally, with the arrival of January 1st, PSEG Long Island began its 12-year contract as they successfully assumed all day-to-day management and operations of LIPA’s electric utility business with a commitment...

“To building an industry leading electric company dedicated to providing the people of Long Island and Rockaways with exceptional customer service, best-in-class reliability and storm response, and a strong level of involvement in the communities in which its employees live and work.”

PSEG Long Island assumes operational responsibility at a time that while electric system reliability is at top quartile, customer satisfaction continues to be an important and ongoing issue of concern.

Throughout 2013, LIPA engaged in numerous proactive outreach efforts designed to improve our customers’ experience and help prepare them for the transition to PSEG Long Island. A variety of communication channels were utilized in this effort including on bill messaging, the internet, social media, phone, text, email, print media, television and radio. The use of these media outlets was designed to try to improve satisfaction levels in both residential and business categories. As PSEG Long Island invests to make the electric system stronger and more resilient, it will also prudently invest in policies, processes, procedures, systems, and people necessary to elevate customer satisfaction to the top quartile over the next five years.

In closing, pursuant to the provisions of the LIPA Reform Act and the Amended and Restated Operation Service Agreement with PSEG Long Island, a significantly smaller LIPA staff will serve as a financial holding, rate setting, power supply, and contract management oversight organization that carries out its statutory obligations in accordance
with the principles established in its Mission and will be accountable directly to the new Board of Trustees.¹

John McMahon
Chief Executive Officer

¹ In 2015, all power supply functions, which are operating as d/b/a Power Supply Long Island, are to transition to PSEG Long Island.