NEW ISSUE—Full-Book-Entry

In the opinion of Bond Counsel to the Authority, under existing statutes and court decisions, and assuming compliance with the tax covenants referred to herein, interest on the Offered Securities is not included in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such interest is not treated as a preference item in calculating the Federal alternative minimum tax that may be imposed on individuals and corporations. Such interest, however, is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations by the Code. See "Tax Matters" in Part 1 of this Official Statement. It is also the opinion of Bond Counsel to the Authority that, under existing statutes, interest on the Offered Securities is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, and the Offered Securities are exempt from all taxation directly imposed thereon by or under the authority of the State of New York, except estate or gift taxes and taxes on transfers.

$325,165,278.85

LIPA
Long Island Power Authority

LONG ISLAND POWER AUTHORITY

Electric System General Revenue Bonds, Series 2000A

Dated: Date of Delivery **Maturity: June 1, as shown on inside cover page**

The Offered Securities are being issued only as Capital Appreciation Bonds. Principal of and accreted interest on the Offered Securities will be payable on their respective maturity dates. No interest is payable on any of the Offered Securities prior to maturity.

The Offered Securities will be issued only as fully registered bonds registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Offered Securities under the book-entry-only system described herein. Individual purchases of beneficial ownership interests in the Offered Securities may be made at the initial offering price per $5,000 maturity amount, or any integral multiple thereof, as shown on the inside cover page. Beneficial Owners of the Offered Securities will not receive physical delivery of bond certificates. United States Trust Company of New York, New York, New York, is the Trustee under the Resolution.

The Offered Securities are not subject to redemption prior to maturity.

MATURITY SCHEDULE — See Inside Cover Page

The scheduled payment of the amounts due at maturity of the Offered Securities will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Offered Securities by Financial Security Assurance Inc.

FSA

The Offered Securities are special obligations of the Authority payable principally from the revenues generated by the electric system owned by its subsidiary, LIPA, after the payment of operating expenses of the System, on a parity with other Electric System General Revenue Bonds and other Parity Obligations of the Authority. The Offered Securities shall not be debt of the State of New York or of any municipality, and neither the State of New York nor any municipality shall be liable thereon. The Authority shall not have the power to pledge the credit, the revenues or the taxing power of the State of New York or any municipality, and neither the credit, the revenues nor the taxing power of the State of New York or any municipality shall be, or shall be deemed to be, pledged to the payment of any of the Offered Securities. The Authority has no taxing power.

The Offered Securities are offered when, as and if issued and accepted by the Underwriters, subject to the approval of legality by Hawkins, Delafield & Wood, New York, New York, Bond Counsel. Certain legal matters with respect to the Authority and LIPA will be passed upon by Stanley B. Klimberg, Esquire, General Counsel to the Authority and LIPA, and by Orrick, Herrington & Sutcliffe LLP, New York, New York, Corporate Counsel to the Authority and LIPA. Certain legal matters will be passed upon for the Underwriters by Clifford Chance Rogers & Wells LLP, New York, New York, counsel to the Underwriters. It is expected that the Offered Securities will be available for delivery in book-entry-only form through The Depository Trust Company in New York, New York on or about May 3, 2000.

Bear, Stearns & Co. Inc.

Lehman Brothers **Salomon Smith Barney**

Dain Rauscher, Inc. **First Albany Corporation** **Goldman, Sachs & Co.**

Merrill Lynch & Co. **J.P. Morgan & Co.** **PaineWebber Incorporated**

ABN AMRO Inc. **Advest, Inc.** **M.R. Beal & Company**

J.C. Bradford & Co. **CIBC World Markets**

A.G. Edwards & Sons, Inc. **Fleet Securities, Inc.** **Raymond James & Associates, Inc.**

Lebenthal & Co., Inc. **David Lerner Associates, Inc.** **McDonald Investments, Inc.**

Prudential Securities Incorporated **Ramirez & Co., Inc.** **Roosevelt & Cross, Incorporated**

William E. Simon & Sons Municipal Securities, Inc.

Dated: April 13, 2000

$325,165,278.85

LONG ISLAND POWER AUTHORITY

Electric System General Revenue Bonds, Series 2000A

Capital Appreciation Bonds

Maturity (June 1)	Aggregate Initial Offering Price	Approximate Yield to Maturity	Initial Offering Price Per $5,000 Maturity Amount
2005	$10,190,529.00	5.00%	$3,891.00
2006	19,785,073.00	5.15	3,670.70
2007	19,508,194.50	5.21	3,474.30
2008	19,195,202.40	5.27	3,284.60
2009	18,868,239.30	5.32	3,104.35
2010	18,088,110.00	5.36	2,934.00
2011	17,286,154.80	5.42	2,764.90
2012	16,502,452.50	5.48	2,602.50
2013	15,735,370.80	5.54	2,446.80
2014	14,983,301.70	5.60	2,297.70
2015	14,231,506.65	5.67	2,152.05
2016	13,538,400.75	5.72	2,019.15
2017	12,866,234.70	5.77	1,892.65
2018	12,236,746.00	5.81	1,775.50
2019	11,671,434.15	5.83	1,670.45
2020	11,105,789.85	5.86	1,567.95
2021	10,582,602.00	5.88	1,473.90
2022	10,079,666.10	5.90	1,384.95
2023	9,618,132.60	5.91	1,303.80
2024	9,175,400.55	5.92	1,227.15
2025	8,751,074.40	5.93	1,154.80
2026	8,344,320.00	5.94	1,086.50
2027	7,954,615.15	5.95	1,022.05
2028	7,601,490.60	5.95	963.80
2029	7,265,237.35	5.95	908.95

LONG ISLAND POWER AUTHORITY

333 Earle Ovington Blvd.
Uniondale, New York 11553
Telephone: (516) 222-7700
Facsimile: (516) 222-9137

BOARD OF TRUSTEES

Richard M. Kessel—Chairman
Patrick Foye—Deputy Chairman
Howard E. Steinberg—Deputy Chairman

Michael Affrunti
Nancy Ann Akeson
Harvey Auerbach
Thomas A. Doherty
Michael L. Faltischek
Harriet A. Gilliam
Rupert H. Hopkins
Joseph F. Janoski
Robert Maimoni
Nancy N. Miklos
Vincent Polimeni
Jonathan Sinnreich

AUTHORITY MANAGEMENT

Richard M. Kessel—*President and Chief Executive Officer*
Seth D. Hulkower—*Chief Operating Officer*
David P. Warren—*Chief Financial Officer*
Stanley B. Klimberg—*General Counsel*
Edward P. Murphy, Jr.—*Vice President and Controller*
Richard J. Bolbrock—*Vice President of Power Markets*
Bert J. Cunningham—*Vice President of Communications*
Bruce Germano—*Vice President of Retail Services*

Financial Advisor
Morgan Stanley & Co. Incorporated
New York, New York

Bond Counsel
Hawkins, Delafield & Wood
New York, New York

Independent Consultant
Navigant Consulting, Inc.
New York, New York

Independent Accountant
PricewaterhouseCoopers LLP
New York, New York

Corporate Counsel
Orrick, Herrington & Sutcliffe LLP
New York, New York

Special Counsel
Rivkin, Radler & Kremer
Uniondale, New York

State Regulatory Counsel
Adams, Dayter & Sheehan, LLP
Albany, New York

Federal Energy Regulatory Counsel
Van Ness Feldman P.C.
Washington, D.C.

Trustee
United States Trust Company of New York
New York, New York

No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representation, other than the information and representations contained in this Official Statement, in connection with the offering of the Offered Securities, and, if given or made, such information or representations must not be relied upon as having been authorized by the Authority or the Underwriters. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Offered Securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The information set forth herein has been furnished by the Authority, the Insurer, LIPA and Navigant Consulting and includes information obtained from other sources, all of which are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, LIPA, KeySpan, the Insurer or the matters covered by the report of Navigant Consulting included as Appendix A to Part 2 of this Official Statement since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate", "project", "anticipate", "expect", "intend", "believe" and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Authority's and LIPA's business and financial results could cause actual results to differ materially from those stated in the forward-looking statements.

The prospective financial information included in this Official Statement has been prepared by, and is the responsibility of, the Authority and Navigant Consulting. PricewaterhouseCoopers LLP has neither examined nor compiled the accompanying prospective financial information, and accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report included in this Official Statement relates to the Authority and LIPA's historical financial information. It does not extend to the prospective financial information and should not be read to do so.

In connection with the offering of the Offered Securities, the Underwriters may overallot or effect transactions that stabilize or maintain the market price of the Offered Securities at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE OFFICIAL STATEMENT AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT CONSISTS OF THE COVER PAGE, THE INSIDE COVER PAGE, THE TABLE OF CONTENTS, THE SUMMARY STATEMENT AND THIS PART 1, INCLUDING THE APPENDICES TO THIS PART 1 (ALL OF THE FOREGOING ARE REFERRED TO COLLECTIVELY AS "PART 1") AND THE ATTACHED PART 2, INCLUDING ITS TABLE OF CONTENTS AND ALL APPENDICES THERETO (COLLECTIVELY, "PART 2"). BOTH THIS PART 1 AND PART 2 ARE DATED THE DATE SHOWN ON THE COVER PAGE OF PART 1. THIS PART 1, TOGETHER WITH PART 2, CONSTITUTES THE AUTHORITY'S OFFICIAL STATEMENT RELATING TO THE OFFERED SECURITIES (AND ONLY SUCH OFFERED SECURITIES). BOTH PART 1 AND PART 2 SHOULD BE READ IN THEIR ENTIRETY. INFORMATION CONTAINED ON THE AUTHORITY'S WEB SITE DOES NOT CONSTITUTE PART OF THIS OFFICIAL STATEMENT.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Official Statement and should not be considered a complete statement of the facts material to making an investment decision. The offering of the Offered Securities to potential investors is made only by means of the entire Official Statement. Certain terms used herein are defined in this Official Statement.

The Authority	The Long Island Power Authority (the "Authority") is a corporate municipal instrumentality and political subdivision of the State of New York. The Authority has a wholly-owned subsidiary, the Long Island Lighting Company, which does business under the name of LIPA ("LIPA").
LIPA	LIPA owns and operates the electric transmission and distribution system located in its service area which includes the Long Island, New York Counties of Nassau and Suffolk (with certain limited exceptions) and a small portion of Queens County, New York known as the Rockaways. LIPA also owns an 18% interest in the Nine Mile Point 2 nuclear generating facility.
The Purpose of the Offered Securities	The Offered Securities are being issued (i) to fund the Additional Shoreham Rebates and a portion of the Shoreham Credits and (ii) to pay costs relating to the issuance of the Offered Securities.
Outstanding Indebtedness	The Authority has outstanding fixed rate senior lien Electric System General Revenue Bonds in the aggregate principal amount of $4,544,252,638. The Offered Securities will be on a parity with these Bonds. The Authority also has outstanding its variable rate subordinate lien Electric System Subordinated Revenue Bonds in the aggregate principal amount of $1,968,300,000. LIPA has outstanding $270,000,000 of Debentures and $332,425,000 of NYSERDA Financing Notes that the Authority is responsible for providing the funds to pay.
Authority to Set Electric Rates	Under current New York law, the Authority is empowered to set rates for electric service in its service area without being required to obtain the approval of the New York State Public Service Commission ("PSC") or any other State regulatory body. However, the Authority has agreed with the Public Authorities Control Board of the State of New York ("PACB") that, among other things, it will not impose any permanent increase in average customer rates over a 12-month period in excess of 2.5% without approval of the PSC.
Rate Structure	The Authority has adopted a set of customer rates which include base rates, a fuel and purchased power adjustment clause, and certain riders and credits, and provide for surcharges.
Service Area	LIPA's service area includes approximately 1.1 million customers and had a peak load of approximately 4,590 MW in July 1999. Approximately 50 percent of annual electric

	revenues are received from residential customers, with 47 percent coming from commercial/industrial customers, and the balance from sales to other utilities and public authorities. LIPA's largest customer accounts for less than two percent of LIPA's electric revenues, and its twenty largest customers account for approximately four percent of its electric revenues.
Transmission and Distribution Facilities	LIPA's transmission system includes approximately 1,321 miles of overhead and underground lines with voltage levels ranging from 345kV to 23kV. The distribution system has approximately 46,086 circuit miles of overhead lines, 10,791 circuit miles of underground lines and 148,000 line transformers.
Power Supply Resources	LIPA's power supply resources consist principally of various power purchase contracts. The principal power purchase contract is a Power Supply Agreement with a subsidiary of KeySpan Corporation ("KeySpan") under which LIPA obtains rights to and has obligations to pay for all of the capacity of KeySpan's existing fossil-fueled generating facilities. Such agreement entitles LIPA to purchase all of the energy produced by such facilities for its own customers or for resale to others. This Agreement has a term ending in 2013 and is renewable under similar terms for an additional fifteen years. During 1999, approximately 63% of the fuel for the generating units subject to the Agreement was natural gas and approximately 37% was oil. The only generating facility in which LIPA has an ownership interest is its 18% interest in the 1,144 MW Nine Mile Point 2 nuclear unit currently operated by Niagara Mohawk Power Corporation and jointly owned by Niagara Mohawk, LIPA and three other New York electric utilities.
Plan of System Operation	The Authority manages LIPA's retail electric business and controls costs through a senior management team supported by a small staff to minimize the size of its total work force. The day-to-day operations of the electric system are accomplished through three principal contracts: (i) a Management Services Agreement providing for operation of the transmission and distribution system, (ii) the Power Supply Agreement mentioned above and (iii) an Energy Management Agreement providing for the management of LIPA's power supply resources and fuel procurement. Each such agreement is with a subsidiary of KeySpan. KeySpan has guaranteed the performance, and any payments, by these subsidiaries. To assist management in the supervision of these three principal agreements and to provide other functions requiring specific expertise, the Authority employs outside consultants.
Independent Consultant's Report	The Authority engaged Navigant Consulting, Inc. ("Navigant Consulting"), formerly known as Resource Management

	International, Inc., an internationally recognized firm of engineers, economists and management consultants, for the purpose of conducting an evaluation of engineering, economic, system planning, operations, environmental and related matters for the Authority and LIPA and preparing an estimate of the annual operating results for the Authority and LIPA for the period January 1, 2000 through December 31, 2008 (the "Study Period"). The Independent Consultant's Report also contains analysis of the sensitivity of estimated operating results to changes in certain key variables. The Independent Consultant's Report is included as Appendix A to Part 2 of this Official Statement and should be read in its entirety.
Projected Revenues, Revenue Requirements and Debt Service Coverages	Exhibit 1 to the Independent Consultant's Report sets forth Navigant Consulting's estimates for LIPA's revenues and revenue requirements for the Study Period. The Independent Consultant's Report also projects that the Authority's debt service coverages during the Study Period will be no less than: (i) 2.8x on the senior lien debt (including the Offered Securities) outstanding and estimated to be outstanding; (ii) 2.2x on the senior lien debt (including the Offered Securities) and the subordinated lien debt, in both cases outstanding and estimated to be outstanding; and (iii) 2.0x on the senior and subordinate lien debt mentioned in clause (ii) and on the Debentures and the NYSERDA Financing Notes.
Accelerated Retirement of Shoreham Related Debt	The Authority's Trustees have approved a plan which contemplates (but does not require) the accelerated retirement of a principal amount of the Authority's Bonds and Subordinated Indebtedness and other indebtedness of LIPA approximately equal to the $4.0 billion intangible asset principally attributable to the Shoreham regulatory asset. If implemented as designed, this plan would enable the Authority to retire this amount of debt by the year 2013 while amortizing its remaining debt and future financings on a level debt service basis. This accelerated debt retirement plan has both scheduled and optional elements. The Authority implemented the scheduled element by increasing the scheduled amortization of certain of its senior lien Bonds in years 2000 through 2012 by approximately $872 million as compared to level debt service. The optional element of the plan contemplates using cash flow from debt service coverage and favorable budget variances to retire debt on a non-scheduled basis through a combination of (i) open market purchases and tender offers; (ii) cash defeasances; and (iii) the exercise of the Authority's optional redemption rights. Pursuant to this optional element, the Authority (i) in December 1999 tendered for, purchased and retired $148,195,000 of its then outstanding senior lien bonds and (ii) in March 2000, defeased $53,899,000 of LIPA's high-coupon Debentures.

Security and Sources of Payment for Bonds	The Offered Securities, all Bonds heretofore and hereafter issued on a parity therewith and all Parity Obligations will be payable from and secured by the Trust Estate pledged under the Authority's Resolution, subject to the prior payment of Operating Expenses. The Trust Estate consists principally of the revenues generated by the operation of LIPA's electric transmission and distribution system. The Bond Resolution contains a basic flow of funds, including a Rate Stabilization Fund, but does not require specific periodic advance deposits to be made into, or specific balances maintained in, the various funds and accounts. The Authority's financing plan contemplates buildup and the maintenance of the Rate Stabilization Fund at a minimum balance of $250 million. The Bond Resolution requires compliance with a 1.2x historical or projected debt service coverage test on Bonds and other senior lien obligations as a condition to the issuance of additional Bonds, subject to certain exceptions. This requirement will be eliminated once the Authority retires approximately $1.62 billion of its acquisition debt. Refunding Bonds may be issued at any time without compliance with any coverage or savings test. The Bond Resolution contains a rate covenant providing initially for 1.2x debt service coverage on Bonds and other senior lien obligations and 1.0x coverage of all other expenses, including Subordinated Indebtedness. This 1.2x coverage requirement for Bonds and other senior lien obligations will be reduced to 1.0x once the Authority retires approximately $1.62 billion of its acquisition debt.
Municipal Bond Insurance	Financial Security Assurance Inc. will issue a municipal bond insurance policy guaranteeing the scheduled payment of the amounts due at maturity of the Offered Securities.
Retail Competition	The Authority has adopted a retail choice plan, Long Island Choice, intended to lead to full retail choice of power suppliers by 2003. Long Island Choice has been planned in a manner to make the Authority economically indifferent to whether a customer selects LIPA or another power supplier to serve the customer's power needs. Regardless of a customer's choice of electricity supplier, LIPA will remain the sole provider of transmission and distributions services to customers in the Service Area. The Authority has set its rates for delivery service to include all of LIPA's non-avoidable costs.

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PART 1

of the

OFFICIAL STATEMENT

of the

LONG ISLAND POWER AUTHORITY

Relating to its

$325,165,278.85

Electric System General Revenue Bonds, Series 2000A

INTRODUCTION

The $325,165,278.85 Electric System General Revenue Bonds, Series 2000A (the "Offered Securities"), are being issued by the Long Island Power Authority (the "Authority") pursuant to the Long Island Power Authority Act, being Title 1-A of Article 5 (§ 1020 et seq.) of the Public Authorities Law of the State of New York, as amended (the "Act"), and the Electric System General Revenue Bond Resolution of the Authority adopted on May 13, 1998 (the "Bond Resolution"), as supplemented by a resolution of the Authority adopted on February 29, 2000 authorizing the Offered Securities (the "Supplemental Resolution"). The Bond Resolution, as supplemented to the date hereof, including as supplemented by the Supplemental Resolution and as it may be further supplemented or amended in the future, is herein called the "Resolution."

The Authority has outstanding $4,544,252,638 of fixed rate senior lien bonds (the "Outstanding Senior Lien Bonds"), all of which were issued under the Bond Resolution. The Offered Securities will be on a parity as to security and source of payment with the Outstanding Senior Lien Bonds. The Authority has the ability to issue under the Bond Resolution additional senior lien bonds, and other obligations ("Parity Obligations"), that will be on a parity as to security and source of payment with the Outstanding Senior Lien Bonds and the Offered Securities. As used in this Official Statement, the term "Bonds" means the Outstanding Senior Lien Bonds, the Offered Securities and all additional senior lien bonds, notes or other evidence of indebtedness and Parity Obligations of the Authority hereafter issued under the Resolution which are on a parity as to security and source of payment. The Bonds have priority as to security and payment over the Subordinated Indebtedness mentioned in the next paragraph and over the Debentures and the NYSERDA Financing Notes mentioned in the second following paragraph.

The Authority also has outstanding $1,986,300,000 of variable rate subordinate lien bonds (the "Outstanding Subordinated Lien Bonds"). The Outstanding Subordinated Lien Bonds were all issued under the Authority's Electric System General Subordinated Revenue Bond Resolution adopted on May 20, 1998 (the "General Subordinated Resolution") and various supplemental resolutions (the General Subordinated Resolution, as so supplemented, is herein called the "Subordinated Resolution"). The Authority has the ability to issue under the General Subordinated Resolution additional subordinated lien bonds and other obligations that will be on a parity as to security and source of payment with the Outstanding Subordinated Lien Bonds. As used in this Official Statement, the term "Subordinated Indebtedness" means the Outstanding Subordinated Lien Bonds and all other subordinated lien bonds, notes or other evidence of indebtedness of the Authority issued pursuant to the Subordinated Resolution which are on a parity as to security and source of payment. All Subordinated Indebtedness is, in all respects, on a junior and subordinate basis as to security and source of payment to the Bonds.

Pursuant to the Bond Resolution, the Authority is also obligated to provide funds to LIPA for LIPA to pay principal and interest on $270,000,000 principal amount of LIPA's Debentures and on $332,425,000 principal amount of LIPA's NYSERDA Financing Notes. This obligation of the Authority is subordinate to the obligations of the Authority to pay, when due, operating expenses, the Bonds and the Subordinated Indebtedness. For a further description of the Debentures and the NYSERDA Financing Notes and certain Promissory Notes which provide the Authority with funds equal to the amounts due on these obligations, see "Debt Service" in this Part 1 and "LIPA's *Retail Electric Service Business* - LIPA Assets and Liabilities" in Part 2.

Financial Security Assurance Inc. (the "Insurer") will issue its municipal bond insurance policy (the "Policy") guaranteeing the scheduled payment of the amounts due at maturity of the Offered Securities. See "Bond Insurance" in this Part 1.

Capitalized terms not otherwise defined in this Official Statement have the meanings set forth in Appendix C to Part 2 of this Official Statement.

USE OF PROCEEDS

The proceeds of the Offered Securities will be used (i) to provide the funds (estimated to be $315,000,000) necessary to pay the Additional Shoreham Rebates and a portion of the Shoreham Credits, all as described under "Shoreham Property Tax Settlement — Shoreham Rebates and Credit and Suffolk Surcharge" in Part 2 hereof, and (ii) to pay costs (estimated to be $10,165,278.85) relating to the issuance of the Offered Securities, including any bond insurance premium, and underwriters' discount. See "Bond Insurance" in this Part 1.

DEBT SERVICE

The following table shows information regarding the Authority's consolidated debt service requirements following the issuance of the Offered Securities (based on the assumptions in the footnotes to said table), including debt service payable on the Debentures and NYSERDA Financing Notes. It also shows the amounts to be paid to LIPA by KeySpan and one or more of its subsidiaries (the "Promissory Note Obligors") under the Promissory Notes. Payments under the Promissory Notes are general revenues of LIPA pledged under the Financing Agreement to the Authority and are not dedicated to the payment of any Debenture or NYSERDA Financing Notes. For a description of the Debentures, NYSERDA Financing Notes and Promissory Notes, see "LIPA's Retail Electric Service Business — LIPA Assets and Liabilities" in Part 2.

Debt Service Accruing through December 31,	Offered Securities(1)		Outstanding Senior Lien Bonds (2)		Total	Outstanding Subordinated Lien Indebtedness(4)		Debentures(5)	NYSERDA Financing Notes(6)	Less: Promissory	Total Net
	Principal	Interest	Principal	Interest	Bonds(3)	Principal	Interest	Debt Service	Debt Service	Notes(7)	Debt Service
2000	$ —	$ —	$127,960,000	$221,987,573	349,947,573	$ —	$88,643,000	$22,781,983	$24,128,863	$46,268,863	$439,232,555
2001	—	—	119,830,000	216,916,959	336,746,959	—	88,643,000	22,140,000	24,128,863	46,268,863	425,389,958
2002	—	—	140,085,000	211,060,759	351,145,759	—	88,643,000	22,140,000	24,128,863	46,268,863	439,788,758
2003	—	—	144,416,251	207,473,118	351,889,369	—	88,643,000	22,140,000	24,128,863	46,268,863	440,532,368
2004	—	—	159,858,564	201,736,875	361,595,439	—	88,643,000	22,140,000	24,128,863	46,268,863	450,238,438
2005	10,190,529	2,904,471	154,668,038	195,537,682	363,300,720	—	88,643,000	22,140,000	24,128,863	46,268,863	451,943,719
2006	19,785,073	7,164,927	177,730,295	188,638,150	393,318,445	—	88,643,000	22,140,000	50,503,863	72,643,863	481,961,444
2007	19,508,195	8,566,806	185,790,022	180,575,598	394,440,620	—	88,643,000	22,140,000	22,150,738	44,290,738	483,083,619
2008	19,195,202	10,024,798	194,588,886	171,780,079	395,588,965	—	88,643,000	22,140,000	22,150,738	44,290,738	484,231,964
2009	18,868,239	11,521,761	153,429,994	164,064,121	347,884,115	54,600,000	87,551,000	22,140,000	41,250,738	63,390,738	490,035,114
2010	18,088,110	12,736,890	162,992,905	156,750,125	350,568,030	54,600,000	85,298,750	22,140,000	20,660,938	42,800,938	490,466,779
2011	17,286,155	13,973,845	173,227,236	148,767,983	353,255,219	54,600,000	82,841,750	22,140,000	20,660,938	42,800,938	490,696,968
2012	16,502,453	15,202,548	184,101,222	140,143,913	355,950,136	54,500,000	80,182,500	22,140,000	20,660,938	42,800,938	490,632,635
2013	15,735,371	16,419,629	119,979,735	132,851,396	284,986,131	—	78,820,000	22,140,000	20,660,938	42,800,938	363,806,131
2014	14,983,302	17,621,698	125,812,645	127,013,009	285,430,654	—	78,820,000	22,140,000	20,660,938	42,800,938	364,250,653
2015	14,231,507	18,833,493	131,624,692	121,202,562	285,892,254	—	78,820,000	22,140,000	20,660,938	42,800,938	364,712,253
2016	13,538,401	19,986,599	137,625,234	115,205,064	286,355,298	—	78,820,000	22,140,000	125,899,423	148,039,423	365,175,298
2017	12,866,235	21,123,765	143,817,416	108,762,701	286,570,118	—	78,820,000	22,140,000	15,097,908	37,237,908	365,390,117
2018	12,236,746	22,223,254	150,504,157	102,082,266	287,046,424	—	78,820,000	22,140,000	15,097,908	37,237,908	365,866,423
2019	11,671,434	23,263,566	120,127,961	95,773,776	250,836,736	30,900,000	77,887,232	22,140,000	50,127,908	72,267,908	359,623,968
2020	11,105,790	24,309,210	126,300,668	89,950,632	251,666,300	32,400,000	76,442,800	22,140,000	110,411,338	132,551,338	360,509,099
2021	10,582,602	25,317,398	132,727,039	83,886,130	252,513,169	34,000,000	74,927,429	22,140,000	5,410,373	27,550,373	361,440,598
2022	10,079,666	26,310,334	139,498,786	77,471,464	253,360,250	35,600,000	73,339,611	22,140,000	46,444,356	68,584,356	362,299,861
2023	9,618,133	27,266,867	113,780,390	70,689,985	221,355,375	37,200,000	71,679,344	281,070,000	32,112,200	313,182,200	330,234,719
2024	9,175,401	28,209,599	161,471,333	64,967,730	263,824,063	39,000,000	69,940,592	—	3,543,400	3,543,400	372,764,654
2025	8,751,074	29,138,926	130,526,095	56,034,743	224,450,838	40,900,000	68,117,317	—	16,005,600	16,005,600	333,468,155
2026	8,344,320	30,055,680	139,154,288	49,500,425	227,054,713	—	67,500,000	—	—	—	294,554,713
2027	7,954,615	30,960,385	188,130,522	42,496,853	269,542,375	—	67,500,000	—	—	—	337,042,375
2028	7,601,491	31,833,509	198,183,265	32,439,310	270,057,575	—	67,500,000	—	—	—	337,557,575
2029	7,265,237	32,699,763	206,310,000	11,347,050	257,622,050	—	67,500,000	—	—	—	325,122,050
2030	—	—	—	—	—	348,100,000	67,500,000	—	—	—	415,600,000
2031	—	—	—	—	—	363,800,000	51,835,500	—	—	—	415,635,500
2032	—	—	—	—	—	380,100,000	35,464,500	—	—	—	415,564,500
2033	—	—	—	—	—	408,000,000	7,650,000	—	—	—	415,650,000
Totals	$325,165,279	$507,669,721	$4,544,252,638	$3,787,108,030	$9,164,195,668	$1,968,300,000	$2,551,365,325	$790,931,983	$824,945,286	$1,615,235,286	$13,684,502,964

(1) All accreted interest on each maturity of the Offered Securities is shown in the year of its maturity.

(2) The debt service schedule assumes that the $148,195,000 of Outstanding Senior Lien Bonds, Series 1998A purchased and retired in 1999 will be applied on a pro rata basis to all sinking fund payments on the term bonds of this series purchased.

(3) The aggregate principal and interest on the Offered Securities and the Outstanding Senior Lien Bonds.

(4) The Outstanding Subordinated Lien Indebtedness consists of Series 1-6 (total of $1,500,000,000), Series 7 ($250,000,000) and Series 8 (Subseries A-H) (total of $218,300,000). Series 1-6 are variable rate bonds, the interest on which, including letter of credit and remarketing fees, is assumed to be 4.50% per annum. Series 7 are also variable rate bonds, for which the interest rate is assumed to be 4.53% after taking into account liquidity fees, remarketing fees and payments to be received pursuant to certain interest rate swap agreements the Authority has entered into to swap its variable rate interest obligations on Series 7 to a fixed rate of 4.208% (certain payments which may be owed by the Authority under these swap agreements may also be subordinated indebtedness). Each subseries of Series 8 also bears interest at a variable rate, which ranges between 4 and 5%, for an initial interest rate period from 2001 to 2008. At the end of its initial period, each subseries of Series 8 is subject to mandatory purchase, payable by a remarketing of such subseries or, if the remarketing fails, under the Subordinated Resolution.

(5) On March 2, 2000, LIPA defeased all then outstanding Debentures except the $270,000,000 8.20% Debentures due in 2023 which are now outstanding.

(6) $332,425,000 of NYSERDA Financing Notes, not otherwise retired by LIPA, now outstanding. All of these NYSERDA Financing Notes bear interest at fixed rates.

(7) The Promissory Notes were issued by KeySpan and certain subsidiaries as part of the LIPA/LILCO Merger and evidence the obligation of these Promissory Note Obligors to pay to LIPA, 30 days prior to the applicable due dates thereof, an amount equal to the principal of and interest on the Debentures and the NYSERDA Financing Notes.

DESCRIPTION OF THE OFFERED SECURITIES

General

The Offered Securities are being issued only as Capital Appreciation Bonds. Principal of and accreted interest on the Offered Securities will be payable on their respective maturity dates. No interest is payable on any of the Offered Securities prior to maturity.

The Offered Securities are serial bonds, will be dated the date of their delivery to the Underwriters, and will mature at the times and will be issued in minimum denominations (each of which accretes to an aggregate $5,000 principal and interest payable at maturity) as set forth in the column "Initial Offering Price Per $5,000 Maturity Amount" and integral multiples thereof (the "Authorized Denominations" of the Offered Securities), as set forth on the inside cover page of this Official Statement.

For purposes of the Resolution, the amount of the Offered Securities deemed to be Outstanding for purposes of calculating the principal amount of any such Bonds and the principal amount of Bonds Outstanding in connection with the exercise of any voting right or privilege, the giving of any consent or direction or the taking of any other action that the Holders of the Bonds are entitled to take pursuant to the Resolution, shall be the accreted value thereof as of the next preceding June 1 or December 1. The accreted value of the Offered Securities on any June 1 and December 1 is determined by computing the present worth on such date of $5,000 (per each minimum Authorized Denomination) payable at maturity, based upon the yield to maturity at which such Offered Securities were initially offered to the public as set forth on the inside cover page of this Official Statement and semi-annual compounding. Appendix 1 to this Part 1 sets forth the accreted values of the Offered Securities as of each June 1 and December 1 on the minimum Authorized Denominations specified above, until the maturity thereof. The accreted values of the Offered Securities for times other than those set forth in Appendix 1 will be interpolated on a straight line basis.

No Redemption of Offered Securities

The Offered Securities are not subject to optional redemption, mandatory sinking fund redemption or any other redemption prior to maturity.

Securities Depository

Upon initial issuance, the Offered Securities will be available only in book-entry form. The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Offered Securities, and the ownership of one fully registered bond for each maturity of Offered Securities in the principal amount of such maturity will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC. See Appendix G to Part 2 of this Official Statement for a description of DTC and its book-entry-only system that will apply to the Offered Securities.

As long as the book-entry system is used for the Offered Securities, the United States Trust Company of New York, New York, New York (the "Trustee") and the Authority will give any notice required to be given owners of Offered Securities only to DTC. BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS FOR THE DIRECT DTC PARTICIPANT THROUGH WHOSE DTC ACCOUNT ITS BENEFICIAL OWNERSHIP INTEREST IS RECORDED TO RECEIVE NOTICES THAT MAY BE CONVEYED TO DIRECT DTC PARTICIPANTS AND INDIRECT DTC PARTICIPANTS.

BOND INSURANCE

General

It is a condition to the issuance of the Offered Securities that the Insurer issue the Policy. The Insurer has agreed, subject to the provisions of its commitment, to issue the Policy concurrently with the initial issuance of the Offered Securities.

The following provisions of the Supplemental Resolution will apply to the Insurer: The Trustee may, only with the consent of the Insurer, and shall at the direction of the Insurer, pursue remedies under the Resolution with respect to the Offered Securities. So long as the Insurer is not in default under the Policy, the Insurer shall, under the terms of the Resolution, at all times be deemed to be the exclusive owner of the Offered Securities covered by the Policy for the purpose of all approvals, consents, waivers or institution of any action and the direction of all remedies. If the Insurer pays the principal of or interest on any of the Offered Securities, it will be subrogated to all of the rights of the owners of such Offered Securities granted under the Resolution, including the right to receive payment of principal of and interest on the Offered Securities. The Insurer shall have no rights under the Resolution (except to the extent of amounts previously paid by the Insurer and due and owing to the Insurer) in the event the Insurer is in default on its payment obligations under the Policy.

There follows under this caption certain information concerning the Insurer and the Policy which has been supplied by the Insurer. The Insurer has also supplied the specimen of the Policy attached to this Part 1 as Appendix 3. No representation is made by LIPA, the Authority, the Underwriters or any of their counsel as to the accuracy, completeness or adequacy of such information, or as to the absence of material adverse changes in such information subsequent to the date hereof. Neither LIPA, the Authority, the Underwriters, or any of their counsel has made any independent investigation of the Insurer or the Policy, and reference should be made to the information set forth below. The Policy does not constitute a part of the contract between LIPA and the holders of the Offered Securities as evidenced by the Offered Securities or the Resolution. Except for payment of the premium for the Policy by the Authority, neither LIPA, the Authority nor the Underwriters have any responsibility whatsoever with respect to the Policy, including the maintenance or enforcement thereof or collection of amounts payable thereunder.

Other than the information following under the next two captions and the specimen Policy, none of the information in this Official Statement has been supplied or verified by the Insurer and the Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Offered Securities; or (iii) the tax exempt status of the interest on the Offered Securities.

Bond Insurance Policy

Concurrently with the issuance of the Offered Securities, the Insurer will issue its Municipal Bond Insurance Policy for the Offered Securities. The Policy guarantees the scheduled payment of the amounts due at maturity on the Offered Securities as set forth in the specimen form of the Policy included as Appendix 3 to this Part 1.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

The Insurer is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is a New York Stock Exchange listed company whose major shareholders include White Mountains Insurance Group, Inc., XL Capital Ltd, and The Tokio Marine and Fire Insurance Co., Ltd. On March 14, 2000, Holdings announced that it had entered into a merger agreement pursuant to which Holdings would become a wholly-owned subsidiary of Dexia, S.A., a publicly held Belgian corporation, subject to receipt of shareholder and regulatory approvals and satisfaction of other closing conditions. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. The shareholders of Holdings are not liable for the obligations of the Insurer.

At December 31, 1999, the Insurer's total policyholders' surplus and contingency reserves were approximately $1,320,082,000 and its total unearned premium reserve was approximately $669,691,000 in accordance with statutory accounting principles. At December 31, 1999, the Insurer's total shareholder's equity was approximately $1,294,946,000 and its total net unearned premium reserve was approximately $559,041,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Offered Securities. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Offered Securities, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. The Insurer makes no representation regarding the Offered Securities or the advisability of investing in the Offered Securities. The Insurer makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that the Insurer has provided to the Authority the information presented under this caption and the immediately prior caption for inclusion in the Official Statement.

TAX MATTERS

Offered Securities—Federal Tax Matters

In the opinion of Hawkins, Delafield & Wood, New York, New York, Bond Counsel to the Authority ("Bond Counsel"), under existing statutes and court decisions, interest on the Offered Securities is not included in gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended to the date of initial issuance and delivery of the Offered Securities (as used in this section, the "Code"). Under the Code, interest on the Offered Securities is not treated as a preference item in calculating the federal alternative minimum tax that may be imposed on individuals and corporations; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations by the Code. In rendering the foregoing opinions, Bond Counsel has assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations and certifications of facts contained in the Arbitrage and Use of Proceeds Certificate delivered by the Authority and LIPA with respect to the use of the proceeds of the Offered Securities and the investment of certain funds, and other matters affecting the non-inclusion of interest on the Offered Securities in gross income for federal income tax purposes under Section 103 of the Code and (ii) future compliance by the Authority and LIPA with the procedures set forth in the Arbitrage and Use of Proceeds Certificate and with certain tax covenants as to such tax matters. Furthermore, Bond Counsel expresses no opinion as to the effect of any action taken or not taken in reliance upon an opinion of counsel other than themselves on the exclusion from gross income for federal income tax purposes of interest on the Offered Securities, or under state and local tax laws.

Certain Requirements of the Code

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Offered Securities in order that interest on the Offered Securities be and remain not included in gross income for federal income tax purposes under Section 103 of the Code. Noncompliance by the Authority or LIPA with such requirements may require inclusion of interest on the Offered Securities in gross income retroactive to the date of issuance of the Offered Securities, regardless of when such noncompliance occurs or is ascertained. The Authority and LIPA have covenanted that they will not take or omit to take or permit any person to take or omit to take any action which would cause interest on the Offered Securities to be included in the gross income of any Offered Securities owner for federal income tax purposes by reason of Section 103(b) of the Code as now in effect.

Certain Additional Federal Tax Consequences

The following is a brief discussion of certain federal income tax matters with respect to the Offered Securities under existing statutes. It does not address all aspects of federal taxation that may be relevant to a particular owner of the Offered Securities. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Offered Securities.

As noted above, interest on the Offered Securities must be taken into account in determining the tax liability of corporations subject to the federal alternative minimum tax imposed by Section 55 of the Code. Interest on the Offered Securities must also be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Owners of Offered Securities should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S Corporations and certain foreign corporations), financial institutions, property and casualty insurance companies, individual recipients of Social Security or railroad retirement benefits and individuals otherwise eligible for the earned income tax credit, and to taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for federal income tax purposes.

Owners of Offered Securities subject to any such taxes, or who might fall into any such category, should consult their own tax advisors as to the computation of any such tax and the applicability of these and other tax consequences.

Original Issue Discount

Bond Counsel is of the opinion that the original issue discount on the Offered Securities that is properly allocable to any owner thereof is not includable in gross income for federal income tax purposes to the same extent as interest on the Offered Securities, as described above. Original issue discount is the excess of the sum of all payments provided by a maturity of Offered Securities (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the "issue price" of such maturity. For purposes of the preceding sentence, the "issue price" of a maturity refers to the initial offering price to the public (excluding bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Offered Securities comprising such maturity was first sold.

Under Section 1288 of the Code, original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and an owner's adjusted basis in an Offered Security having original issue discount (a "Discount Bond") for purposes of determining gain or loss on disposition will be increased by the amount of any such accrual. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond that is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. Consequently, corporate owners of a Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability even though such owners have not received a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership and disposition of Discount Bonds.

Proposed Federal Tax Legislation

Legislation affecting municipal bonds is regularly being proposed to or considered by the United States Congress. There can be no assurance that legislation enacted, proposed or considered after the date of issuance of the Offered Securities will not have an adverse effect on the tax-exempt status or market price of the Offered Securities or on the Authority's ability to issue subsequent tax-exempt obligations.

New York State Tax Matters

It is also the opinion of Bond Counsel that, under existing statutes, interest on the Offered Securities is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, and the Offered Securities are exempt from all taxation directly imposed thereon by or under the authority of the State of New York, except estate or gift taxes and taxes on transfers.

Corporate Income Tax Rulings

For a description of certain private letter rulings obtained from the Internal Revenue Service ("IRS") in connection with the LIPA/LILCO Merger, see "Corporate Income Tax Rulings" in Part 2 of this Official Statement.

UNDERWRITING

The Underwriters listed on the cover page of this Official Statement, for which Bear, Stearns & Co. Inc. is acting as the Senior Manager, have agreed, jointly and severally and subject to certain conditions, to purchase all, but not less than all, of the Offered Securities from the Authority at an underwriters' discount of $3,362,184.35. The Underwriters will be obligated to purchase all of the Offered Securities if any are purchased. The initial public offering prices of the Offered Securities may be changed from time to time by the Underwriters.

The Offered Securities may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Offered Securities into investment trusts) at prices lower than such public offering prices.

CONTINUING DISCLOSURE UNDERTAKING

The Offered Securities will be subject to the continuing secondary market disclosure requirements of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and will be made subject to the Continuing Disclosure Certificate referred to in "Continuing Disclosure Undertakings for the Offered Securities" in Part 2 of this Official Statement. The Offered Securities being made subject to the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriters to purchase the Offered Securities.

CREDIT RATINGS

Offered Securities

The Offered Securities will be rated "AAA" by Fitch IBCA, Inc. ("Fitch"), "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("S&P"), on the date of issuance of the Offered Securities. The Offered Securities are expected to be assigned these ratings upon, and solely as a result of, the issuance of the Policy. See "Bond Insurance" above.

General

The respective ratings by Fitch, Moody's and S&P of the Offered Securities reflect only the views of such organizations and any desired explanation of the significance of such ratings and any outlooks or other statements given by the rating agencies with respect thereto should be obtained from the rating agency furnishing the same, at the following addresses: Fitch IBCA, Inc., One State Street Plaza, New York, New York 10004; Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; and Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating and outlook (if any) on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings for the Offered Securities will continue for any given period of time or that any of such ratings will not be revised downward or withdraw entirely by any of the rating agencies, if, in the judgment of such rating agency or agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Offered Securities.

APPROVAL OF LEGAL PROCEEDINGS

Hawkins, Delafield & Wood, New York, New York, Bond Counsel to the Authority, will render opinions with respect to the validity of the Offered Securities in substantially the form set forth in Appendix 2 to this Part 1. Certain legal matters with respect to the Authority and LIPA will be passed upon by Stanley B. Klimberg, Esquire, General Counsel to the Authority and LIPA, and by Orrick, Herrington & Sutcliffe LLP, New York, New York, Corporate Counsel to the Authority and LIPA. In addition, certain legal matters will be passed upon for the Authority and LIPA by Rivkin, Radler & Kremer, Uniondale, New York, Special Counsel to the Authority and

LIPA and by Adams, Dayter & Sheehan, LLP, Albany, New York, State Regulatory Counsel to the Authority and LIPA. Certain legal matters will be passed upon for the Underwriters by Clifford Chance Rogers & Wells LLP, New York, New York, Counsel to the Underwriters.

MISCELLANEOUS

This Official Statement (which includes Part 1 and Part 2) includes, among other things, descriptions of (i) the Authority, LIPA, the System and NMP2 and (ii) the terms of the Offered Securities, the Operating Agreements, the Resolution, the Continuing Disclosure Certificate and certain provisions of the Act. Such descriptions are not complete and all such descriptions and references thereto are qualified by reference to each such document, copies of which may be obtained from the Authority.

The agreements with the holders of the Offered Securities are fully set forth in the Bond Resolution, as supplemented by the Supplemental Resolution which authorizes their issuance. This Official Statement is not to be construed as a contract with the purchasers of the Offered Securities or of any other obligations of the Authority.

This Official Statement has been approved by the Trustees of the Authority and has been executed on behalf of the Authority by the Chairman of its Trustees pursuant to the authority of the Trustees.

LONG ISLAND POWER AUTHORITY

By: /S/RICHARD M. KESSEL
Chairman

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ACCRETED VALUE TABLES
(Per $5,000 Maturity Amount)

The following tables set forth the accretion of the interest on each maturity of the Offered Securities, on the basis of semiannual compounding of the difference between the amounts payable at maturity and the initial public offering price per $5,000 maturity amount shown on the inside cover page. *No representation is made that the accreted values presented below bear or will bear any relationship to the market prices of the Offered Securities.*

ACCRETED VALUE TABLES
(Per $5,000 Maturity Amount)

Interest Accretion Date	Bonds Due June 1, 2005	2006	2007	2008	2009	2010	2011	2012	2013
June 1, 2000	3,905.95	3,685.25	3,488.25	3,297.90	3,117.05	2,946.10	2,776.45	2,613.45	2,457.20
December 1, 2000	4,003.60	3,780.15	3,579.10	3,384.80	3,199.95	3,025.05	2,851.65	2,685.05	2,525.25
June 1, 2001	4,103.70	3,877.50	3,672.35	3,474.00	3,285.10	3,106.15	2,928.95	2,758.65	2,595.20
December 1, 2001	4,206.30	3,977.35	3,768.00	3,565.55	3,372.45	3,189.40	3,008.30	2,834.25	2,667.10
June 1, 2002	4,311.45	4,079.75	3,866.20	3,659.50	3,462.20	3,274.85	3,089.85	2,911.90	2,741.00
December 1, 2002	4,419.25	4,184.80	3,966.90	3,755.90	3,554.25	3,362.65	3,173.60	2,991.70	2,816.90
June 1, 2003	4,529.75	4,292.60	4,070.25	3,854.90	3,648.80	3,452.75	3,259.60	3,073.65	2,894.95
December 1, 2003	4,642.95	4,403.10	4,176.25	3,956.45	3,745.85	3,545.30	3,347.95	3,157.85	2,975.15
June 1, 2004	4,759.05	4,516.50	4,285.05	4,060.70	3,845.50	3,640.30	3,438.65	3,244.40	3,057.55
December 1, 2004	4,878.00	4,632.80	4,396.70	4,167.70	3,947.80	3,737.85	3,531.85	3,333.30	3,142.25
June 1, 2005	5,000.00	4,752.10	4,511.20	4,277.55	4,052.80	3,838.05	3,627.55	3,424.60	3,229.25
December 1, 2005	0.00	4,874.45	4,628.75	4,390.25	4,160.65	3,940.90	3,725.85	3,518.45	3,318.75
June 1, 2006	0.00	5,000.00	4,749.30	4,505.95	4,271.30	4,046.50	3,826.85	3,614.85	3,410.65
December 1, 2006	0.00	0.00	4,873.05	4,624.65	4,384.90	4,154.95	3,930.55	3,713.90	3,505.15
June 1, 2007	0.00	0.00	5,000.00	4,746.55	4,501.55	4,266.30	4,037.05	3,815.70	3,602.20
December 1, 2007	0.00	0.00	0.00	4,871.60	4,621.30	4,380.65	4,146.45	3,920.25	3,702.00
June 1, 2008	0.00	0.00	0.00	5,000.00	4,744.20	4,498.05	4,258.85	4,027.65	3,804.55
December 1, 2008	0.00	0.00	0.00	0.00	4,870.40	4,618.60	4,374.25	4,138.00	3,909.95
June 1, 2009	0.00	0.00	0.00	0.00	5,000.00	4,742.40	4,492.80	4,251.40	4,018.25
December 1, 2009	0.00	0.00	0.00	0.00	0.00	4,869.45	4,614.55	4,367.85	4,129.55
June 1, 2010	0.00	0.00	0.00	0.00	0.00	5,000.00	4,739.60	4,487.55	4,243.95
December 1, 2010	0.00	0.00	0.00	0.00	0.00	0.00	4,868.05	4,610.50	4,361.50
June 1, 2011	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,736.85	4,482.30
December 1, 2011	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,866.65	4,606.45
June 1, 2012	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,734.05
December 1, 2012	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,865.20
June 1, 2013	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00

ACCRETED VALUE TABLES
(Per $5,000 Maturity Amount)

Interest Accretion Date	Bonds Due June 1, 2014	2015	2016	2017	2018	2019	2020	2021	2022
June 1, 2000	2,307.60	2,161.40	2,028.05	1,901.05	1,783.40	1,677.95	1,575.00	1,480.55	1,391.25
December 1, 2000	2,372.20	2,222.70	2,086.05	1,955.90	1,835.20	1,726.85	1,621.15	1,524.10	1,432.30
June 1, 2001	2,438.60	2,285.70	2,145.70	2,012.35	1,888.55	1,777.20	1,668.65	1,568.90	1,474.55
December 1, 2001	2,506.90	2,350.50	2,207.05	2,070.40	1,943.40	1,829.00	1,717.55	1,615.05	1,518.05
June 1, 2002	2,577.10	2,417.15	2,270.20	2,130.10	1,999.85	1,882.30	1,767.90	1,662.50	1,562.80
December 1, 2002	2,649.25	2,485.65	2,335.10	2,191.55	2,057.95	1,937.15	1,819.70	1,711.40	1,608.90
June 1, 2003	2,723.45	2,556.15	2,401.90	2,254.80	2,117.75	1,993.65	1,873.00	1,761.70	1,656.40
December 1, 2003	2,799.70	2,628.60	2,470.60	2,319.85	2,179.25	2,051.75	1,927.90	1,813.50	1,705.25
June 1, 2004	2,878.10	2,703.10	2,541.25	2,386.80	2,242.55	2,111.55	1,984.35	1,866.80	1,755.55
December 1, 2004	2,958.65	2,779.75	2,613.95	2,455.65	2,307.70	2,173.10	2,042.50	1,921.70	1,807.35
June 1, 2005	3,041.50	2,858.55	2,688.70	2,526.50	2,374.75	2,236.45	2,102.35	1,978.20	1,860.65
December 1, 2005	3,126.70	2,939.60	2,765.60	2,599.35	2,443.75	2,301.65	2,163.95	2,036.35	1,915.55
June 1, 2006	3,214.25	3,022.95	2,844.70	2,674.35	2,514.70	2,368.75	2,227.35	2,096.25	1,972.05
December 1, 2006	3,304.25	3,108.65	2,926.05	2,751.50	2,587.80	2,437.80	2,292.60	2,157.85	2,030.25
June 1, 2007	3,396.75	3,196.75	3,009.75	2,830.90	2,662.95	2,508.85	2,359.80	2,221.30	2,090.15
December 1, 2007	3,491.85	3,287.40	3,095.80	2,912.55	2,740.30	2,582.00	2,428.95	2,286.60	2,151.80
June 1, 2008	3,589.65	3,380.60	3,184.35	2,996.60	2,819.90	2,657.25	2,500.10	2,353.85	2,215.25
December 1, 2008	3,690.15	3,476.45	3,275.45	3,083.05	2,901.85	2,734.75	2,573.35	2,423.05	2,280.60
June 1, 2009	3,793.45	3,575.00	3,369.10	3,172.00	2,986.15	2,814.45	2,648.75	2,494.30	2,347.90
December 1, 2009	3,899.70	3,676.35	3,465.45	3,263.50	3,072.90	2,896.50	2,726.35	2,567.60	2,417.15
June 1, 2010	4,008.85	3,780.55	3,564.60	3,357.65	3,162.15	2,980.90	2,806.25	2,643.10	2,488.45
December 1, 2010	4,121.10	3,887.75	3,666.55	3,454.55	3,254.00	3,067.80	2,888.50	2,720.80	2,561.90
June 1, 2011	4,236.50	3,997.95	3,771.40	3,554.20	3,348.55	3,157.25	2,973.10	2,800.80	2,637.45
December 1, 2011	4,355.15	4,111.30	3,879.25	3,656.75	3,445.80	3,249.30	3,060.20	2,883.15	2,715.25
June 1, 2012	4,477.10	4,227.85	3,990.20	3,762.25	3,545.90	3,344.00	3,149.90	2,967.90	2,795.35
December 1, 2012	4,602.45	4,347.75	4,104.30	3,870.80	3,648.95	3,441.45	3,242.20	3,055.15	2,877.85
June 1, 2013	4,731.30	4,471.00	4,221.70	3,982.45	3,754.95	3,541.80	3,337.20	3,145.00	2,962.75
December 1, 2013	4,863.80	4,597.75	4,342.45	4,097.35	3,864.00	3,645.05	3,434.95	3,237.45	3,050.15
June 1, 2014	5,000.00	4,728.10	4,466.65	4,215.55	3,976.25	3,751.30	3,535.60	3,332.65	3,140.10
December 1, 2014	0.00	4,862.15	4,594.40	4,337.20	4,091.80	3,860.65	3,639.20	3,430.60	3,232.75
June 1, 2015	0.00	5,000.00	4,725.80	4,462.30	4,210.65	3,973.20	3,745.80	3,531.50	3,328.10
December 1, 2015	0.00	0.00	4,860.95	4,591.05	4,332.95	4,089.00	3,855.60	3,635.30	3,426.30
June 1, 2016	0.00	0.00	5,000.00	4,723.50	4,458.85	4,208.20	3,968.55	3,742.20	3,527.35
December 1, 2016	0.00	0.00	0.00	4,859.75	4,588.35	4,330.85	4,084.85	3,852.20	3,631.45
June 1, 2017	0.00	0.00	0.00	5,000.00	4,721.65	4,457.10	4,204.50	3,965.45	3,738.55
December 1, 2017	0.00	0.00	0.00	0.00	4,858.85	4,587.05	4,327.70	4,082.05	3,848.85
June 1, 2018	0.00	0.00	0.00	0.00	5,000.00	4,720.75	4,454.50	4,202.05	3,962.40
December 1, 2018	0.00	0.00	0.00	0.00	0.00	4,858.35	4,585.05	4,325.60	4,079.25
June 1, 2019	0.00	0.00	0.00	0.00	0.00	5,000.00	4,719.35	4,452.80	4,199.60
December 1, 2019	0.00	0.00	0.00	0.00	0.00	0.00	4,857.65	4,583.70	4,323.50
June 1, 2020	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,718.45	4,451.05
December 1, 2020	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,857.15	4,582.35
June 1, 2021	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00	4,717.55
December 1, 2021	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4,856.70
June 1, 2022	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00

ACCRETED VALUE TABLES
(Per $5,000 Maturity Amount)

Interest Accretion Date	Bonds Due June 1, 2023	2024	2025	2026	2027	2028	2029
June 1, 2000	1,309.70	1,232.75	1,160.05	1,091.45	1,026.70	968.25	913.10
December 1, 2000	1,348.45	1,269.25	1,194.45	1,123.85	1,057.25	997.05	940.25
June 1, 2001	1,388.25	1,306.80	1,229.85	1,157.25	1,088.70	1,026.70	968.25
December 1, 2001	1,429.30	1,345.50	1,266.35	1,191.60	1,121.10	1,057.25	997.05
June 1, 2002	1,471.55	1,385.30	1,303.90	1,227.00	1,154.45	1,088.70	1,026.70
December 1, 2002	1,515.00	1,426.30	1,342.55	1,263.45	1,188.80	1,121.10	1,057.25
June 1, 2003	1,559.80	1,468.55	1,382.35	1,300.95	1,224.15	1,154.45	1,088.70
December 1, 2003	1,605.90	1,512.00	1,423.35	1,339.60	1,260.55	1,188.80	1,121.10
June 1, 2004	1,653.35	1,556.75	1,465.55	1,379.40	1,298.05	1,224.15	1,154.45
December 1, 2004	1,702.20	1,602.85	1,509.00	1,420.35	1,336.70	1,260.55	1,188.80
June 1, 2005	1,752.50	1,650.30	1,553.75	1,462.55	1,376.45	1,298.05	1,224.15
December 1, 2005	1,804.30	1,699.15	1,599.80	1,506.00	1,417.40	1,336.70	1,260.55
June 1, 2006	1,857.60	1,749.45	1,647.25	1,550.70	1,459.60	1,376.45	1,298.05
December 1, 2006	1,912.50	1,801.20	1,696.10	1,596.80	1,503.00	1,417.40	1,336.70
June 1, 2007	1,969.00	1,854.55	1,746.35	1,644.20	1,547.70	1,459.60	1,376.45
December 1, 2007	2,027.20	1,909.45	1,798.15	1,693.05	1,593.75	1,503.00	1,417.40
June 1, 2008	2,087.10	1,965.95	1,851.45	1,743.30	1,641.20	1,547.70	1,459.60
December 1, 2008	2,148.75	2,024.15	1,906.35	1,795.10	1,690.00	1,593.75	1,503.00
June 1, 2009	2,212.25	2,084.05	1,962.90	1,848.40	1,740.30	1,641.20	1,547.70
December 1, 2009	2,277.65	2,145.75	2,021.10	1,903.30	1,792.05	1,690.00	1,593.75
June 1, 2010	2,344.95	2,209.25	2,081.00	1,959.85	1,845.35	1,740.30	1,641.20
December 1, 2010	2,414.25	2,274.65	2,142.70	2,018.05	1,900.25	1,792.05	1,690.00
June 1, 2011	2,485.60	2,342.00	2,206.25	2,078.00	1,956.80	1,845.35	1,740.30
December 1, 2011	2,559.05	2,411.30	2,271.65	2,139.70	2,015.00	1,900.25	1,792.05
June 1, 2012	2,634.65	2,482.70	2,339.05	2,203.25	2,074.95	1,956.80	1,845.35
December 1, 2012	2,712.50	2,556.15	2,408.40	2,268.70	2,136.70	2,015.00	1,900.25
June 1, 2013	2,792.65	2,631.85	2,479.80	2,336.10	2,200.25	2,074.95	1,956.80
December 1, 2013	2,875.20	2,709.75	2,553.30	2,405.45	2,265.70	2,136.70	2,015.00
June 1, 2014	2,960.15	2,789.95	2,629.00	2,476.90	2,333.15	2,200.25	2,074.95
December 1, 2014	3,047.60	2,872.55	2,706.95	2,550.45	2,402.55	2,265.70	2,136.70
June 1, 2015	3,137.65	2,957.55	2,787.25	2,626.20	2,474.00	2,333.15	2,200.25
December 1, 2015	3,230.40	3,045.10	2,869.90	2,704.20	2,547.60	2,402.55	2,265.70
June 1, 2016	3,325.85	3,135.25	2,954.95	2,784.55	2,623.40	2,474.00	2,333.15
December 1, 2016	3,424.15	3,228.05	3,042.60	2,867.25	2,701.45	2,547.60	2,402.55
June 1, 2017	3,525.30	3,323.60	3,132.80	2,952.40	2,781.85	2,623.40	2,474.00
December 1, 2017	3,629.50	3,421.95	3,225.70	3,040.10	2,864.60	2,701.45	2,547.60
June 1, 2018	3,736.75	3,523.25	3,321.35	3,130.35	2,949.80	2,781.85	2,623.40
December 1, 2018	3,847.15	3,627.55	3,419.80	3,223.35	3,037.55	2,864.60	2,701.45
June 1, 2019	3,960.85	3,734.90	3,521.20	3,319.05	3,127.95	2,949.80	2,781.85
December 1, 2019	4,077.90	3,845.50	3,625.60	3,417.65	3,221.00	3,037.55	2,864.60
June 1, 2020	4,198.40	3,959.30	3,733.10	3,519.15	3,316.80	3,127.95	2,949.80
December 1, 2020	4,322.45	4,076.50	3,843.80	3,623.65	3,415.50	3,221.00	3,037.55
June 1, 2021	4,450.20	4,197.15	3,957.75	3,731.30	3,517.10	3,316.80	3,127.95
December 1, 2021	4,581.70	4,321.40	4,075.10	3,842.10	3,621.75	3,415.50	3,221.00
June 1, 2022	4,717.10	4,449.30	4,195.95	3,956.25	3,729.50	3,517.10	3,316.80
December 1, 2022	4,856.45	4,581.00	4,320.35	4,073.75	3,840.45	3,621.75	3,415.50
June 1, 2023	5,000.00	4,716.60	4,448.45	4,194.70	3,954.70	3,729.50	3,517.10
December 1, 2023	0.00	4,856.25	4,580.35	4,319.30	4,072.35	3,840.45	3,621.75
June 1, 2024	0.00	5,000.00	4,716.15	4,447.60	4,193.50	3,954.70	3,729.50
December 1, 2024	0.00	0.00	4,856.00	4,579.70	4,318.25	4,072.35	3,840.45
June 1, 2025	0.00	0.00	5,000.00	4,715.70	4,446.75	4,193.50	3,954.70
December 1, 2025	0.00	0.00	0.00	4,855.75	4,579.00	4,318.25	4,072.35
June 1, 2026	0.00	0.00	0.00	5,000.00	4,715.25	4,446.75	4,193.50
December 1, 2026	0.00	0.00	0.00	0.00	4,855.50	4,579.00	4,318.25
June 1, 2027	0.00	0.00	0.00	0.00	5,000.00	4,715.25	4,446.75
December 1, 2027	0.00	0.00	0.00	0.00	0.00	4,855.50	4,579.00
June 1, 2028	0.00	0.00	0.00	0.00	0.00	5,000.00	4,715.25
December 1, 2028	0.00	0.00	0.00	0.00	0.00	0.00	4,855.50
June 1, 2029	0.00	0.00	0.00	0.00	0.00	0.00	5,000.00

APPENDIX 2

Form of Opinion of Hawkins, Delafield & Wood

[Closing Date]

Long Island Power Authority
333 Earle Ovington Blvd.
Uniondale, NY 11553

Ladies and Gentlemen:

We have examined a certified record of proceedings relating to the issuance of $325,165,278.85 Electric System General Revenue Bonds, Series 2000A (the "Series 2000A Bonds") of the Long Island Power Authority (the "Authority"), a corporate municipal instrumentality of the State of New York (the "State") constituting a body corporate and politic and a political subdivision of the State.

The Series 2000A Bonds are issued under and pursuant to the Constitution and statutes of the State, including the Long Island Power Authority Act, being Title 1-a of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York, as amended (herein called the "Act"), and under and pursuant to proceedings of the Authority duly taken, including a resolution adopted by the Trustees of the Authority on May 13, 1998 entitled "Electric System General Revenue Bond Resolution", as supplemented by a resolution of said Trustees adopted on February 29, 2000 (collectively, the "Resolution").

The Authority has heretofore issued bonds (the "Outstanding Bonds") under the Resolution. The Resolution provides that the Authority may issue additional Bonds (as defined in the Resolution), and incur Parity Obligations (as defined in the Resolution), thereunder from time to time on the terms and conditions and for the purposes stated therein. The Outstanding Bonds, the Series 2000A Bonds, such additional Bonds, if issued, and such Parity Obligations, if incurred, will be equally and ratably secured under the Resolution, except as otherwise provided therein.

The Series 2000A Bonds consist of Capital Appreciation Bonds only and are dated, mature, are payable and bear interest, all as provided in the Resolution. The Series 2000A Bonds are not subject to redemption prior to maturity.

We are of the opinion that:

1. The Authority is duly created and validly existing under the laws of the State, including the Constitution of the State and the Act. Under the laws of the State, including the Constitution of the State, and under the Constitution of the United States, the Act is valid with respect to all provisions thereof material to the subject matters of this opinion letter.

2. The Authority has the right and power under the Act to adopt the Resolution and to perform its obligations thereunder, including its rate covenant relating to the establishment and maintenance of System fees, rates, rents, charges and surcharges. The Authority has received all approvals of any governmental agency, board or commission necessary for the adoption of, or performance of its obligations under, the Resolution, including the approval of the New York State Public Authorities Control Board. The approval of the Public Authorities Control Board of the acquisition of the Long Island Lighting Company by the Authority directs the Authority to obtain the approval of the New York State Public Service Commission prior to implementing certain rate increases.

3. The Resolution has been duly and lawfully adopted by the Authority, is in full force and effect, is valid and binding upon the Authority, and is enforceable in accordance with its terms. The Resolution creates the valid pledge which it purports to create of the Trust Estate (as defined in the Resolution), subject

only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

4. The Series 2000A Bonds have been duly and validly authorized and issued in accordance with the laws of the State, including the Constitution of the State and the Act, and in accordance with the Resolution, and are valid and binding special obligations of the Authority, enforceable in accordance with their terms and the terms of the Resolution, payable solely from the Trust Estate as provided in the Resolution. The Authority has no taxing power, the Series 2000A Bonds are not debts of the State or of any municipality thereof, and the Series 2000A Bonds will not constitute a pledge of the credit, revenues or taxing power of the State or of any municipality thereof. The Authority reserves the right to issue additional Bonds and to incur Parity Obligations on the terms and conditions, and for the purposes, provided in the Resolution, on a parity of security and payment with the Series 2000A Bonds and the Outstanding Bonds.

5. Any registration with, consent of, or approval by, any governmental agency, board, or commission that is necessary for the execution and delivery and the issuance of the Series 2000A Bonds has been obtained.

6. The adoption of the Resolution, compliance with all of the terms and conditions of the Resolution and the Series 2000A Bonds, and the execution and delivery of the Series 2000A Bonds, will not result in a violation of or be in conflict with any term or provision of any existing law, or of any approval by any governmental agency, board or commission necessary for the adoption of, or performance of the Authority's obligations under, the Resolution.

7. The Financing Agreement, dated as of May 1, 1998, between the Authority and Long Island Lighting Company d/b/a LIPA (as successor by merger to LIPA Acquisition Corp.) (the "Subsidiary") has been duly authorized, executed and delivered by the Authority and the Subsidiary and is a valid and binding obligation of the parties thereto, enforceable in accordance with its terms. You have received a separate opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York, the Authority's Corporate Counsel, dated the date hereof, as to the valid existence of the Subsidiary and as to certain other matters relating to the Subsidiary, all of which we have assumed, without further investigation, in rendering the opinions in this paragraph 7.

8. Under existing statutes, interest on the Series 2000A Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof, and the Series 2000A Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State, except estate or gift taxes and taxes on transfers.

9. Under existing statutes and court decisions, interest on the Series 2000A Bonds is not included in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, interest on the Series 2000A Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations by the Code. In rendering the opinions in this paragraph 9, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the Arbitrage and Use of Proceeds Certificate delivered on the date hereof by the Authority and the Subsidiary with respect to the use of proceeds of the Series 2000A Bonds and the investment of certain funds, and other matters affecting the non-inclusion of interest on the Series 2000A Bonds in gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the Authority and the Subsidiary with procedures and covenants set forth in the Arbitrage and Use of Proceeds Certificate and with the tax covenants set forth in the Resolution and the Financing Agreement as to such tax matters. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Series 2000A Bonds to be included in gross income for Federal income tax purposes, retroactive to the date of issuance of the Series 2000A Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

10. The original issue discount on the Series 2000A Bonds that is properly allocable to any owner thereof is not includable in gross income for Federal income tax purposes to the same extent as interest on the Series 2000A Bonds. Original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and an owner's adjusted basis in a Series 2000A Bond for purposes of determining gain or loss on disposition will be increased by the amount of any such accrual.

The opinions expressed in paragraphs 2, 3, 4 and 7 above are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforcement is considered in a proceeding in equity or at law.

Except as stated in paragraphs 8, 9 and 10 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Series 2000A Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Series 2000A Bonds, or under State and local tax law.

We express no opinion as to the accuracy, adequacy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the Series 2000A Bonds.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretations thereof, that may hereafter occur, or for any other reason whatsoever.

Very truly yours,

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

SPECIMEN

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

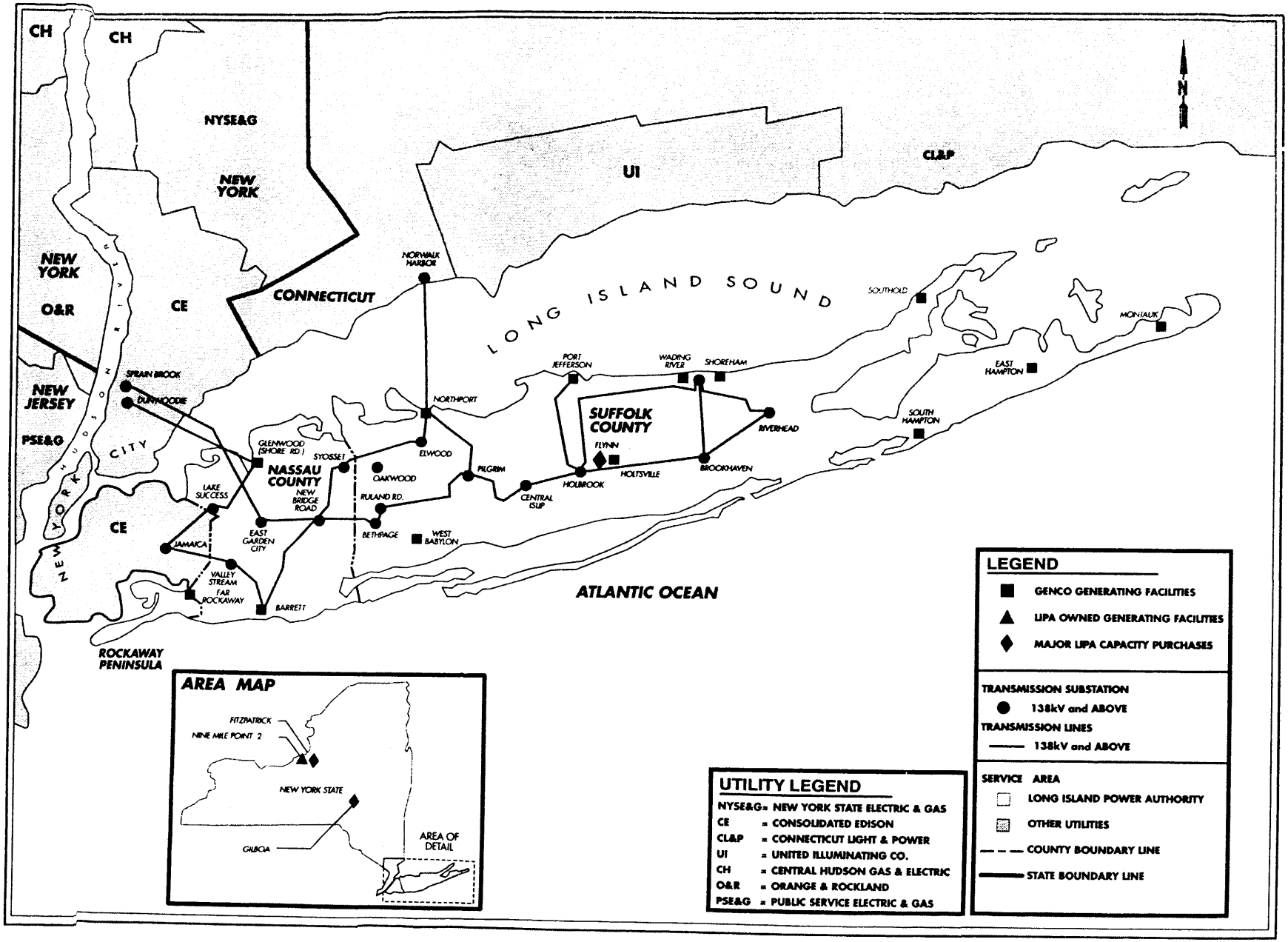
A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

SAMPLE

LONG ISLAND POWER AUTHORITY SERVICE AREA



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PART 2

of the

OFFICIAL STATEMENT

of the

LONG ISLAND POWER AUTHORITY

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PART 2

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LONG ISLAND POWER AUTHORITY

INTRODUCTION

The purpose of this Part 2 is to describe, among other things, the Long Island Power Authority (the "Authority") and its wholly-owned subsidiary, the Long Island Lighting Company ("LILCO") which does business as the retail electric supplier on Long Island New York ("Long Island") under the name LIPA ("LIPA"). The Authority, acting through LIPA, provides this electric service in its service area (the "Service Area") which includes two counties on Long Island — Nassau County ("Nassau County") and Suffolk County ("Suffolk County") (except for the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport, each of which has its individually owned municipal electric system) — and a small portion of the Borough of Queens of The City of New York known as the Rockaways.

The Authority is a corporate municipal instrumentality and a political subdivision of the State of New York (the "State"), exercising essential governmental and public powers. The Authority was created by the State Legislature under and pursuant to the Act for two purposes: (i) to achieve the shutdown and decommissioning of the completed and fueled, but non-commercially operating, nuclear generating station then owned by LILCO located at Shoreham, Long Island and known as the Shoreham Nuclear Power Station ("Shoreham"); and (ii) to lower electric rates in the Service Area. LIPA is a stock corporation formed and existing under the business corporation law of the State of New York.

The first of the Authority's purposes was accomplished through the transfer of Shoreham to the Authority in February 1992. In accordance with the requirements of the Act, the Authority completed the physical decommissioning of Shoreham in 1994 and surrendered Shoreham's license to the Nuclear Regulatory Commission (the "NRC") in 1995.

In order to accomplish the second of the Authority's purposes, the Authority took over as the retail supplier of electric service in the Service Area on May 28, 1998 by acquiring LILCO as a wholly-owned subsidiary of the Authority through a merger (the "LIPA/LILCO Merger"). Since the LIPA/LILCO Merger, LILCO has done business under the name LIPA. Before the LIPA/LILCO Merger, LILCO was a publicly traded, shareholder-owned corporation that was the sole supplier of both retail electric and gas service in the Service Area. LIPA (LILCO) no longer provides gas service in the Service Area. For the period prior to the LIPA/LILCO Merger, LILCO is referred to herein as "LILCO" and, for the subsequent period, is referred to herein as "LIPA."

Prior to the LIPA/LILCO Merger, LILCO owned the electric transmission and distribution system and the generating and other power supply resources used to provide this electric service. LILCO also owned the gas supply, transmission and distribution systems used to provide gas in the Service Area As part of the LIPA/LILCO Merger, LIPA retained only the electric transmission and distribution systems (the "T&D System"), certain agreements and contracts for power supply and transmission, an 18% undivided ownership interest in Unit 2 of the Nine Mile Point nuclear electric generating station and certain other assets and liabilities (for a discussion of these other assets and liabilities, see "LIPA's Retail Electric Service Business — LIPA Assets and Liabilities"). As part of the LIPA/LILCO Merger, the remainder of LILCO's electric service assets (including all of its fossil-fueled generating units), and its entire gas supply system, were transferred to certain wholly-owned subsidiaries (each a "KeySpan Sub" and, collectively, the "KeySpan Subs") of KeySpan Corporation. KeySpan Corporation is a publicly-traded, shareholder-owned corporation whose shares are traded on both the New York and Pacific Stock exchanges. KeySpan's corporate headquarters are located in Brooklyn, New York. KeySpan Corporation does business under the name KeySpan Energy ("KeySpan"). KeySpan was formerly known as MarketSpan.

The cost to the Authority of the LIPA/LILCO Merger was approximately $6.5 billion and was paid from the proceeds of the Outstanding Senior Lien Bonds and the Outstanding Subordinated Lien Bonds described in Part 1 of this Official Statement. These costs represented payments to the prior shareholders of LILCO for their common and preferred stock and the redemption of certain LILCO bonds. Subsequent to the completion of the LIPA/LILCO Merger, the Authority used other proceeds of the Outstanding Senior Lien Bonds and the Outstanding Subordinated Lien Bonds to retire certain previously issued debentures and other obligations of LILCO.

The term "System" means all of the assets of the Authority and LIPA that are used in the furnishing of electric service.

LIPA'S RETAIL ELECTRIC SERVICE BUSINESS

Relationship of the Authority and LIPA

LIPA is a New York corporation and a wholly-owned subsidiary corporation of the Authority. The members of the board of directors of LIPA are elected by the Authority. Accordingly, LIPA is controlled by the Authority. The present members of the board of directors of LIPA are the Trustees of the Authority (the "Trustees"). The Trustees are the Authority's governing body.

The Authority and LIPA are parties to a Financing Agreement (the "Financing Agreement") providing for their respective duties and obligations relating to the financing and operation of the retail electric business in the Service Area. See Appendix D for a summary of the Financing Agreement.

Pursuant to the terms of the Financing Agreement, the Authority is to issue all debt necessary for the Authority and LIPA. This debt includes all Bonds and Subordinated Indebtedness issued and to be issued. The proceeds of all such debt are to be treated as being loaned to LIPA which will repay such loans from the revenues it receives from its electric business. To secure the loans, LIPA has pledged all of its revenues to the Authority which has, in turn, pledged such revenues as security for such debt.

Pursuant to the terms of the Financing Agreement, LIPA conducts the electric business in the Service Area and is responsible for providing service to customers in the Service Area. The Authority is responsible, however, for administering, monitoring and managing the performance by all parties to the Operating Agreements.

The Authority and LIPA are also parties to an Administrative Services Agreement which sets forth the terms and conditions under which the Authority provides personnel, personnel-related services and other services necessary for LIPA to provide electric service in the Service Area. For a further discussion of the Administrative Services Agreement, see "Long Island Power Authority—Management and Operations of the System."

System Operation by the Authority

In order to assist the Authority (acting through LIPA) in providing electric service in the Service Area, at the time of the LIPA/LILCO Merger, the Authority entered into a Management Services Agreement (the "MSA"), a Power Supply Agreement (the "PSA") and an Energy Management Agreement (the "EMA") (these three agreements are collectively referred to as the "Operating Agreements"), each with a separate KeySpan Sub, and assigned them to LIPA. These KeySpan Subs include those subsidiaries to which LILCO transferred its fossil-fueled generating facilities and its gas supply, transmission and distribution system simultaneously with the LIPA/LILCO Merger. The performance of each such KeySpan Sub under its respective Operating Agreement as well as any payment obligations it may have under such agreement are guaranteed by KeySpan (see "Guarantees and Indemnities" below). The purpose of the Operating Agreements is to provide the Authority and LIPA with the operating personnel and power supply resources necessary for LIPA to continue to provide electric service in the Service Area.

The Authority oversees the operation of the System and manages the Operating Agreements with a staff of approximately 52 and through the support of outside financial, engineering, accounting and legal advisors and consultants. The Authority provides for the operation of the System (including obtaining all necessary power

supplies) by LIPA through the Operating Agreements. The Authority assigned its rights and obligations under the Operating Agreements to LIPA. KeySpan has guaranteed performance of each of the Operating Agreements by the KeySpan Subs. Day-to-day operations and maintenance during the terms of the Operating Agreements are being performed by the workforce of the KeySpan Subs, which is largely the same workforce that performed such services for LILCO prior to the LIPA/LILCO Merger.

The Authority provides the continuity of policy making, rate setting, financial planning and management of the System by maintaining the capability of its management team and in-house staff to administer the Operating Agreements and to make efficient use of outsourced services. A wide variety of skills and experience are required to establish policy, evaluate System needs, and assess system operations and related matters. The requirements are periodic and vary in the level of effort required. Outsourcing some of these services enables the Authority to have the skills needed without the expense of committing to full-time positions.

Tasks to be performed through this outsourcing arrangement include, but are not limited to, the following: (i) review of actual costs incurred under the Operating Agreements; (ii) review of the incentive/disincentive compensation provisions under the Operating Agreements; (iii) review of the application of price escalation indices under the Operating Agreements; (iv) planning, implementing and monitoring Long Island Choice; (v) review of power and fuel purchases under the EMA; (vi) review and evaluation of annual operating and capital budgets; (vii) solicitations for new capacity and energy supplies; (viii) evaluation of ramp-down opportunities under the PSA; (ix) evaluation of generation purchase rights; and (x) review of fuel purchases, system dispatch and off-system sales and purchases. Navigant Consulting, Inc., the Authority's Independent Consultant ("Navigant Consulting"), and PricewaterhouseCoopers LLP, the Authority's Independent Accountants, are under contract to LIPA to provide, respectively, consulting and accounting services as required. LIPA and the Authority will utilize these services, as well as the services of other outside consultants, for these tasks.

See "Long Island Power Authority—Management and Operations of the System," and "Appendix A—Independent Consultant's Report—Management and Operation of the System" in this Part 2.

Operating Agreements

MSA. The MSA provides for the KeySpan Sub party thereto (the "Manager") to perform the day-to-day operation and maintenance of the T&D System, including, among other functions, transmission and distribution facility operation, customer service, billing and collection, meter reading, planning, engineering, and construction, all in accordance with policies and procedures adopted by LIPA. The Manager furnishes such services as an independent contractor and does not have any ownership or leasehold interest in the T&D System. All cash collected by the Manager for the account of LIPA is deposited on each business day in bank accounts in such bank as the Authority directs and upon such terms and conditions as specified by the Authority. See "Billing and Collections" in this Part 2.

The Authority and LIPA exercise control over the performance of the T&D System through specific standards for performance and incentives to the Manager contained in the MSA. The primary standards of performance for the delivery of power are adherence to capital and operating budgets and the frequency and duration of outages on the System.

Under the MSA, the Manager is entitled to incentive payments for cost savings and subject to penalties for cost overruns on both the operating and capital budgets. On the operating side, $5 million of the Manager's $15 million annual fee is contingent upon achieving a comparable amount of cost savings each year. In addition, the Manager is entitled to payments equal to 50% of any savings in excess of this amount, provided that no incentive is payable for savings in excess of 15% of the operating budget. To the extent costs exceed the operating budget (excluding the Manager's fee), the Manager must absorb overruns up to a maximum total of $15 million. With regard to the capital budget, the Manager is entitled to incentive payments for cost savings and penalties for cost overruns equal to 50% of all variances, provided that no incentive payment will be earned nor penalty incurred for costs variances in excess of 15% of the capital budget.

In addition to the cost savings incentives, the Manager is eligible annually for incentives for performance above certain threshold target levels and subject to penalties for performance below certain threshold minimum

levels with regard to System reliability. The incentives and penalties can reach $4 million and are apportioned to each of four geographic districts of the T&D System, the performance of which are separately monitored. These incentives and penalties are designed to encourage the Manager to undertake measures across the T&D System that are reasonably anticipated to maintain or improve reliability.

The MSA also provides for additional performance incentives and penalties for call answering and meter reading. When combined with reliability, these services comprise the key performance areas of concern to most utility customers. The objective of the call answering incentive is to improve customer call response times within a specified range. The monthly meter reading incentive targets a reduction in the number of estimated meter reads. The MSA also provides for a worker safety incentive payment to achieve and maintain lost-time accident levels below historical levels.

The MSA expires in 2006. The provisions of the MSA provide that the management services for the T&D System performed by the Manager will be competitively bid following May 28, 2003 for a new management agreement beginning after May 28, 2006. See Appendix E for a summary of the MSA.

PSA. The PSA provides for the sale to LIPA by the KeySpan Sub party thereto ("GENCO") of all of the capacity and, to the extent LIPA requests, energy from the existing oil and gas-fired generating plants on Long Island formerly owned by LILCO (the "GENCO Generating Facilities"). Such sales of capacity and energy from the GENCO Generating Facilities are made at cost-based wholesale rates regulated by the Federal Energy Regulatory Commission ("FERC"). These rates may be modified in the future in accordance with the terms of the PSA for (i) agreed upon labor and expense indices applied to the base year; (ii) a return of and on net capital additions required for the GENCO Generating Facilities, which additions will require approval by the Authority; and (iii) reasonably incurred expenses that are outside the control of GENCO. This rate formula provides for the reasonable containment of GENCO costs.

In addition to cost control, the PSA provides incentives and penalties for GENCO of up to $4 million annually to maintain the output capability of the Generating Facilities, as measured by annual industry-standard tests of operating capability, and to make capital improvements which benefit plant availability.

The PSA provides LIPA with all of the capacity from the GENCO Generating Facilities. However, LIPA has no obligation to purchase energy from the GENCO Generating Facilities and is able to purchase energy on a least-cost basis from all available sources consistent with existing transmission interconnection limitations of the T&D System. The PSA expires on May 28, 2013 and is renewable on similar terms. However, the PSA provides LIPA the option of electing to reduce or "ramp-down" the capacity it purchases from GENCO beginning May 29, 2005, in accordance with schedules set forth in the PSA. In 2005 through 2008, if LIPA elects to ramp-down, GENCO is entitled to payment for 100 percent of the present value of the capacity charges otherwise payable over the remaining term of the PSA. If LIPA ramps-down the generation capacity in years 2009 through 2013 of the PSA, the capacity charges otherwise payable by LIPA will be reduced in accordance with a formula established in the PSA. If LIPA exercises its ramp-down option, GENCO may use any capacity released by LIPA to bid on new LIPA capacity requirements or to bid on LIPA's capacity requirements to replace other ramped-down capacity. If GENCO continues to operate the ramped-down capacity, the PSA requires it to use reasonable efforts to market the capacity and energy from the ramped-down capacity and to share any profits with LIPA. Capacity and energy sold by GENCO from ramped-down capacity must be transported over the T&D System, and GENCO will be required to pay the New York Independent System Operator ("NYISO") standard transmission (and, if applicable, LIPA's distribution) rates for this service. The PSA will be terminated in the event that LIPA exercises its right to purchase at fair market value all of the GENCO Generating Facilities in the 12-month period beginning in May 2002, subject to certain conditions. See Appendix E for a summary of the PSA. For further discussion of the NYISO, see "The System—New York Independent System Operator."

EMA. The EMA provides for the KeySpan Sub party thereto ("Energy Manager") to (i) procure and manage fuel supplies for LIPA to fuel the GENCO Generating Facilities, (ii) perform off-system capacity and energy purchases on a least-cost basis to meet LIPA's needs, and (iii) make off-system sales of output from the GENCO Generating Facilities and other power supplies either owned or under contract to LIPA. LIPA is entitled to two-thirds of the profit from any off-system energy sales arranged by Energy Manager. The term for the service provided in (i) above is until 2013, and the term for the service provided in (ii) and (iii) above is until 2006. The

EMA also provides for a continuation of the present gas transportation rate for gas delivered over the gas distribution system to the GENCO Generating Facilities and to new generation resources until 2009, with cost-based adjustments to meet gas delivery system expansion needs. See Appendix E for a summary of the EMA.

The EMA provides for payment of the costs of sufficient professional and support staff for the Energy Manager to properly perform its functions thereunder. While LIPA pays for the actual fuel and electricity purchased, the EMA further provides incentives for control of the cost of fuel and electricity purchased on behalf of LIPA by the Energy Manager. Fuel and electricity purchase prices will be compared to regional price indices and the Energy Manager will receive a payment from LIPA, or be obligated to make a payment to LIPA, for fuel and/or purchased electricity costs which are below or above, respectively, specified tolerance bands of regional indices. The total fuel purchase incentive or disincentive can be no greater than $5 million annually and the electricity purchase incentive or penalty can be no greater than $2 million annually. However, in no event can the electricity purchase incentive or penalty under the EMA, together with the net other performance incentives and penalties under the MSA, exceed $7.5 million for any year.

Incentives. Within 60 days of the end of each year, the Manager, GENCO and the Energy Manager must submit an accounting of any incentives or penalties accrued during the prior year to LIPA for its review prior to settlement. The incentives and penalties for 1999 are still under review. The results for 1998 are close to being finalized. It is estimated that in 1998 KeySpan earned approximately $14.6 million in incentives under the Operating Agreements as follows: (i) under the MSA, cost saving incentive payments of $4.1 million and non-cost performance incentive payments of $3.7 million; (ii) under the PSA, performance incentives of $3.3 million; and (iii) under the EMA, fuel and electric purchase incentives of $3.5 million.

Other Rights

Pursuant to certain other agreements between LIPA and KeySpan or KeySpan Subs, certain future rights are granted to LIPA. Subject to certain conditions, these rights include the right until 2097 to lease or purchase, or to allow its designee to lease or purchase, at fair market value, parcels of land and to acquire unlimited access to, as well as appropriate easements at, each parcel of land upon which an existing GENCO Generating Facility is situated and land contiguous thereto for the purpose of constructing new electric generating facilities to be owned by LIPA or its designee. Subject to LIPA's right of first refusal, KeySpan and its subsidiaries also have the right to sell or lease these properties to third parties. In addition, LIPA has the right to acquire a parcel at Shoreham suitable as the terminus for a potential transmission cable under Long Island Sound and, after review, evaluation and comparison with other alternatives, the potential site of a new gas-fired combined cycle generating facility.

KeySpan or various of its subsidiaries owns the common plant (such as administrative office buildings and computer systems) formerly owned by LILCO and will charge LIPA for its beneficial use through the Operating Agreements. KeySpan has agreed to provide LIPA, for the period through 2097, the right to enter into leases at fair market value for common plant or sub-contract for common services which it may assign to a subsequent manager of the T&D System. KeySpan has also agreed for the period through 2097 not to compete with LIPA as a provider of transmission or distribution service on Long Island. KeySpan has agreed that LIPA will share in synergy savings through 2008 attributed to the LILCO/KeySpan combination, which savings are incorporated into the cost structure under the MSA, EMA and the PSA.

Guarantees and Indemnities

KeySpan has absolutely and unconditionally guaranteed to the Authority (a) the full and prompt payment when due of all amounts required to be credited or paid by KeySpan Subs under the Operating Agreements and (b) the full and prompt performance of the covenants and agreements of the KeySpan Subs under the Operating Agreements. Upon certain reductions in the credit ratings of KeySpan, LIPA has the right to have KeySpan obtain letters of credit securing these undertakings and agreements.

KeySpan and various subsidiaries (the "KeySpan Parties") have entered into an indemnification agreement with the Authority and LIPA (the "LIPA Parties") pursuant to which the KeySpan Parties agreed to indemnify the LIPA Parties and hold them harmless from a variety of specified liabilities in connection with the LIPA/LILCO Merger, including, among others, the unpaid debts, liabilities or obligations relating to the LILCO assets transferred

to the KeySpan parties prior to the LIP/LILCO Merger. The LIPA Parties have entered into a similar indemnification agreement with the KeySpan Parties pursuant to which the LIPA Parties agreed to indemnify the KeySpan Parties and hold them harmless from a variety of specified liabilities in connection with the LIPA/LILCO Merger, including, among others, the unpaid debts, liabilities or obligations relating to the Retained Assets. These agreements, which are each referred to herein as a "Liabilities Undertaking and Indemnification Agreement", also allocate certain liabilities (including environmental liabilities) arising from events occurring prior to the LIPA/LILCO Merger and relating to the business and operations to be conducted by the LIPA Parties and the KeySpan Parties after the LIPA/LILCO Merger. See "Environmental Matters" in this Part 2.

LIPA Assets and Liabilities

At the time of the LIPA/LILCO Merger, in addition to the electric assets described under "Introduction," LILCO also retained certain other of its former assets (these electric and other retained assets are referred to collectively as the "LIPA Assets") and liabilities (the "LIPA Liabilities" and, together with the LIPA Assets, the "LIPA Assets and Liabilities"). The LIPA Assets include (i) certain regulatory assets of LILCO, including the Shoreham regulatory asset of approximately $4.7 billion, (ii) promissory notes (the "Promissory Notes") evidencing the obligation of KeySpan and certain of its subsidiaries to pay to LIPA amounts equal to the principal and interest on the Debentures and on the NYSERDA Financing Notes described below, (iii) the judgments, actions and claims of LILCO for refunds of property taxes, including the Shoreham Tax Judgment described under "Shoreham Property Tax Settlement," and (iv) other intangible assets of LILCO's former retail electric business, including the right to provide electric service in the Service Area.

Upon the consummation of the LIPA/LILCO Merger, LIPA recorded various purchase accounting adjustments to give recognition to the fact that LIPA is not subject to the regulatory jurisdiction of the New York State Public Service Commission ("PSC") and is exempt from federal income tax. The primary result of these adjustments was the elimination of the regulatory assets and liabilities of LILCO, including the Shoreham regulatory asset, and the elimination of LILCO's deferred federal income tax liability. The excess of the acquisition costs over the original net book value of the transmission and distribution and nuclear assets and the fair value of the other net assets retained appears on the consolidated statements of financial position set forth in Appendix B to this Part 2 as the "Acquisition Adjustment."

The LIPA Liabilities include (i) LILCO's obligation to pay the principal of and interest on certain unsecured debentures of LILCO that had been issued prior to the LIPA/LILCO Merger (the "Debentures") (there are presently $270 million of the Debentures outstanding), (ii) LILCO's obligation to pay the principal of and interest on notes (the "NYSERDA Financing Notes") issued by LILCO to secure tax-exempt bonds issued on behalf of LILCO by the New York State Energy Research and Development Authority ("NYSERDA") prior to the LIPA/LILCO Merger (there are presently $332,425,000 of the NYSERDA Financing Notes outstanding); (iii) certain customer deposits, payables and other liabilities; and (iv) other liabilities, including environmental liabilities *of LILCO not otherwise* transferred to or indemnified by a subsidiary of KeySpan.

KeySpan is obligated to make payments to LIPA under the Promissory Notes equal to the principal and interest on all of the Debentures and the NYSERDA Financing Notes. If at any time during the term of the Promissory Notes, the long-term senior debt of KeySpan is not rated at least "A" by two or more nationally recognized rating services, then KeySpan is obligated to either: (i) deliver a letter of credit issued by a financial institution whose long-term senior debt is or would be rated "A" by at least two such rating services to secure the Promissory Notes; or (ii) economically defease the Promissory Notes by delivering to LIPA U.S. treasury securities sufficient, as determined by LIPA, to pay all amounts due in respect of the debt related to the Promissory Notes. Payments under the Promissory Notes are general revenues of LIPA payable by LIPA to the Authority under the Financing Agreement and are not dedicated to the payment of any Debenture or NYSERDA Financing Note. The Authority is obligated to pay to LIPA, from the Authority's general revenues, funds sufficient to pay the Debentures and the NYSERDA Financing Notes. This obligation of the Authority, however, is subordinate to the obligations of the Authority to pay, when due, operating expenses, the Bonds and the Subordinated Indebtedness.

ACCELERATED DEBT RETIREMENT

The Authority's Trustees have approved a plan which contemplates (but does not require) the accelerated retirement of a principal amount of Bonds, Subordinated Indebtedness, Debentures and NYSERDA Financing Notes in an amount approximately equal to the $4.0 billion Acquisition Adjustment as of May 28, 1998. If implemented as designed, this plan would enable the Authority to retire this amount of debt by the year 2013 while amortizing its remaining debt and future financings on a level debt service basis. This accelerated debt retirement plan has both scheduled and optional elements. The Authority has implemented the scheduled element by increasing the scheduled amortization of a portion of its Outstanding Senior Lien Bonds in years 2000 through 2012 by approximately $872 million. The optional element of the plan contemplates using cash flow from debt service coverage and favorable budget variances to retire debt on a non-scheduled basis through a combination of (i) open market purchases and tender offers; (ii) cash defeasances; and (iii) the exercise of the Authority's optional redemption rights.

The optional element, if fully implemented, will have a significant impact on the average life of the Authority's debt maturing after 2012. The Authority presently estimates that more than $2 billion during the period from 1998 through 2013 will be available for the accelerated retirement of a portion of the approximately $3 billion of fixed rate Bonds and variable rate Subordinated Indebtedness expected to mature after 2012. The potentially significantly shorter average life of Bonds maturing after 2012 will affect, among other things, the cost effectiveness of bond insurance purchased in the secondary market for such Bonds.

In accordance with the optional element of this plan, the Authority (i) in December 1999 successfully tendered for, purchased and retired $148,195,000 of its then Outstanding Senior Lien Bonds and (ii) in March 2000, defeased $53,899,000 of LIPA's high-coupon Debentures, in both cases using excess cash flow as discussed above.

FUTURE FINANCING ACTIVITIES

The Authority anticipates issuing debt in the future for a variety of purposes including the funding of capital projects, refinancing Bonds or Subordinated Indebtedness to the extent economically attractive, and funding the Generation Purchase Option, if exercised.

Unless otherwise funded in whole or in part from revenues, the Authority anticipates the issuance of approximately $142 million to $210 million of Bonds during each full year of the Study Period for capital projects for the T&D System, NMP2, and certain conservation programs, which issuances are reflected in the Independent Consultant's Report attached as Appendix A to this Part 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The Authority operates the System under the terms of the Operating Agreements with KeySpan. KeySpan provides operations and management services to LIPA's transmission and distribution system through the MSA. LIPA contracts for capacity from the fossil fired generating plants of KeySpan through the PSA. KeySpan purchases energy on LIPA's behalf through the EMA. The good working relationship between the Authority and KeySpan has contributed to the favorable results of operations for 1999.

System reliability in 1999 continued at consistently high levels as a result of circuit improvement programs, tree trimming and other measures. Through December 1999, LIPA had a System Average Interruption Frequency Index ("SAIFI") value of 15.1 months compared to a SAIFI value for other overhead New York State utilities of 12.6 months. LIPA's SAIFI value for the twelve months ended December 31, 1998 was 15.5 months. Through December 1999, LIPA had a Customer Average Interruption Duration Index ("CAIDI") value of 68 minutes compared to a CAIDI value of 76 minutes through December 1998. LIPA's reliability statistics compare favorably to other overhead utilities in New York State. Based on December 1999 measures, the average LIPA customer experienced 0.80 outages per year compared to an average of 0.95 outages per year for customers of other overhead New York State utilities. The length of the average LIPA customer interruption was 68 minutes compared to 102

minutes of other overhead New York State utilities. For a further discussion of the System's reliability for 1999, see "The Transmission and Distribution System — Conditions of the Facilities" in the Independent Consultant's Report attached to this Part 2 as Appendix A.

LIPA experienced a new peak demand on its System of 4,590 MW on July 6, 1999, a 9.1% increase over the prior peak demand of 4,208 MW reached in July 1998. Through the terms of its Operating Agreements and its demand side customer arrangements, LIPA was able to fully meet these demands while controlling costs. While LIPA experienced a normal level of equipment failure for such extreme weather conditions, LIPA was able to provide full and reliable service and avoid the rolling blackouts and widespread outages experienced by other utilities in the region, as a result of the capacity LIPA had contracted for pursuant to the PSA and other power purchase contracts.

System demand on the South Fork of Long Island was particularly high during the summer of 1999. On July 5, for example, the load served by substations in Southampton, Bridgehampton, East Hampton and the smaller substations east to Montauk reached a level that was 25% higher than the previous 1998 peak. As a result of this increased demand, the Authority decided to accelerate expansion plans for this region that had been scheduled through 2003 into the capital budget for 2000. The Authority is constructing a new 22.5-mile underground transmission line from Riverhead to Southampton to support increased system demands in this region. This project was approved by the New York State Public Service Commission on February 29, 2000 and is expected to be in service by July 1, 2000.

Principally as a result of higher sales attributable to the impact of weather and load growth in 1999, the Authority generated higher than expected cash, a portion of which was used for accelerated debt retirement. As of December 31, 1999, the Authority had cash and cash equivalents and investments of $529.1 million. To date, the Authority has committed approximately $192 million of excess cash flow from 1999 operations to accelerated, nonscheduled debt retirement, $85 million above the amount it projected in 1998 that it would use for such purpose.

Results of Operations

General

The accompanying financial information reflects the operating results of the Authority and LIPA for the twelve month period ended December 31, 1999. As a result of the Authority changing from a March 31 year end to a December 31 year end in 1998, the 1998 results include the operations of the Authority for the nine month period April 1 to December 31, 1998, together with the operating results of LIPA, which was acquired by the Authority on May 28, 1998, for the seven months through December 31, 1998. As a result, period to period comparisons may be less meaningful than if full year comparisons were available.

Shoreham Property Tax Settlement Agreement

As of January 11, 2000, the Shoreham Property Tax Settlement Agreement became effective. The Shoreham Property Tax Settlement Agreement represents a comprehensive settlement agreement among the Authority and Suffolk County, Nassau County, the Town of Brookhaven, Shoreham-Wading River Central School District, Wading River Fire District and Shoreham-Wading River Library District regarding the overpayment of property taxes and PILOTs based on an over assessment of Shoreham. Under the terms of the Shoreham Property Tax Settlement Agreement, the Authority will issue $457.5 million of Shoreham Rebates and Shoreham Credits to LIPA customers over a five-year period, including rebates and credits issued in 1998. Non-Suffolk ratepayers will also receive Additional Shoreham Rebates totaling approximately $25 million. In order to fund these rebates and credits, the Authority will use the proceeds of certain of its Electric System General Revenue Bonds, including the Offered Securities. Pursuant to the Shoreham Property Tax Settlement Agreement, beginning in June 2003, LIPA will impose the Suffolk Surcharge on its Suffolk County customers in an amount equal to the debt service on the bonds issued to finance the Shoreham Rebates and Credits, and all of the Authority's associated costs.

For a further discussion of the Shoreham Property Tax Settlement Agreement and its implementation, see "Shoreham Property Tax Settlement" in this Part 2.

As a result of the Shoreham Property Tax Settlement Agreement, during 1999 the Authority established a regulatory asset totaling approximately $234 million for the costs associated with the Shoreham Rebates and Credits issued from May 29, 1998 through December 31, 1999. During 1998, in the absence of the executed Shoreham Property Tax Settlement Agreement, the Authority expensed approximately $169 million related to the Shoreham Rebates and Credits. The following table reflects the consolidated results of the Authority and LIPA for the indicated periods, and eliminates the effects of the Shoreham Property Tax Settlement Agreement and the accelerated recovery of the Acquisition Adjustment, discussed below under the caption titled "Depreciation and Amortization."

	(in thousands)		
	12-months ended December 31, 1999	**1999 Adjustments Increase/(Decrease)**	**Pro-Forma 12-months ended December 31, 1999**
Revenues	$2,278,978	$(33,303) (a)	$2,245,675
Operating Expenses	1,509,404	139,006 (b)	1,648,410
Depreciation and Amortization	329,077	(119,052) (c)	210,025
Other Income and (Deductions)	57,177		57,177
Interest Charges	338,749	9,625 (a)	348,374
Income (Loss) from Continuing Operations	$158,925	$(62,882)	$96,043

	9-months ended December 31, 1998	**1998 Adjustments Increase/(Decrease)**	**Pro-Forma 9-months ended December 31, 1998**
Revenues	$1,377,605	$ -	$1,377,605
Operating Expenses	1,132,699	(168,806) (d)	963,893
Depreciation and Amortization	122,022	-	122,022
Other Income and (Deductions)	33,471	-	33,471
Interest Charges	232,484	-	232,484
Income (Loss) from Continuing Operations	$(76,129)	$(168,806)	$92,677

(a) Due to the Shoreham Property Tax Settlement Agreement, LIPA was able to recognize approximately $33 million of "settlement related" revenue, and capitalize approximately $10 million of interest charges.

(b) Represents the reversal of 1998 Shoreham Rebates and Credits expenses of approximately $169 million, offset by approximately $30 million that will not be recovered through the Suffolk Surcharge.

(c) Represents the accelerated recovery of the Acquisition Adjustment resulting from the purchase in December 1999 of $148,195,000 senior lien bonds, Series 1998A.

(d) Represents Shoreham Rebates issued and expensed in 1998.

Excess of Revenues Over Expenses.

The excess of revenues over expenses for the twelve month period ended December 31, 1999 was approximately $159 million. For the nine month period ended December 31, 1998 the Authority generated a loss of $76 million. The increase of approximately $235 million is primarily attributable to the effects of the Shoreham Property Tax Settlement Agreement, partially offset by the accelerated recovery of the acquisition adjustment.

Results increased in 1999 by: (i) approximately $169 million as a result of the recognition of a regulatory asset equal to the amount of expense recognized in 1998 for the rebates and credits issued during that period; (ii) revenues of approximately $33 million related to the Shoreham Property Tax Settlement Agreement; and (iii) the capitalization of interest charges totaling approximately $10 million. These enhancements were partially offset by the recognition of $30 million of charges related to the Shoreham Property Tax Settlement Agreement that will not be recoverable through the Suffolk Surcharge. Totaling the effects of the above items results in an enhancement to operating results in 1999 of approximately $182 million.

An additional item that impacts the comparability of 1999 to 1998 is the accelerated recovery of a portion of the Acquisition Adjustment. In 1999, operating results were negatively impacted by the recognition of the $119 million charge, bringing the total effect on operating results in 1999, due to these various adjustments, to a net increase of $63 million.

Had the Shoreham Property Tax Settlement Agreement been effective in 1998, operating results for that period would have increased by approximately $169 million, which would have resulted in revenues exceeding expenses by approximately $93 million.

After eliminating the effects of the items discussed above, pro-forma operating results for the twelve month period ended December 31, 1999 increased by approximately $3 million over the nine month period ended December 31, 1998, as indicated in the table above.

Revenues

Electric Revenues and Sales

Revenue increased for the twelve month period ended December 31, 1999 when compared to the nine month period ended December 31, 1998, in part as a result of the full year of LIPA operations in 1999 compared to seven months in 1998. In addition, sales increased due to the impact of higher than normal temperatures during the summer cooling season, and higher usage by existing customers due to lower prices than customers were accustomed to prior to the LIPA/LILCO Merger.

The table below provides a summary of LIPA's electric revenues, sales and customers.

	Periods Ended December 31, 1999	1998
Revenues (000)		
Residential	$ 1,145,375	$ 665,264
Commercial and industrial	1,045,836	666,310
Other systems revenues	76,521	42,313
Total system revenues	$ 2,267,732	$ 1,373,887
Other revenues	11,246	3,718
Total revenues	$ 2,278,978	$ 1,377,605
Sales - MwH		
Residential	8,103,710	4,781,983
Commercial and industrial	9,110,722	5,460,555
Other systems revenues	419,905	221,223
Total System sales	17,634,337	10,463,761
Customers – at year end		
Residential	944,208	939,346
Commercial and industrial	119,490	106,990
Total	1,063,698	1,046,336

Operating Expenses

Fuel and Purchased Power

Fuel and purchased power expenses for the twelve month period ended December 31, 1999 and the nine month period ended December 31, 1998 were as follows:

	Periods Ended December 31, 1999	1998
Fuel for Electric Operations (000')		
Oil	$ 138,017	$ 89,101
Gas	237,222	96,881
Nuclear	7,502	5,371
Purchased power	330,562	194,826
	$ 713,303	$ 386,179
FPPCA	-	22,013
Total	$ 713,303	$ 408,192

Fuel and purchased power mix for the twelve month period ended December 31, 1999 and the nine month period ended December 31, 1998, were as follows:

MWh = Megawatt hours	Periods Ended December 31,			
	1999		1998	
	MWh	%	MWh	%
Oil	4,554	23%	3,275	28%
Gas	7,594	39%	3,816	33%
Nuclear	1,581	8%	786	7%
Purchased power	5,734	30%	3,682	32%
Total	19,463	100%	11,559	100%

Variations in fuel and purchased power expenses have a minimal impact on operating results as LIPA's current rate structure includes the fuel and purchased power cost adjustment (the "FPPCA"). The FPPCA provides LIPA with the ability to collect from its customers, and allows LIPA to return to its customers, actual fuel and purchased power costs which fall outside of the fuel and purchased power cost tolerance band, which is defined as one percent higher and one percent lower than the base cost of fuel and purchased power collected through rates. These percentages increase to two percent in 2000 and continue to increase annually in one percent increments thereafter. Expenses for fuel and purchased power costs in excess of or below this level may be recovered from or returned to customers beginning the following year. Should fuel and purchased power costs increase in excess of five percent cumulatively over the original base cost, the FPPCA may recover, from that year forward, all costs in excess of the original base.

Fuel and purchased power expense increased for the twelve month period ended December 31, 1999 when compared to the nine month period ended December 31, 1998, as a result of the full year of operations of LIPA as compared to the seven months of operations in 1998. Additionally, fuel and purchased power costs increased due to higher sales as a result of increased usage by existing customers and new customer additions, combined with higher prices for oil, natural gas and purchased power. For the twelve month period ended December 31, 1999, there was no deferral of fuel costs under the FPPCA as the actual fuel costs incurred fell within the tolerance band. For the seven month period ended December 31, 1998, management of the Authority measured and recognized a deferral associated with the FPPCA mechanism despite the fact that this mechanism did not require measurement to begin until January 1, 2000. As a result of this management decision, the Authority recorded a deferral totaling approximately $22 million associated with the FPPCA mechanics, thereby matching fuel expense with revenue collected to cover the cost of fuel. A corresponding liability was recorded to recognize these over-collections, and thereby preserve this benefit for the customer.

Annualizing the 1998 results and comparing them to 1999 would show that fuel costs have increased. This is primarily the result of increased generation and purchases to meet demand resulting from load growth and an increase in the commodity costs of fuel relative to 1998.

Operations and Maintenance Expenses

Operations and Maintenance ("O&M") expenses, excluding fuel and purchased power, were approximately $690 million and approximately $388 million for the twelve and nine month periods ended December 31, 1999 and 1998, respectively. The increase is due to the full year of operations of LIPA in 1999 compared to seven months of operations in 1998. Annualizing the 1998 figures would reveal 1999 costs increased over the comparable 1998 period. This increase is primarily attributable to the recognition of $25 million of charges related to the Suffolk Property Tax Settlement Agreement, which are not recoverable through the Suffolk Surcharge, and higher than normal repairs due to storm related expenditures.

Depreciation and Amortization

Depreciation and amortization expense increased approximately $88 million for the twelve month period ended December 31, 1999, when compared to the nine month period ended December 31, 1998. This increase is due to the full year of operations of LIPA in 1999 compared to seven months of operations in 1998. Annualizing the 1998 results yields comparable results.

Payments-in-Lieu-of-Taxes (PILOTs)

PILOTs were approximately $245 million and approximately $158 million for the twelve and nine month periods ended December 31, 1999 and 1998, respectively. The increase is principally the result of the full year of operations of LIPA in 1999 compared to seven months of operations in 1998. Annualizing 1998 results and comparing them to 1999 would reveal a decrease in 1999. This is the result of a decrease in the gross receipts tax rate, the Power for Jobs Credit, (whereby qualifying companies receive discounted energy and the utility in-turn, is permitted to offset its New York State gross receipts tax by an amount equal to the lost revenue attributable to the discounted energy sales) and the reduction in property taxes attributable to Shoreham.

Rebates Recoverable/Customer Rebates

For the twelve month period ended December 31, 1999, the Authority recorded a net credit to rebates recoverable/customer rebates of approximately $164 million. This net credit is the result of the Shoreham Property Tax Settlement Agreement. As described above, the Authority was permitted under FAS No. 71 to capitalize previously incurred costs. As a result, the Authority reversed approximately $169 million of Shoreham Rebates and Shoreham Credits issued to customers charged to this account in 1998, partially offset by the recognition of $5 million of costs related to the Shoreham Property Tax Settlement Agreement not recoverable through the Suffolk Surcharge.

Federal Income Tax

The Authority is exempt from Federal, state and local income taxes.

Other Income and Deductions, Net

Other income and deductions increased approximately $16 million during the twelve month period ended December 31, 1999 when compared to the nine month period ended December 31, 1998 primarily as a result of the recognition of a full year of interest income on investments and the recognition of approximately $9 million for the sale of emission credits. Under the terms of the PSA, LIPA receives 67% of the profits on the sale of emission credits.

Interest Expense

Interest expense increased by approximately $106 million for the twelve month period ended December 31, 1999, when compared to the nine month period ended December 31, 1998, primarily due to the fact that the debt was outstanding for a full year in 1999. This was offset by LIPA's ability to capitalize approximately $10 million of the interest in 1999 related to the Shoreham Property Tax Settlement Agreement.

Liquidity and Capital Resources

Liquidity

At December 31, 1999, the Authority had cash and cash equivalents and investments of $529.1 million.

The Authority, pursuant to the plan approved by its Trustees, used a portion of its excess cash flow from operations to accelerate the retirement of certain of its debt as follows: In November 1999 the Authority initiated a tender offer for its Series 1998 A Bonds maturing in 2018, 2022 and 2026. On December 10, 1999, the Authority

used approximately $133.9 million to purchase $148,195,000 par amount of these bonds. On March 2, 2000, the Authority used approximately $58 million of cash to fund the defeasance of approximately $54 million of Debentures that ranged in maturity from 2001 to 2022. Taken together, the Authority has committed approximately $192 million of excess cash flow from 1999 operations to accelerated, non-scheduled debt retirement, $85 million above the amount it projected in 1998 that it would use for such purpose.

The Authority expects that cash flows provided by operations will be sufficient to meet its operating, capital and debt service requirements, and to continue its accelerated debt retirement. The Authority projects cash and cash equivalents and investments at December 31, 2000 of $493.9 million.

Capital Resources

Capital expenditures are expected to be made by LIPA in the ordinary course of business for purposes of the normal upgrading and expansion of the T&D System. LIPA considers the T&D System to be adequate and in good condition. The actual amount and timing of future financing will depend upon actual capital expenditures, the timeliness and adequacy of rate increases, the cost of capital and the amount of interest and fixed charge coverage requirements. The Authority has been advised by KeySpan that the amount of capital expenditures budgeted to be made in 2000 is adequate to maintain system reliability.

PROJECTED REVENUE REQUIREMENTS AND DEBT SERVICE COVERAGE

The Independent Consultant's Report of Navigant Consulting is attached as Appendix A to this Part 2. The Report presents projections and forward looking statements related to the Authority's annual revenues and revenue requirements for the period January 1, 2000 through December 31, 2008 (the "Study Period"). The Independent Consultant's Report also projects that the Authority's debt service coverages during the Study Period will be no less than: (i) 2.8x on the senior lien debt (including the Offered Securities) outstanding and estimated to be outstanding; (ii) 2.2x on the senior lien debt (including the Offered Securities) and the subordinated lien debt, in both cases outstanding and estimated to be outstanding; and (iii) 2.0x on the senior and subordinate lien debt mentioned in clause (ii) and on the Debentures and the NYSERDA Financing Notes.

THE PROJECTIONS IN THE INDEPENDENT CONSULTANT'S REPORT ARE PREDICATED UPON ASSUMPTIONS PRESENTED IN THEIR REPORT. NEITHER NAVIGANT CONSULTING, THE AUTHORITY NOR THE UNDERWRITERS MAKE ANY REPRESENTATION THAT THESE ASSUMPTIONS WILL, IN FACT, OCCUR. THESE PROJECTIONS MAY BE AFFECTED FAVORABLY OR UNFAVORABLY BY UNFORESEEN FUTURE EVENTS, AND THEREFORE, TO THE EXTENT CONDITIONS DIFFER FROM THOSE ASSUMED IN THE INDEPENDENT CONSULTANT'S REPORT, THE RESULTS THAT WILL BE ACHIEVED BY THE AUTHORITY WILL VARY FROM THOSE PROJECTED. THE ASSUMPTIONS WHICH FORM THE BASIS FOR THESE PROJECTIONS AND THE CONCLUSIONS DRAWN BY NAVIGANT CONSULTING ARE DISCUSSED IN THE INDEPENDENT CONSULTANT'S REPORT WHICH SHOULD BE READ IN ITS ENTIRETY FOR AN UNDERSTANDING OF THESE PROJECTIONS, ASSUMPTIONS, AND CONCLUSIONS.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Under the MSA, the Manager is required to bill and collect such fees, rates, rents and charges for the use and services of the T&D System as are established by the Authority in accordance with the Bond Resolution and the Act. See "Billing and Collections."

Since LIPA owns the System, the Financing Agreement contains covenants as to the operation and maintenance of the System, and the Resolution contains covenants of the Authority to enforce the Financing Agreement and assigns to the Trustee certain of the Authority's rights and interests under the Financing Agreement, including the right to bring actions and proceedings for the enforcement of the Financing Agreement.

Pledge of Trust Estate

The Resolution pledges the Trust Estate for the payment of the Bonds and all Parity Obligations, subject to the provisions of the Resolution, the Act and the Financing Agreement permitting certain applications of the Trust Estate and subject to the prior payment of Operating Expenses.

The Resolution authorizes the application of Revenues to certain purposes free and clear of the lien of the pledge. These applications include payment of Operating Expenses from the Operating Expense Fund prior to the deposit of Revenues in the Debt Service Fund. In addition, the Resolution provides that amounts on deposit in the Rate Stabilization Fund may be used for any lawful purpose of the Authority or LIPA, and amounts retained in the Revenue Fund may be used for any lawful purpose of the Authority or LIPA, as determined by the Authority.

The principal items in the Trust Estate pledged by the Resolution include:

(i) all payments received by the Authority from LIPA under the Financing Agreement, and all rights to receive the same;

(ii) all Revenues and all right, title and interest of the Authority in and to Revenues, and all rights of the Authority to receive the same;

(iii) the proceeds of sale of Bonds until expended for the purposes authorized by the Supplemental Resolution authorizing such Bonds; and

(iv) all funds, accounts and subaccounts established by the Resolution, including securities credited thereto and investment earnings thereon.

The Authority covenants in the Resolution that it will not, and will not permit LIPA to, issue any bonds, notes or other evidences or indebtedness or otherwise incur any indebtedness, other than Bonds or Parity Obligations, secured by a pledge of or other lien or charge on the Trust Estate which is prior to or of equal rank or priority with the pledge made by the Resolution, and that it will not create or cause to be created any lien or charge on the Trust Estate which is prior to or of equal rank or priority with the pledge made by the Resolution.

Payment of Revenues Pursuant to Financing Agreement

Under the Financing Agreement, LIPA transfers to the Authority all of its right, title and interest in and to the Revenues, including all right to collect and receive the same, subject to the provisions of the Financing Agreement and the Resolution providing for the application of Revenues, and consents to the assignment by the Authority to the Trustee of its interest therein.

Revenues are defined in the Resolution to mean all revenues, rates, fees, charges, surcharges, rents, proceeds from the sale of LIPA assets, proceeds of insurance, and other income and receipts, as derived in cash, directly or *ind*irectly from any of LIPA's operations, by or for the account of the Authority or LIPA including but not limited to all payments received by the Authority or LIPA with respect to Promissory Notes, any guaranty of performance under any System Agreement and all dividends received by the Authority as a result of ownership of any stock or other evidence of an equity interest in LIPA; provided, however, that Revenues shall not include (i) any Transition Charge, (ii) any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project, or (iii) any federal or State grant moneys the receipt of which is conditioned upon their expenditure for a particular purpose unless the Authority determines that such moneys constitute Revenues. Revenues also do not include any amounts, or amounts from any sources, as may be specified from time to time by Supplemental Resolution; provided, however, that at such time the applicable additional Bonds tests of the Resolution will be satisfied (whether or not the tests are then required to be met for other purposes) without regard to such amounts. Transition Charge means any rates, fees, charges or surcharges relating to the T&D System or the customers thereof established by irrevocable rate order or other action or instrument, and applicable to or by the Authority or LIPA, in conjunction with the issuance of debt or other securities under a separate resolution, indenture

or similar instrument (other than the Resolution) to the extent such rates, fees, charges or surcharges are pledged or otherwise encumbered or conveyed as security for such debt or other securities.

Funds

The Resolution establishes the following Funds: the Construction Fund; the Revenue Fund; the Operating Expense Fund; the Debt Service Fund; the Parity Contract Obligations Fund; the Subordinated Indebtedness Fund; the Subsidiary Unsecured Debt Fund; the PILOTs Fund; and the Rate Stabilization Fund, all to be held by or on behalf of the Authority with the exception of the Debt Service Fund, which is to be held by the Trustee.

Flow of Funds

The Authority is required by the Resolution, as promptly as practicable after receipt thereof by LIPA, to deposit all Revenues in the Revenue Fund. Amounts on deposit from time to time in the Revenue Fund shall be withdrawn and deposited in the following order of priority:

FIRST: to the Operating Expense Fund, the amount determined by the Authority from time to time to be deposited to pay, or to be set aside therein as a reserve for the payment of, Operating Expenses;

SECOND: (A) to the Debt Service Fund, the amounts required to pay or provide for the payment of the Principal Installments and Redemption Price of and interest on Bonds and Parity Reimbursement Obligations; and

(B) to the Parity Contract Obligations Fund, the amount determined by the Authority to be required to be deposited therein to pay or provide for the payment of Parity Contract Obligations;

THIRD: if such amounts are not expected by the Authority to be required to be deposited thereafter for purposes of paragraphs FIRST and SECOND, to the Subordinated Indebtedness Fund, the amount determined by the Authority to be required to be deposited therein to pay or provide for the payment of Subordinated Indebtedness;

FOURTH: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST, SECOND or THIRD above, to the Subsidiary Unsecured Debt Fund, the amount determined by the Authority to be required to be deposited therein to pay or provide for the payment of Outstanding Subsidiary Unsecured Debt (including the Debentures and NYSERDA Financing Notes);

FIFTH: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST, SECOND, THIRD or FOURTH, to the PILOTs Fund, the amount determined by the Authority to be required to be deposited in such Fund to pay or provide for the payment of payments in lieu of taxes ("PILOTS"); and

SIXTH: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST, SECOND, THIRD, FOURTH or FIFTH, to the Rate Stabilization Fund, the amount determined by the Authority to be deposited therein to provide for any payments or deposits from Revenues thereafter.

Any moneys remaining in the Revenue Fund may be used for any lawful purpose of the Authority or LIPA, as determined by the Authority, including, but not limited to, the purchase or redemption of any bonds, notes or other obligations of the Authority or LIPA.

Rate Covenant

The Authority covenants in the Resolution to establish and maintain System fees, rates, rents, charges and surcharges sufficient in each Fiscal Year so that Revenues reasonably expected to be produced in such Fiscal Year will be at least equal to the sum of:

(i) 120% (except, after the Authority retires, other than from the proceeds of Bonds or Subordinated Indebtedness, an amount equal to 25% of the Acquisition Debt net of the then outstanding

balance of the Promissory Notes (which amount is approximately $1.62 billion) of Debt Service, and amounts under all Parity Contract Obligations, payable by the Authority in such Fiscal Year;

(ii) 100% of the Operating Expenses payable in such Fiscal Year;

(iii) 100% of the amount necessary to pay all PILOTs payable in such Fiscal Year; and

(iv) 100% of the amount necessary to pay other Required Deposits, all other payments required pursuant to the Resolution and the Financing Agreement, and all other payments required for the System, for such Fiscal Year.

If at any time such fees, rates, rents, charges and surcharges are or will be insufficient to meet the rate covenant, it will not constitute an Event of Default if and to the extent the Authority promptly takes action reasonably expected by the Authority to cure or avoid any such deficiency or to cause the same to be cured or avoided. In addition, the failure in any Fiscal Year to comply with the covenant in clauses (i) (but only to the extent of the excess, if any, over 100% of Debt Service and amounts under all Parity Contract Obligations), (iii) and (iv) above (the "non-debt service and operating expense rate covenant"), will not constitute an Event of Default if the Authority retains a Rate Consultant and a Consulting Engineer for the purpose of reviewing System fees, rates, rents, charges and surcharges and reviewing the System Budget and complies with the following sentence. If the Rate Consultant (relying upon a certificate of the Consulting Engineer) is of the opinion that a schedule of fees, rates, rents, charges and surcharges for the T&D System which would provide funds to meet the requirements specified in the non-debt service and operating expense rate covenant is impracticable at that time and the Authority therefore cannot comply with the non-debt service and operating expense rate covenant, then the Authority will fix and establish such schedule of System fees, rates, rents, charges and surcharges as is recommended in such certificate by the Rate Consultant to comply as nearly as practicable with the non-debt service and operating expense rate covenant, and in such event the failure of the Authority to comply with the non-debt service and operating expense rate will not constitute an Event of Default.

For purposes of the rate covenant, at any time, (i) Revenues includes any amounts withdrawn or expected to be withdrawn thereafter in any Fiscal Year from the Rate Stabilization Fund which were either (a) on deposit therein prior to such Fiscal Year or (b) proceeds of Bonds or Subordinated Indebtedness issued to fund the Shoreham Credits, (ii) Revenues do not include any proceeds from the sale of Subsidiary assets or proceeds of insurance, and (iii) Debt Service, Parity Contract Obligations, PILOTs and other Required Deposits will not include any amounts expected by the Authority to be paid from any funds, other than Revenues, reasonably expected by the Authority to be available therefor (including without limitation the anticipated receipt of proceeds of sale of Bonds or Subordinated Indebtedness, or moneys not a part of the Trust Estate, expected by the Authority to be used to pay the principal of Bonds, Parity Contract Obligations, Outstanding Subsidiary Unsecured Debt or Subordinated Indebtedness, other than proceeds of Bonds or Subordinated Indebtedness issued to fund the Shoreham Credits), which expectations, if included in a resolution of the Authority or Certificate of an Authorized Representative, will be conclusive.

In addition, the Authority covenants in the Resolution to review, or cause LIPA to review, the adequacy of System fees, rates, rents, charges and surcharges at least annually. Except to the extent required by law, the Authority covenants not to permit LIPA to furnish or supply or cause to be furnished or supplied any product, use or service of the System free of charge (or at a nominal charge) to any person, firm or corporation, public or private, unless the Authority determines that other adequate consideration has been, or is expected to be, received in connection therewith, and to cause LIPA to enforce or cause to be enforced the payment of any and all amounts owing to LIPA for use of the System in accordance with the Financing Agreement.

Additional Bonds Test

The Resolution requires that, as a condition to the delivery of additional Bonds, except Refunding Bonds, the Authority shall deliver to the Trustee the Certificate referred to in either subparagraph (A) or (B), unless not required as described below, as follows:

(A) A Certificate of any Authorized Representative of the Authority setting forth (i) the Revenues for any 12 consecutive calendar months out of the 18 calendar months immediately preceding the month in which such Bonds are to be issued, (ii) the Debt Service, and the amount payable under all Parity Contract Obligations, during such 12 month period for which Revenues are set forth pursuant to clause (i), excluding in each case any amount thereof paid from sources other than Revenues, and (iii) the sum of the Required Deposits for such 12 month period (excluding Required Deposits for the payment of Outstanding Bonds and Parity Obligations), and showing that the amount set forth in clause (i) is at least equal to the sum of (x) 120% of the amount set forth in clause (ii) and (y) 100% of the amount set forth in (iii).

(B) A Certificate of a Rate Consultant setting forth (i) the estimated Revenues for each of the full Fiscal Years in the period beginning with the Fiscal Year in which such Bonds are authenticated and delivered and ending with the fifth full Fiscal Year after such date of authentication and delivery, (ii) the estimated Debt Service, and estimated amounts payable under all Parity Contract Obligations, during each Fiscal Year for which Revenues are estimated pursuant to clause (i), (iii) the projected Debt Service, and projected amounts payable under Parity Contract Obligations, projected to be required for any purpose during each Fiscal Year for which Revenues are estimated pursuant to clause (i), and (iv) the sum of the estimated and projected Required Deposits for each such Fiscal Year (excluding Required Deposits for the payment of Outstanding Bonds and Parity Obligations), and showing that for each such Fiscal Year the amount set forth in clause (i) is at least equal to the sum of (x) 120% of the sum of the amounts set forth in clauses (ii) and (iii), and (y) 100% of the amount set forth in clause (iv). The Rate Consultant may base its estimates and projections upon such factors as it shall consider reasonable, a statement to which effect shall be included in the Certificate.

For purposes of the additional Bonds tests, at any time, (i) Revenues includes any amounts withdrawn or expected to be withdrawn thereafter in any Fiscal Year from the Rate Stabilization Fund which were either (a) on deposit therein prior to such Fiscal Year or (b) proceeds of Bonds or Subordinated Indebtedness issued to fund the Shoreham Credits, (ii) Revenues do not include any proceeds from the sale of LIPA assets or proceeds of insurance, and (iii) Debt Service, Parity Contract Obligations and other Required Deposits will not include any amounts expected by the Authority to be paid from any funds, other than Revenues, reasonably expected by the Authority to be available therefor (including without limitation the anticipated receipt of proceeds of sale of Bonds or Subordinated Indebtedness, or moneys not a part of the Trust Estate, expected by the Authority to be used to pay the principal of Bonds, Parity Obligations, Outstanding Subsidiary Unsecured Debt or Subordinated Indebtedness, other than proceeds of Bonds or Subordinated Indebtedness issued to fund the Shoreham Credits), which expectations, if included in a resolution of the Authority or Certificate of an Authorized Representative, will be conclusive.

The above provisions shall not apply (i) to any Bonds constituting Acquisition Debt, (ii) to any Bonds (including the Offered Securities) issued for any of the purposes described in the next succeeding sentence, and (iii) at any time after the Authority first shall have retired, other than from proceeds of Bonds or Subordinated Indebtedness, an amount equal to 25% of the Acquisition Debt net of the then outstanding balance of the Promissory Notes, which amount is approximately $1.62 billion. The purposes referenced in clause (ii) of the preceding sentence include the refinancing of the Debentures and the NYSERDA Financing Notes, certain capital expenditures and other initial costs, and costs of issuance relating to the additional debt issued for such purposes.

Subordinated Indebtedness; Acceleration of Subordinated Indebtedness

There is no limit or test for the issuance of Subordinated Indebtedness under the Resolution.

Subordinated Indebtedness is subject to acceleration prior to maturity upon the occurrence of certain events.

Such accelerations would not cause an acceleration of the Bonds or affect the priority of the application of Revenues to the payment of the Bonds. In such an event any amounts then available under the Resolution after the payment of Operating Expenses and debt service on any Bonds and Parity Contract Obligations could be required to be applied to the payment of the Subordinated Indebtedness.

LONG ISLAND POWER AUTHORITY

The Authority is a corporate municipal instrumentality and a political subdivision of the State of New York created by the Act which was enacted in 1986. LIPA is a wholly-owned subsidiary of the Authority which was formed and exists under the business corporation law of the State of New York.

The Act

Pursuant to the Act, the Authority has all of the powers necessary or convenient to carry out the purposes and provisions of the Act including, without limitation, to (i) acquire real or personal property; (ii) enter into agreements or contracts consistent with the exercise of its powers; (iii) borrow money, issue notes, bonds or other obligations and secure its obligations by mortgage or pledge of its property; (iv) create or acquire one or more wholly owned subsidiaries; (v) set its rates and charges; and (vi) make inquiries, investigations and studies necessary to carry out its objectives.

The Authority may enter into agreements to purchase power from the Power Authority of the State of New York ("NYPA"), the State, any State agency, any municipality, any private entity or any other available source (excluding Canada unless negotiated through NYPA) at such price as may be negotiated. The Authority is specifically authorized to provide and maintain generating and transmission facilities and enter into management agreements for the operation of all or any of the property or facilities owned by it. Finally, the Authority may transfer any of its assets to one or more private utilities or municipal gas or electric agencies for such consideration and upon such terms as the Authority may determine to be in the best interest of the gas and electric ratepayers in the Service Area. The Act permits the Authority to file a petition under Chapter 9 of Title 11 of the United States Bankruptcy Code or take other similar action for the adjustment of its debts. LIPA as a corporation may file a petition under Chapter 7 or Chapter 11 of Title 11 of the United States Bankruptcy Code.

The Act requires that any resolution authorizing the issuance of bonds contain a covenant by the Authority that it will at all times maintain rates, fees or charges sufficient to pay, and that any contracts entered into by the Authority for the sale, transmission or distribution of electricity shall contain rates, fees or charges sufficient to pay, the costs of operation and maintenance of the facilities owned or operated by the Authority, payments in lieu of taxes, renewals, replacements and capital additions, the principal of and interest on any obligations issued pursuant to such resolution as they become due and payable, and to establish or maintain any reserves or other funds or accounts required or established by or pursuant to the terms of such resolution.

Trustees

The Authority is governed by a fifteen-member board of Trustees who are required under the Act to be residents of the Authority's Service Area. The Governor appoints nine of the Trustees. Of the six remaining, three are appointed by the Majority Leader of the New York State Senate, and three are appointed by the Speaker of the New York State Assembly. A chairman of the Trustees is also appointed by and serves at the pleasure of the Governor. Each Trustee serves for a staggered term of four years. A trustee whose term expires continues to serve until his or her successor is appointed. Pursuant to the Act the Trustees and the officers of the Authority are not subject to any personal or civil liability resulting from the exercise, carrying out or advocacy of any of the Authority's purposes or powers. Trustees are entitled to reimbursement for reasonable expenses in the performance of their duties. The By-laws and other instruments of the Authority and LIPA provide for the indemnification of the Trustees, officers and employees of the Authority and the directors, officers and employees of LIPA.

Management and Operations of the System

Administrative Services Agreement. The Authority and LIPA are parties to an Administrative Services Agreement (the "Administrative Services Agreement"), which sets forth the terms and conditions under which the Authority will provide personnel, personnel-related services and other services (including management, supervisory, payroll and other services) necessary for LIPA to provide electric service in the Service Area. Except for services of the type and nature provided to LIPA by outside independent agents, attorneys and consultants and for any other services provided under agreements approved by the Authority, LIPA will meet its personnel and personnel-related

needs exclusively through the Administrative Services Agreement. The Administrative Services Agreement may be amended from time to time to reflect the changing needs of the Authority and LIPA.

Under the Administrative Services Agreement, the services provided by the Authority include, but are not limited to: (i) performance of LIPA's duties and obligations and enforcing its rights under any existing and future contracts between LIPA and any other person, including, but not limited to, the MSA, EMA and PSA; (ii) coordination of services for which LIPA contracts; (iii) coordination of negotiations and studies authorized by LIPA for any project for the supply of power and energy or the provision of transmission capacity to LIPA; (iv) reviewing invoices; (v) disbursement of all funds of LIPA; (vi) preparation of construction and operating budgets on behalf of LIPA; (vii) provision or coordination of all other accounting matters and preparation of billings to, and collection from, LIPA's customers; (viii) coordination of all other matters arising under any agreements relating to any project that LIPA might undertake; (ix) securing information from any persons required to fulfill LIPA's obligations under any agreements arising from the Administrative Services Agreement, the agreements referred to in clauses (i) and (viii), and any project LIPA might undertake; (x) provision or coordination of rate matters; and (xi) provision or coordination of such other services as LIPA determines are required to carry out its business in an economical and efficient manner.

Management. The present officers, and senior management of the Authority, with information covering their background and experience, are listed below.

Richard M. Kessel (50) is the Chairman, President and Chief Executive Officer of the Authority. His current term expires in September 2000. Mr. Kessel has served as a Trustee of the Authority since the Authority's inception. Mr. Kessel, who first served as Chairman of the Authority from 1989 to 1995, was reappointed Chairman in April 1997. Mr. Kessel was appointed as Executive Director and Chairman of New York State's Consumer Protection Board in January 1984 and served until January 1995. Mr. Kessel served as an ex-officio member of Governor Cuomo's Advisory Commission on Liability Insurance. Since 1981, Mr. Kessel has been a member of the Board of Trustees of Nassau Community College. Mr. Kessel is a graduate of New York University. He received his Masters in Political Science from Columbia University.

Patrick Foye (42) is a Deputy Chairman of the Authority. Mr. Foye became a Trustee in September 1995. His current term expires in August 2002. Mr. Foye is Executive Vice President of Apartment Investment and Management Company, a real estate investment trust and the nation's largest owner and manager of multifamily apartment properties. He was a partner from 1989 to 1998 in the law firm of Skadden, Arps, Slate, Meagher & Flom LLP. Mr. Foye is a member of Governor Pataki's New York State Privatization Research Council. Mr. Foye is a graduate of Fordham College and Fordham Law School.

Howard E. Steinberg (55) is a Deputy Chairman of the Authority. Mr. Steinberg became a Trustee in April 1999. His current term expires in August 2003. He is Executive Vice President, General Counsel and Corporate Secretary of Reliance Group Holdings, a major domestic and international insurance operation listed on the New York Stock Exchange. Mr. Steinberg served as Chairman of the New York State Thruway Authority and Chairman of the New York State Canal Corporation from 1996 to 1999. He is a member of the Board of Overseers of the University of Pennsylvania School of Arts and Sciences and as a member of the Board of Directors of Sheltering Arms Childrens Services. Mr. Steinberg served as Captain, JACG, USAR from 1974 - 1975. He holds a B.A. from the University of Pennsylvania, and a J.D. from Georgetown University Law Center, where he was Editor of the Law Journal.

Seth D. Hulkower (41) is the Chief Operating Officer of the Authority. He was appointed to this position in June of 1999. Prior to this appointment, he was the Authority's Executive Director, a position he held beginning in July 1996. Prior to his association with the Authority, Mr. Hulkower was a Vice President of Merrill International Ltd., an energy project development and consulting company. Prior to Merrill International, Mr. Hulkower was a Vice President of JFG Associates, Inc. a financial advisory and management consulting firm. He has also held positions with the consulting firm of Putnam, Hayes, & Bartlett, Inc., New England Power Company and Stone & Webster Engineering Company. Mr. Hulkower received his S.M. in Technology and Policy from the Massachusetts Institute of Technology and his B.S. in Mechanical Engineering and B.A. in Economics from Tufts University.

David P. Warren (45) is the Chief Financial Officer of the Authority. He joined the Authority in January 1998. He is responsible for all financial activities of the Authority. Prior to his current position, Mr. Warren was Deputy Treasurer of the State of Connecticut where he administered the State's public finance program. Before entering the public sector, Mr. Warren was a vice president in public finance at CS First Boston. Mr. Warren holds a Master's degree in Public and Private Management from the Yale School of Management and a B.A. from Wesleyan University. Mr. Warren has indicated his intention to resign from the Authority after the delivery of the Offered Securities in order to pursue other professional opportunities.

Stanley B. Klimberg (54) is the General Counsel of the Authority. He joined the Authority in 1987 as its General Counsel and Acting Executive Director. Before joining the Authority, Mr. Klimberg was General Counsel of the New York State Energy Office from 1979-1987, and before that he was Assistant General Counsel and Staff Counsel of the New York State Public Service Commission. Mr. Klimberg received his law degree (J.D.) from the New York University School of Law and his undergraduate degree (B.A.) in history with high honors from Lehigh University.

Edward P. Murphy, Jr. (56) is Vice President and Controller of the Authority. He joined the Authority in April 1998. Prior to his employment at the Authority, Mr. Murphy held several management positions at Brooklyn Union Gas Company. From 1995-1997, he was Vice President for Business Transformation. Mr. Murphy was Vice President for Public Affairs from 1988-1994. From 1982-1987, he served as General Auditor and was Budget Director from 1976-1982. Prior to this, Mr. Murphy held various positions in operations and accounting at Brooklyn Union Gas Company. Mr. Murphy received his B.S. in Accounting from Clarkson University and attended the Executive Program in Business Administration at Columbia University.

Richard J. Bolbrock (53) is Vice President of Power Markets for the Authority. He joined the Authority in May 1998. Prior to his employment at the Authority, Mr. Bolbrock held several positions at New England Power Pool over a 24-year period including Director–Planning and Information Technology for ISO New England, Inc., Director of New England Power Planning from 1983-1997, and Manager of Billing for the New England Power Exchange from 1979-1983. Prior to this, Mr. Bolbrock held various positions at Northeast Utilities and American Electric Power. Mr. Bolbrock received his B.S. in Electrical Engineering and his M.E. in Electric Power Engineering from Rensselaer Polytechnic Institute and is a Registered Professional Engineer.

Bert J. Cunningham (52) is Vice President of Communications for the Authority. He joined the Authority in September 1998. Prior to joining the Authority, Mr. Cunningham was President/Chief Operating Officer of The Blankman Cunningham Group, LLC (formerly Howard Blankman Incorporated), a regional public relations and marketing communications firm that represents clients in the fields of energy, telecommunications, transportation, banking, and government. Before that he served as Chief of Staff and Executive Director of Government and Community Affairs of The Long Island Rail Road, an operating agency of the Metropolitan Transportation Authority. Mr. Cunningham has also served as Chief of Staff to the Supervisor of the Town of North Hempstead in Nassau County, and Director of Public Affairs for both the New York State Senate Standing Committee on Transportation and the New York State Legislative Commission on Critical Transportation Choices. Mr. Cunningham holds a B.F.A. in Communications from the New York Institute of Technology.

Bruce Germano (48) is Vice President of Retail Services for the Authority. He joined the Authority in 1999. Mr. Germano has worked in the energy field for more than 25 years, holding positions with KeySpan Energy, Long Island Lighting Co., American Electric Power, and Gibbs and Hill Inc. Mr. Germano received a Bachelor of Science Degree in Engineering from Manhattan College and a Master of Science Degree in Industrial Management from SUNY Stonybrook.

THE SYSTEM

See the Independent Consultant's Report attached hereto as Appendix A for a further discussion of the System.

Service Area

The Service Area consists of Nassau and Suffolk counties (with certain limited exceptions) and a small portion of Queens in New York City known as the Rockaways. The population of the Service Area was estimated by LILCO at 2.8 million as of January 1, 1999. As of March 15, 2000, the Authority had approximately 1.1 million customers in the Service Area.

Navigant Consulting reports that in 1999, 50 percent of LIPA's annual retail revenues were received from residential customers and 47 percent from commercial and industrial customers with the balance derived from sales to other utilities and public authorities. Individual commercial and industrial customers are relatively small with approximately 93% of these customers having peak demands less than 75kW. The largest customer in the Service Area, accounted for less than two percent of total electric sales. See "Appendix A—Independent Consultant's Report—Description of the Service Area."

The Transmission and Distribution System

The T&D System is an integrated electric transmission and distribution system with electricity delivered to and from the Service Area over five transmission interconnections that are owned in part by or are under contract to LIPA. Two of the T&D System's transmission interconnections are to the transmission system of Consolidated Edison Inc of New York ("Con Edison") in Queens, New York and three extend across Long Island Sound to Westchester County, New York or to Connecticut. These interconnections connect the T&D System to utilities outside of the Service Area and enable delivery of (i) capacity and energy produced by NMP2; (ii) additional off-system capacity resources needed to meet the peak demands of LIPA's electric customers; (iii) favorably-priced energy to supplement or displace generation from generating resources within the Service Area; and (iv) excess generation from generating facilities within the Service Area to purchasers outside of the Service Area when market conditions merit.

LIPA's transmission system includes approximately 1,321 miles of overhead and underground lines with voltage levels ranging from 345kV to 23kV. The 13-kv and 4-kv distribution system has 46,086 circuit miles of overhead lines and 10,791 circuit miles of underground lines and approximately 147,800 line transformers.

Nine Mile Point Nuclear Power Station, Unit 2

LIPA owns an 18 percent interest in NMP2, which is part of a two-unit nuclear power station located at a 900-acre site on Lake Ontario near the Town of Scriba, New York ("Nine Mile Point"). NMP2 is rated at 1,144 MW of capacity and is owned by five co-tenants under a Basic Agreement dated as of September 22, 1975, which provides for contractual rights, payment of the costs of NMP2 and other matters. Under an Operating Agreement among the co-tenants, dated December 29, 1992, Niagara Mohawk Power Corporation ("Niagara Mohawk") has the exclusive operational control of the operation and maintenance of NMP2 under the oversight of a Management Committee (comprised of the co-tenants) for policy making, planning, budgeting, and operational decisions of Niagara Mohawk related to NMP2. This Operating Agreement provides for a sharing of all costs relating to NMP2 by the co-tenants in proportion to their percentage interests in the unit.

Navigant Consulting reports that NMP2 has generally exceeded average industry performance for the five years ended 1997 with respect to annual capacity factor. Performance during 1998 was below industry averages due to an extended refueling outage. During 1999, operating performance improved, but lagged performance in recent non-refueling years. Periodic outages for refueling have been extended to every 24 months rather than every 18 months to improve overall unit capacity factors. See "Appendix A—Independent Consultant's Report—Nine Mile Point Nuclear Power Station, Unit 2."

NMP2 is scheduled for decommissioning in 2026. The Authority's share of the decommissioning costs, based on a site specific study conducted in 1995, is estimated to be $145 million in 1996 dollars ($352 million in 2026 dollars). LIPA maintains an external trust fund for the decommissioning of the contaminated portion of the NMP2 plant. At year-end 1999, the fund for decommissioning the contaminated portion of NMP2 has a value of approximately $20 million. In addition, LIPA has accrued an additional $4.1 million for deposit in this fund. LIPA

has determined that an annual contribution of approximately $3.3 million will be required through 2026 to fully fund its 18 percent share of the decommissioning of the contaminated portion of NMP2. Total costs in 1996 dollars for LIPA's share of decommissioning the contaminated portion of NMP2 are estimated to be $111 million. LIPA has indicated that it will establish a separate decommissioning fund for the non-contaminated portion of NMP2 during 2000. At year-end 1999, LIPA accrued approximately $1.6 million for deposit in this fund. LIPA has determined that an annual deposit of approximately $1.4 million will be necessary to fully fund LIPA's 18 percent share of the decommissioning of the non-contaminated portion of NMP2. The total estimated cost of LIPA's 18 percent share of NMP2's non-radioactive decommissioning costs in 1996 dollars is approximately $34 million. See, "Appendix A—Independent Consultant's Report—Nine Mile Point Nuclear Power Station, Unit 2."

In August 1997, the NRC issued a final policy statement on the restructuring and economic deregulation of the electric industry. In it, the NRC expressed concern over the effect of these developments on the adequacy of decommissioning funds and on operational safety, and it mentioned a number of initiatives it was considering. With respect to joint ownership of nuclear plants, the NRC recognized the industry practice of sharing both plant operating and decommissioning expenses and plant output pro rata, and it favored continuation of that practice. It announced, however, reservation of "the right, in highly unusual situations where adequate protection of public health and safety would be compromised if such action were not taken, to consider imposing joint and several liability on co-owners of more than de minimis shares when one or more co-owners have defaulted."

In a subsequent letter, the Commission issued a letter order declining to reconsider or delay implementation of the August 1997 final policy statement, as a group of publicly owned systems had requested that it do. The Commission stated that the policy statement was not binding, did not alter private contractual arrangements, did not affect rights or obligations of licensees, is fully consistent with NRC precedent including the rule proposal above noted, was not intended to create additional uncertainty regarding liability and merely leaves open and gives notice of the possibility that under unusual circumstances the NRC may consider imposing joint and several liability.

On June 24, 1999, Niagara Mohawk and New York State Electric and Gas Corporation ("NYSEG") announced their intention to sell their interests in NMP2 to AmerGen Energy Company, L.L.C. ("AmerGen"), a joint venture of PECO Energy of Philadelphia and British Energy. Niagara Mohawk owns 41% and NYSEG owns 18% of NMP2. The financial terms of the transaction included purchase prices to be paid to Niagara of $63.6 million and to NYSEG of $27.9 million. The interests of the other co-owners of NMP2, including LIPA were not included in this proposal. Such proposal contemplates that AmerGen would operate NMP2 on behalf of all of the owners under terms similar to the existing operating agreement among the owners of the facility.

Under the terms of the agreement among the current owners of NMP2, each of the non-selling owners has a right of first refusal to purchase the selling owners' interests. On December 22, 1999, Rochester Gas and Electric Company ("RG&E"), currently an owner of a 14% interest in NMP2, announced that it had exercised its right of first refusal to acquire Niagara Mohawk's and NYSEG's interest in NMP2, as well as Niagara Mohawk's interest in the Nine Mile Point One Nuclear Station Nuclear Plant ("NMP1"). No other owners exercised such right. In connection with the exercise of such right of first refusal, RG&E contracted with Entergy Nuclear Nine Mile, L.L.C. ("Entergy Nine Mile") to operate and maintain NMP2 and NMP1 for a term of approximately eight and one-half years (ending at the time of the expiration of the current operating license for NMP1). Under the terms of a related decommissioning agreement, Entergy Nuclear, Inc. would be responsible for decommissioning the plants at a fixed price after they are both taken out of service. Such agreements contain, among numerous conditions, a condition that LIPA approve the arrangements, but provide for the renegotiation of the terms between the parties in the event that LIPA does not so approve. Such agreements have not been presented to the LIPA Trustees for approval.

Either the original proposal by Niagara Mohawk and NYSEG to sell their interests or RG&E's exercise of a right of first refusal would require numerous regulatory approvals, including the approval of the New York Public Service Commission ("PSC"). On August 30, 1999, the PSC began a proceeding to review the proposed sale of the Nine Mile Point nuclear facilities by Niagara Mohawk. Numerous parties, including LIPA, have intervened in such proceeding. In late January, 2000 the PSC Trial Staff expressed its intention to move to dismiss the proceeding since it believes that the sale to AmerGen, on the terms reflected in the filing, is not consistent with the public interest standard reflected in Section 70 of the New York Public Service Law. Trial Staff said that it intends to immediately explore, in conjunction with the utilities and interested parties, other scenarios for future ownership and operation of the Nine Mile Point nuclear plants. Settlement discussions amongst various parties are ongoing. On

April 6, 2000, NYSEG made a filing with the PSC requesting that the PSC dismiss NYSEG's pending petition to sell its 18% interest in NMP2 to Amergen. NYSEG's filing states that "it now appears that a fully open, competitive bidding process that is conducted with pre-approved protocols and pre-approved regulatory treatment is the only way to . . . meet all regulatory concerns." The Authority is not able to predict what the outcome of such proceeding or any related settlement discussions or filings will be or whether any owners of NMP2 will sell their interests in NMP2 or what the terms of any related agreements may be.

Capital Improvement Plan

Navigant Consulting reports that, during the period 1994 through 1998, an average of approximately $103 million per year was spent on capital additions and improvements for the T&D System. Such expenditures included reliability enhancements, capability expansion, new customer connections, facility replacements and public works. The Authority and the Manager agreed to a capital expenditure level of approximately $192 million (excluding approximately $11 million for retirements) for calendar year 2000 to continue reliability improvements and expansion of service for the T&D System (including a non-recurring expenditure of approximately $75 million for a new transmission line and capacitor bank installations). Navigant Consulting estimates that annual capital expenditures for the T&D System during the remainder of the Study Period will be approximately $136 to $167 million per year including allowances for inflation and customer growth.

LIPA's 18 percent share of capital expenditures for NMP2 over the past five years has averaged $7.4 million annually for plant modifications and nuclear fuel purchases. LIPA's 18 percent share of NMP2's calendar year 2000 capital budget approximates $4.5 million for plant modifications and $7.7 million for nuclear fuel. The capital budget for plant modifications is expected to remain at generally this level through the remainder of the Study Period. Annual expenditures for nuclear fuel are estimated to average $5.9 million during the 2000 through 2008 period, reflecting the two-year refueling cycle. See, "Appendix A—Independent Consultant's Report—Nine Mile Point Nuclear Power Station, Unit 2."

Loads

The Service Area is characterized by customer usage patterns and weather conditions that result in peak usage during the summer and relatively low annual load factors. The peak usage in July of 1999 was approximately 4,590 MW.

Under the MSA, the Manager prepares load growth forecasts annually. The Manager's most recent estimate of annual peak demand and energy requirements within the Service Area shows peak demand growth being expected to range between 2.0 percent and 1.3 percent annually, averaging 1.6 percent, over the 2000 to 2008 period. This growth rate would increase the summer peak demand, net of the effects of demand side management ("DSM"), to approximately 4,905 MW in 2008. Energy growth is estimated to range between 2.3 percent and 1.6 percent annually, averaging 1.9 percent over the same period. For the period 2000 through 2008, residential sales are estimated to grow by approximately 1.8 percent per year and annual commercial energy sales approximately 2.0 percent per year.

See "Appendix A—Independent Consultant's Report—System Power and Energy Requirements."

Power Supply

LIPA currently expects to rely on existing power supply resources, additional purchases, and demand side management ("DSM") programs to meet its capacity and energy requirements during the 2000 through 2008 period. During 1999, LIPA's 18% interest in NMP2 and its rights to the capacity of the GENCO Generating Facilities provide approximately 4,239 MW of generating capacity, with on-island independent power producers providing an additional 350 MW of capacity under contract to LIPA. Purchases from NYPA, excluding Power for Jobs, and on-island municipal utilities provided approximately 269 MW. Additional capacity is provided by purchases of other firm capacity of 446 MW and DSM program load curtailment capability of approximately 39 MW. In aggregate, these resources provided approximately 5,343 MW in 1999.

To satisfy the growing capacity needs of its electric customers, LIPA expects to enter into additional power purchase agreements. The Independent Consultant's Report assumes, for purposes of the financial projections contained therein, these agreements will provide net increases over 1999 capacity resources of about 536 MW of additional capacity by 2008. The estimated power supply plan also anticipates an increase of about 63 MW in customer peak load reductions through DSM programs by 2008. With these resource additions, total capacity available to the Authority to meet the needs of its customers is estimated to be 5,942 MW by 2008.

On April 30, 2000, the Trustees authorized the Authority, on behalf of LIPA, to negotiate contracts for the purchase of firm capacity and associated energy from two electric generating projects proposed for Long Island. These projects consist of a 60 MW barge mounted, oil-fired combustion turbine to be located at an existing GENCO Site in Nassau County and a 79 MW gas-fired combustion turbine to be located in Suffolk County. The Authority expects to enter into power purchase contracts with these project owners for an initial term of four years, with an option for LIPA to extend the contract terms for an additional three years. If successful, these projects will provide LIPA with additional on-island generating capacity.

New York Independent System Operator

The members of the New York Power Pool ("NYPP"), consisting of the investor-owned utilities in the State, together with NYPA and LIPA (collectively, the "Participants"), have become members of an independent transmission system operator called NYISO. NYISO is a not-for-profit corporation formed to provide for non-discriminatory open-access transmission over electric transmission systems belonging to the Participants. NYISO has responsibility for scheduling the use of certain transmission lines of the Participants. A significant feature of the NYISO's tariff is its use of a schedule of flexible transmission rates to take account of the cost of energy at its destination along the transmission network in meeting competing demands for the transmission facilities subject to NYISO's jurisdiction. The NYISO is also responsible for collecting fees for the use of transmission systems under its control. Each Participant retains ownership, and is responsible for maintenance, of its respective transmission system. The customers of NYISO, including the Participants, pay fees to NYISO under the NYISO transmission rate schedule.

LIPA and the NYISO have agreed to coordinate scheduling and use of LIPA's transmission system. LIPA's transmission revenue requirement is collected by NYISO through NYISO's transmission rate schedule and by LIPA through certain grandfathered transmission agreements between LIPA and third parties. Transmission revenues collected by NYISO on behalf of LIPA are remitted by NYISO to LIPA.

The Participants have incurred approximately $59 million in total costs associated with the creation of NYISO. LIPA's share of these total costs is approximately $7 million. NYISO collects these costs in its transmission rates pursuant to its transmission tariff, which is currently the subject of a rate proceeding before FERC.

In addition to the creation of NYISO, a New York State Reliability Council ("Reliability Council") was also created. The NYPP was replaced by NYISO and the Reliability Council.

Fuel Supply

The Independent Consultant's Report states that, in 1999, approximately 63 percent of the fuel energy for electric generation in GENCO Generating Facilities came from natural gas, with the remainder from residual oil and distillate oils. The Energy Manager procures fuel needed for generation by GENCO pursuant to the EMA. LIPA directly pays for fuel used at the GENCO Generating Facilities. The particular fuel used for generation will depend on generation plant fuel capability, fuel supply and transportation availability, and fuel cost. Most of the GENCO steam units can burn either natural gas or residual oil and certain units are required to burn lower sulfur residual oil or natural gas. Natural gas or distillate fuel is burned in the gas turbines.

KeySpan shares gas delivery interconnections between its distribution system and the New York gas market. KeySpan and Consolidated Edison have entered into the New York Facilities Agreement that provides for use of their joint systems to allow the parties to receive gas from interstate pipelines connected to their systems.

Oil is stored on site or at locations accessible by each generation facility. Navigant Consulting reports that (1) existing oil storage capacity plus an active oil management program is employed by the Energy Manager to help LIPA avoid a fuel oil supply disruption at the GENCO facilities, and (2) conversion of additional generating units to burn natural gas in the future, if economic, will further reduce exposure to potential oil interruptions. See "Appendix A—Independent Consultant's Report—Power Supply Agreement."

NMP2 has contracts with vendors for a portion of its future requirements for supply, conversion, enrichment, and fabrication of its nuclear fuel. Due to the favorable market for these services, NMP2 plans to rely on the spot market for the balance of future uranium and enrichment requirements beyond that covered by these contracts. See "Appendix A—Independent Consultant's Report—Nine Mile Point Nuclear Power Station, Unit 2."

RATES AND CHARGES

The Act

The Act requires that any bond resolution of the Authority contain a covenant that it will at all times maintain rates, fees or charges sufficient to pay the costs of operation and maintenance of facilities owned or operated by the Authority; payments in lieu of taxes; renewals, replacements and capital additions; the principal of and interest on any obligations issued pursuant to such resolution as the same become due and payable; and to establish or maintain any reserves or other funds or accounts required or established by or pursuant to the terms of such resolution. For a description of the Rate Covenant that is contained in the Resolution and which was adopted by the Authority pursuant to the Act, see "Security and Sources of Payment for the Bonds—Rate Covenant."

Authority to Set Electric Rates

Under current New York law, the Authority is empowered to set rates for electric service in its Service Area without being required by law to obtain the approval of the PSC or any other State regulatory body. However, the Authority agreed, in connection with the approval of the LIPA/LILCO Merger by the PACB, that it would not impose any permanent increase, nor extend or reestablish any portion of a temporary rate increase, in average customer rates over a 12 month period in excess of 2.5% without approval of the PSC, following a full evidentiary hearing. Another of the PACB conditions requires that the Authority reduce average rates within the Service Area by no less than 14% over a ten-year period commencing on the date that LIPA began providing electric service when measured against LILCO's base rates in effect on July 16, 1997 (excluding the impact of the Shoreham tax settlement, but adjusted to reflect emergency conditions and extraordinary unforeseeable events).

The Projected Operating Results set forth in Exhibit 1 to the Independent Consultant's Report demonstrate that, based on the assumptions set forth therein (including the Authority's interpretation of the PACB conditions) and absent emergency conditions and extraordinary unforeseeable events, the Authority is expected to achieve an average rate reduction of no less than 14% over the ten-year period commencing on the date when the Authority began providing electric service, and that the Authority is not expected to need to increase average customer rates in excess of 2.5% over any 12-month period during the Study Period. For purposes of determining compliance with the 2.5% and 14% PACB conditions described in the preceding paragraph, the Authority has interpreted the PACB conditions as allowing the exclusion of increases in the cost of electricity paid by the Authority's customers related to the Shoreham Property Tax Settlement Agreement, other pass-through adjustments and any decreases related to the RICO credits. The Authority believes that it will be able to satisfy the 14% PACB condition and that it will be able to obtain any PSC approvals necessary to comply with its obligations under the Act and under the Resolution. If either the PSC or the PACB were to disagree with the Authority's interpretation of the PACB conditions, it may influence the timing and size of rate increases implemented by the Authority and/or require (i) the modification of the plan to accelerate retirement of debt (see "Accelerated Debt Retirement"), (ii) the withdrawal of funds from the Rate Stabilization Fund to avoid or minimize rate increases, or (iii) other action necessary to meet the conditions of the PACB approval.

For a description of the actions taken and planned by the Authority to comply with these PACB conditions, see "Operating Results—Compliance with PACB Conditions" in the Independent Consultant's Report attached hereto as Appendix A.

Rate Tariffs and Adjustments

The Authority's rates are largely based on LILCO's former rate design to avoid customer confusion and facilitate an efficient transition from LILCO billing to LIPA billing. In addition, the Authority's rates include a fuel and purchased power cost adjustment ("FPPCA"), a PILOT payments recovery rider, a rider providing for the Shoreham Credits and the Suffolk Surcharge and a rider providing for the RICO Credits.

LIPA's rates include the FPPCA mechanism whereby rates may be adjusted to reflect significant changes in the cost of fuel, purchased power and related costs. The FPPCA applies to all service classifications and is designed to ensure that LIPA will recover from or return to customers any fuel and purchased power costs that fall outside an established base fuel and purchased power tolerance band. For 1999, the tolerance band was equal to one percent above and one percent below LIPA's base cost of fuel and purchased power. The tolerance band increases one percent above and one percent below the base cost of fuel and purchased power each year after 1999. Should fuel and purchased power costs increase in excess of five percent cumulatively over the original base fuel and purchased power cost, the FPPCA will recover, from that year forward, all costs in excess of the original base cost.

The Act requires the Authority to make payments in lieu of taxes, i.e., PILOTS, to municipalities and school districts equal to the property taxes that would have been received by each such jurisdiction from LILCO if the acquisition by the Authority had not occurred, and to make PILOTs for certain New York State taxes (including gross receipts taxes) and local taxes (including temporary transit station maintenance surcharges charged by the Metropolitan Transportation Authority of New York) which would otherwise have been imposed on LILCO. The PILOT payments recovery rider allows the Authority to recover PILOTs representing these gross receipts taxes and surcharges. All other PILOTs are recovered in the Authority's base rates.

For a description of the Shoreham Credits and the Suffolk Surcharge, see "Shoreham Property Tax Settlement."

BILLING AND COLLECTIONS

General

LIPA customers are billed on a cycle basis, some monthly, others bi-monthly. There are 20 billing cycles within each month. The bills are prepared and mailed by the Manager. At March 15, 2000, the Authority had approximately 1.1 million customers in the Service Area. Of these customers, approximately 438,000 customers (401,000 residential and 37,000 commercial) receive both electric service from LIPA and gas service from KeySpan and receive one bill covering the costs of both services.

Allocation of Cash

The Manager collects and processes daily customer remittances for LIPA. Cash and checks received each day are deposited to an Authority bank account for overnight clearing. The Manager processes receipts on a one day lag to determine the amount collected with respect to electric service provided by LIPA and gas service provided by KeySpan. Partial payments from dual service customers are allocated to electric and gas based upon historical usage. On the morning of the second business day, the Authority bank account is swept to a separate Authority account within the Revenue Fund and to a separate KeySpan account based upon the prior five days' average of actual electric and gas receipts. Each week a reconciliation of actual electric and gas receipts versus the estimated allocation is performed. Any over/under allocation of gas receipts to KeySpan is collected from/refunded to KeySpan together with interest.

Collections

At the time of the LIPA/LILCO Merger, May 28, 1998, the 12 month revolving write-off of electric accounts amounted to 0.72% of sales on a six month lag basis. Since then the experience has shown a steady and sustained improvement. The write-off rate at December 1998 was 0.59% and as of December 1999 it went down

further to 0.58%. The revolving 12 month data for February 2000 indicates that the rate has been further reduced to 0.47% which is equivalent to approximately $10.2 million.

SHOREHAM PROPERTY TAX SETTLEMENT

Background

Through November 1992, Suffolk County and the following Suffolk County political subdivisions (collectively, the "Suffolk Taxing Jurisdictions"), the Town of Brookhaven, Shoreham-Wading River Central School District, Wading River Fire District and Shoreham-Wading River Library District (which has been succeeded by the North Shore Library District), levied and received real estate taxes from LILCO on the Shoreham plant. In addition, when the Authority acquired the Shoreham plant in February 1992, it was obligated pursuant to the Act to make PILOTs beginning in December 1992. As part of the agreement between LILCO and the Authority providing for the transfer of Shoreham to the Authority, LILCO agreed to fund these payments by the Authority. Prior to the LIPA/LILCO Merger, LILCO charged rates sufficient to make these payments to the Authority. Both LILCO and the Authority contested the assessments, claiming the Shoreham plant was overassessed. To date, the Authority has made such payments, in whole or in part, pursuant to interim PILOT agreements and collected the costs thereof pursuant to the PILOT's rider which is part of LIPA's rates.

Shoreham Property Tax Litigation

On March 26, 1997, a judgment was entered in the Supreme Court, State of New York, Suffolk County, on behalf of LILCO against the Suffolk Taxing Jurisdictions (the "Shoreham Property Tax Litigation") ordering them to refund to LILCO property tax overpayments (resulting from over-assessments of Shoreham) in an amount exceeding $868 million, including interest as of the date of the judgment and post-judgment interest (this amount and interest is referred to as the "Shoreham Tax Judgment"). The Court also determined that the Shoreham plant had a value of nearly zero during the period the Authority has owned Shoreham. The Shoreham Tax Judgement was affirmed on appeal and is now final.

The New York State Court of Appeals in a separate case ruled that the Act does not prohibit the Authority from seeking refunds if it has overpaid PILOTs based on an over-assessment of Shoreham. The Authority made PILOT payments totaling over $350 million which it believed was based on such an over-assessment of Shoreham. Based on this belief, the Authority in 1999 commenced a lawsuit to obtain from the Suffolk Taxing Jurisdictions a refund of these PILOTS overpayments (the "PILOTS Overpayment Claim").

Shoreham Property Tax Settlement Agreement

The Authority and the Suffolk Taxing Jurisdictions have reached an agreement settling the various matters described above relating to Shoreham, including the amounts the Suffolk Taxing Jurisdictions are responsible for on account of the Shoreham Tax Judgement and the PILOTS Overpayment Claim. This settlement is contained in the "Shoreham Settlement Agreement" among the Authority, LIPA, the Suffolk Taxing Jurisdictions and Nassau County (the "Shoreham Property Tax Settlement Agreement"). The Shoreham Property Tax Settlement Agreement is effective as of January 11, 2000.

Under the Shoreham Property Tax Settlement Agreement, the Authority has agreed, among other things, (i) to continue to make PILOTs to the Suffolk Taxing Jurisdictions for the Shoreham plant site on a declining basis until 2002; (ii) to cause LIPA not to seek to enforce the Shoreham Tax Judgement; and (iii) not to make any claim for a refund of the PILOTS Overpayment Claim. In exchange, the Suffolk Taxing Jurisdictions have agreed to a settlement amount of $620 million, or such lesser amount as has been rebated and credited to the ratepayers pursuant to the Shoreham Rebates and Credits described below (the "Settlement Amount"), plus certain other related costs of the Authority, including interest and costs of issuance of the Settlement Bonds described below (such costs, together with the Settlement Amount, are herein called the "Settlement Obligations"). The Suffolk Taxing Jurisdictions, Nassau County and the Authority have agreed not to challenge the Suffolk Property Tax Settlement Agreement. The Suffolk Property Tax Settlement Agreement also provides that if it is in any part declared invalid by a final court judgment or a governmental entity, or if a court or governmental entity determines that the Authority cannot

collect the Suffolk Surcharge, the Authority may proceed to, among other things, collect the unsatisfied portion of the settlement amounts the Authority is entitled to collect under the Agreement from the Suffolk Taxing Jurisdictions.

The Authority has recognized that enforcement of the Settlement Amount against the Suffolk Taxing Jurisdictions would cause them and their residents serious financial hardship. Accordingly, the Shoreham Property Tax Settlement Agreement provides for the Authority to assist the Suffolk Taxing Jurisdictions in funding the Settlement Amount and that the benefits of the settlement will go to the ratepayers in Suffolk County, Nassau County and the Rockaways, many of whom bore the expense of the original overpayment of property taxes and PILOTS, through certain rebates (the "Shoreham Rebates") and credits (the "Shoreham Credits"). The Shoreham Property Tax Settlement Agreement also provides that the cost of the settlement will be collected from the Suffolk County ratepayers through a surcharge on their rates (the "Suffolk Surcharge").

The assistance the Authority has and will provide to the Suffolk Taxing Jurisdictions is the use of a portion of the proceeds of the Authority's Electric System General Revenue Bonds, Series 1998A and the Offered Securities (the portion of such Bonds relating to such proceeds are herein called the "Settlement Bonds") to fund the Shoreham Rebates and the Shoreham Credits.

Shoreham Rebates and Credits and Suffolk Surcharge

The Shoreham Rebates, totaling $148.2 million, were transmitted in the form of checks to Nassau, Suffolk and Rockaway ratepayers in 1998 and were paid for from the proceeds of the Outstanding Senior Lien Bonds. The Shoreham Credits, totaling $309.3 million, are credits against the bills of Nassau, Suffolk and Rockaways ratepayers to be made over a five year period which began in May 1998 and will be paid for from the proceeds of the Outstanding Senior Lien Bonds and the Offered Securities. Beginning on May 30, 2003, the Suffolk Surcharge will be part of the rates of the Suffolk County ratepayers in an amount calculated to equal the debt service requirements on the Settlement Bonds and all of the Authority's associated costs.

As part of the settlement of the Shoreham Tax Judgement and the PILOTS Overpayment Claim, the Authority has agreed to provide an additional rebate in 2000 to ratepayers in Nassau County and the Rockaways in the form of checks in the amount of $50 per customer metered account (the "Additional Shoreham Rebates"). The total cost of the Additional Shoreham Rebates, approximately $25 million, will be funded from the proceeds of the Offered Securities.

In the opinion of Adams, Dayter & Sheehan, LLP, the Authority and LIPA's State Regulatory Counsel, (a) the Shoreham Rebates (including the Additional Shoreham Rebates), Shoreham Credits and Suffolk Surcharge, as approved by the Authority, are within the Authority's authority under the Act and the Authority's approval is rational and not arbitrary and capricious; (b) in the event the Suffolk Surcharge is invalidated by a court of competent jurisdiction in a final adjudication, the Authority possesses the legal authority under the Act to recover in its retail rates those monies rebated or credited to customers constituting the Shoreham Rebates and Shoreham Credits that would not otherwise be recovered by the Authority; and (c) in the event the Suffolk Surcharge is invalidated by a court of competent jurisdiction in a final adjudication, the Authority possesses the legal authority under the Act to recover in its retail rates the debt service costs on the Bonds issued to fund the Shoreham Rebates and Shoreham Credits that would otherwise not be recovered by the Authority.

Dismissal of Litigation

At the time of the effectiveness of the Shoreham Property Tax Settlement Agreement, numerous lawsuits were pending against the Authority (including decisions in favor of the Authority which had been appealed) relating to Shoreham tax matters in which certain of the Suffolk Taxing Jurisdictions and others were the plaintiffs and the Authority and LIPA were the defendants. These lawsuits included matters relating to the ability of the Authority to recover the tax refunds and PILOTS overpayments based on the over-assessment of Shoreham, to finance the Shoreham Rebates and Credits and to collect the Shoreham Surcharge. As part of the Shoreham Settlement Agreement, the Suffolk Taxing Jurisdictions and Nassau County have agreed to dismiss all of these lawsuits with prejudice. In addition, the Suffolk Taxing Jurisdictions and Nassau County agreed not to contest the terms of the Shoreham Property Tax Settlement Agreement. No assurance can be given that some other party will not bring an

action contesting the Shoreham Property Tax Settlement Agreement, the Shoreham Rebates and Credits, the Additional Shoreham Rebates or the Shoreham Surcharge.

Pending Litigation

On February 1, 1999, a lawsuit was filed in the Supreme Court of the State of New York, Nassau County, by the Association for a Better Long Island against the Authority and LIPA. This lawsuit seeks: (i) to require the Authority to collect the full amount of the judgment obtained by the Authority in the Shoreham Property Tax Litigation as well as certain overpaid PILOTs; and (ii) to declare that the offer of the Authority to settle the Shoreham Property Tax Litigation is void and legally unenforceable. In an answer dated March 3, 2000, the Authority and LIPA denied all the material allegations in the complaint and asserted various affirmative defenses. If the plaintiff is successful in this lawsuit, the result could be that the Shoreham Property Tax Settlement Agreement might become unenforceable but that the Authority might also then be obligated to enforce collection of the entire amount of the unsatisfied Suffolk Tax Judgement and PILOTS Claim.

Ratepayer Refund Litigation

Suffolk County and the Suffolk County Towns of Huntington and Babylon (collectively, the "Plaintiffs") brought a class action in 1998 on behalf of themselves and all electric utility ratepayers in Suffolk County (the "Ratepayers") against the Authority, LIPA, KeySpan and others in the United States District Court for the Eastern District of New York entitled County of Suffolk et al. v. Long Island Power Authority, et al., 98 Civ. 5996 (the "Huntington Lawsuit"). As required by the Shoreham Property Tax Settlement Agreement, Suffolk County will withdraw, with prejudice, as a Plaintiff in this litigation. The Huntington Lawsuit alleges (i) that there exists a "regulatory compact" under which the ratepayers have a legally protected property right to receive or share in the "capital gains" to KeySpan resulting from the LIPA/LILCO Merger, (ii) that "capital gains" are recoveries in excess of net book value received on the disposition of LILCO's non-Shoreham tangible and intangible assets, (iii) that the amount of the alleged "capital gains" is not presently known but is believed by the Plaintiffs to be no less than $1 billion, and (iv) that the failure to refund this alleged "capital gain" directly to the ratepayers unlawfully deprived them of their property under federal and state constitutional provisions. With respect to certain deferred tax reserves carried on the books of LILCO at the time of the LIPA/LILCO Merger representing amounts collected from the ratepayers that were to be used to pay federal income taxes with respect to Shoreham but had not been used at such time, the Plaintiffs allege that (i) this deferred tax reserve was in excess of $800 million, (ii) LILCO was required to refund this amount to the ratepayers and (iii) KeySpan has been unjustly enriched by not making this refund.

Based on these allegations, Plaintiffs are seeking judgments, among other things, (i) awarding damages against KeySpan and LIPA for impairment of contract, breach of contract and conversion and (ii) declaring that KeySpan holds the proceeds of the LIPA/LILCO Merger attributable to the "capital gains" and the deferred tax reserve in trust for the benefit of the ratepayers, and ordering KeySpan to make a full accounting of such proceeds.

The Authority believes that the LIPA/LILCO Merger was properly structured, approved and carried out in light of the Authority's mandate, duties and obligations under the Act. The agreement which provided for the LIPA/LILCO Merger (the "LIPA/LILCO Merger Agreement") reflected terms and conditions which, in the Authority's judgment, were in the best interests of the Authority's ratepayers, including the Plaintiffs. Various elements of the LIPA/LILCO Merger, including the LIPA/LILCO Merger Agreement, were approved by the required governmental regulatory bodies, including the PACB. It is the position of the Authority and the opinion of Rivkin, Radler & Kremer, Special Counsel to the Authority, that, while it is impossible to predict the outcome of any litigation, the Authority should ultimately prevail in the Huntington Lawsuit. The Authority further believes that, although the recovery sought by Plaintiffs could be material in amount, any such recovery would not have a material net financial impact on the Authority or its ratepayers.

COMPETITION AND THE LIPA PLAN

General

Fostering competition in wholesale and retail electric power markets has become a significant policy goal in many states, including New York, as well as at the federal level. The fostering of competition has been accompanied by, and requires, separating power supply services and costs from electric transmission and distribution services and costs. In New York and many other states, there have been legislative and regulatory actions to promote competition in the supply of power by requiring, among other things, that utilities sell all or part of their non-nuclear generating plants. Federal regulation of transmission assets and services has been the focus of *inc*reasing action and attention as transmission resources are viewed as the vehicle for delivery of competitively priced generation to wholesale and retail customers. In general, transmission and distribution resources are viewed as an inherently monopoly function that must remain regulated.

As discussed below, the Authority has taken several actions to promote an orderly transition to greater competition in power supply and retail customer choice in the power supply markets in the Service Area. Retail choice (sometimes called customer choice, retail wheeling, or retail open access) refers to a process by which retail customers choose among competitive suppliers for electric capacity, energy, and ancillary services. The delivery of capacity and energy is provided by the owner and operator of the local transmission and distribution system. Key issues that have surfaced in the movement to retail choice include the level of rate reductions accompanying the restructuring of individual utilities, recovery of stranded investments, and the timetable and methods for implementation of customer choice.

The PSC is in the process of implementing retail competition and industry restructuring for regulated investor-owned utilities through a combination of generic rule-makings and utility-specific restructuring proceedings. The Authority is not subject to these proceedings before the PSC, although the Authority has taken these restructuring actions into consideration in establishing its own retail choice plan.

The Authority can make no prediction as to what effect, if any, State or Federal law providing for retail competition will have on its plans for implementing retail competition. See "Certain Factors Affecting the Electric Utility Industry."

Plan For Retail Choice

The Authority's effort at creating competition in power supply resources is to gradually create a competitive retail market for power supply. The Authority has adopted a customer retail choice plan (called "Long Island Choice") intended to lead to full choice among power suppliers by all retail customers by 2003. Under Phase I of Long Island Choice, which began on August 1, 1999, the Authority made retail choice available to residential and non-residential customers representing an aggregate load of 400 MW of system load. Customers participating in the program receive a credit on their monthly electric bills based on the cost of power supply that the Authority avoids because of customer participation. Participating customers who are able to contract for competitive power supplies at a cost lower than the credit offered by the Authority experience an overall reduction in their electric bills.

In Phase I, customers desiring to participate in Long Island Choice must designate an authorized energy service company ("ESCO") through which to receive service. Phase II is scheduled to begin in May 2000 and will extend eligibility to retail customers representing an additional 400 MW of aggregate system load. As part of Phase II, the Authority will also implement certain administrative and pricing changes that are expected to make Long Island Choice more attractive to LIPA's retail customers and the ESCOs. In Phase III, all of LIPA's retail customers will have an opportunity to select their power supplier. Phase III is currently scheduled to commence in May 2001 and result in choice for all retail customers by 2003.

Currently, there are several ESCOs licensed by LIPA to do business on Long Island. Since deliveries of energy under Phase I began in August 1999, LIPA has not seen a significant migration to retail choice. As of December 1999, 197 commercial customers, with a coincident peak demand of approximately 39 MW, have

enrolled in Long Island Choice. There are currently no ESCOs offering service to residential customers under Long Island Choice.

Under Long Island Choice, LIPA is the provider of last resort ("POLR") responsible for offering power supply to any customers unwilling or unable to arrange for alternative power suppliers. LIPA's POLR responsibility necessitates the adoption of flexible power supply arrangements to accommodate uncertain levels of customer loads. These arrangements may include capacity options and direct market sales or purchases.

Regardless of a customer's choice of electricity supplier, LIPA remains the sole provider of transmission and distribution services to customers in the Service Area. The Authority sets rates for delivery service to include all costs that are not avoidable once customers choose alternative suppliers, with the intent that the Authority be kept revenue neutral. Costs that the Authority is not able to avoid, and therefore are included in the rates for delivery service, include its debt service obligations and any long-term power purchase contracts, among other items. The Authority's Long Island Choice program has been designed to assure that LIPA will continue to recover all costs needed for safe and reliable T&D System operation and to meet its financial obligations, regardless of the degree of customer participation in the Authority's retail choice program.

See "System Power Supply Resources—Long Island Choice Program" in the Independent Consultant's Report attached hereto as Appendix A.

CERTAIN FACTORS RELATING TO POTENTIAL CUSTOMER LOSS

The Independent Consultant's Report attached hereto as Appendix A has identified several sources of competition to LIPA and the Authority that could reduce LIPA's load below its load projections. These potential sources of competition come primarily from self-generation and gas competition.

Self-Generation

The Independent Consultant's Report addresses various self-generation alternatives available to customers, including micro-turbines and fuel cells. The Independent Consultant's Report states that the Service Area does not generally contain large industrial customers of the type often found in other large utility service territories. The economics of self-generation depends on the displacement of capacity and energy purchases from utility supply. Therefore, self-generation is most attractive to customers who are high load factor energy users, such as hospitals, or manufacturers with multiple shift operations. There are few such customers of significant size on Long Island. The Independent Consultant's Report presents the results of evaluation of the practicality of, and approximate cost for, typical Long Island commercial and residential customers self-generating using emerging small, gas-fired generation technology. The evaluation is based on fuel supply and transportation conditions, anticipated back-up power supply rates, and other assumptions described in "Appendix A—Independent Consultant's Report—Security of Customer Revenue—*Self Generation*." The Report explains that the estimated cost of self generation for these customers, combined with the practical obstacles to installing on-site generation, is expected to preclude self-generation from being installed by any meaningful number of customers within the Service Area. Consequently, if there is to be a serious threat of revenue loss due to customer self-generation, it would involve either (i) the installation of generating plants with capacity larger than the individual customer loads, with the sale of excess generating output into the power supply market, or (ii) installation of very small generating plants to serve the typically smaller customer load within the Service Area. See "Appendix A—Independent Consultant's Report—Security of Customer Revenue."

Gas Competition

In reviewing the forecast of electric loads within the Service Area, Navigant Consulting reports that it gave consideration to the potential for impact to such forecast by the conversion of existing electric appliances and other electric end uses to natural gas. Several factors influence a customer's decision to make such a conversion, including (i) access to the local gas distribution network; (ii) the cost of natural gas versus electricity; (iii) the cost of conversion to natural gas end use, including the price of the gas appliance and the installation of in-house gas

piping; (iv) the maturity of the gas appliance technology; and (v) non-economic factors, such as perceptions of safety and performance.

Electric space heating, central air conditioning, water heating, cooking, and clothes drying are typically the end uses that are theoretically considered most vulnerable to conversion to natural gas. However, Navigant Consulting indicates that the cost of converting individual homes or businesses to natural gas, which would include both the incremental cost of new end use appliances or equipment as well as the cost of connecting to the gas system and installing gas piping within the home or business, is likely to preclude the wide spread conversion of these end uses to natural gas. Furthermore, Navigant Consulting believes that the saturation of these end uses among LIPA's electric customers is sufficiently low that, even if a large portion of the homes or business with these end uses were to convert to natural gas, the impact on LIPA's revenue stream is not expected to be significant.

See "Security of Customer Revenue—Gas Competition for Electric Load" in the Independent Consultant's Report in Appendix A for a further discussion of potential customer loss.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

General

The electric utility industry has been, and in the future will be, affected by a number of factors which will have an impact on the business, affairs and financial condition of both public and private electric utilities, including the Authority and LIPA.

One of the most significant of these factors is the efforts on both the national and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply service on both the wholesale and retail level. For a description of expected retail competition in the electric utility industry and the response of the Authority thereto, see "Competition and the LIPA Plan" in this Part 2.

Electric utilities are also subject to increasing Federal, state and local statutory and regulatory requirements with respect to the siting and licensing of facilities, safety and security, air and water quality, land use and other environmental factors. The industry is subject to claims asserting health effects from electric and magnetic fields associated with power lines, home appliances and other sources.

The Authority cannot predict what effects these factors will have on the business, operations and financial condition of the Authority or LIPA, but the effects could be significant. The following sections of this caption provide brief discussions of certain of these factors. However, these discussions do not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Official Statement. Extensive information on the electric utility industry is, and is expected to be, available from legislative and regulatory bodies and other sources in the public domain.

Energy Policy Act of 1992

The Energy Policy Act of 1992 (the "Energy Policy Act") made fundamental changes in the Federal regulation of the electric utility industry, particularly in the area of transmission access. The purpose of these changes, in part, was to bring about increased competition in the wholesale electric power supply market. In particular, the Energy Policy Act provides FERC with the authority, upon application by any person selling electricity, federal power marketing agency, or other power generator, to require a transmitting utility to provide transmission services to the applicant essentially on a cost-of-service basis. Municipally-owned electric utilities are "transmitting utilities" for purposes of these provisions of the Energy Policy Act. However, the Energy Policy Act specifically denied FERC the authority to mandate "retail wheeling," under which a retail customer of one utility could obtain transmission services for the purpose of obtaining power from another utility or non-utility power generator

Certain FERC Initiatives

On April 24, 1996, the FERC issued two final rules that contain significant policy initiatives designed to open the market for generation of electricity to competition. The final rules effect significant changes in the regulation of transmission services provided by "public utilities" (as defined in the Federal Power Act) that own, operate or control interstate transmission facilities used to transmit power in interstate commerce ("jurisdictional utilities"). Neither the Authority nor LIPA is a jurisdictional utility as so defined.

One of the final rules, Order No. 888, as modified on rehearing, (i) requires all public utilities to provide open access transmission services on a non-discriminatory basis by requiring all such public utilities to file tariffs that offer other entities seeking use of the interstate transmission system the same transmission services they provide themselves under comparable terms and conditions and (ii) contains a reciprocity provision that requires non-jurisdictional utilities (including municipal and consumer-owned utilities such as LIPA and the Authority) that purchase transmission services under FERC-filed open-access tariffs and that own or control transmission facilities to, in turn, provide open access service to the transmitting utility on rates, terms and conditions that are comparable to the service that the non-jurisdictional utility provides itself. Order No. 888 also includes provisions which, in effect, would permit jurisdictional utilities to recover so-called "stranded costs" for generating and other facilities from wholesale customers of a utility who opt to purchase from other power suppliers.

The rates that LIPA charges for transmission service under its OATT, including the calculation of any stranded cost charge, are not subject to direct regulation by FERC under Part II of the Federal Power Act ("FPA"). FERC has reviewed the rates under LIPA's OATT and found that the OATT represents an acceptable reciprocity tariff subject to the condition that LIPA adopt a code of conduct and maintain an OASIS. A prospective customer seeking service under the OATT may challenge the rate or stranded cost charge quoted by LIPA to the customer by filing an application to the FERC for an order requiring LIPA to provide transmission service under Sections 211 and 212 of the FPA. FERC has discretion to entertain such an application, but it has noted that when FERC has approved an OATT for comparability purposes for that nonjurisdictional utility the applicant requesting a Section 211 order has the burden to show why service to the applicant under the same terms as available under the OATT is not sufficient and why a Section 211 order should be granted.

The other final rule, Order No. 889, as supplemented by later orders, requires standards of conduct for utilities that offer open access transmission services to ensure that transmission owners and their affiliates do not have an unfair competitive advantage in using transmission to sell power. To this end, Order No. 889 (i) requires those utilities to establish an electronic OASIS to share transmission-related information (including information about available capacity) on a real-time basis, and also requires those utilities to obtain information about their transmission systems for their own wholesale power transactions, such as available capacity, in the same way that their competitors do—via an OASIS, and (ii) promulgated standards of conduct to ensure that utilities functionally separate their transmission and wholesale power merchant functions to prevent self-dealing.

In the Spring of 1997, FERC issued its orders on rehearing of Order Nos. 888 and 889. In these supplemental orders FERC upheld the bulk of its rulings in Order Nos. 888 and 889, while making changes to certain aspects of those rules to implement its open-access policies. Public utilities were required to submit revised tariffs to FERC during the Summer of 1997 to reflect FERC's orders on rehearing. In November 1997 and again in 1998, FERC issued further orders on rehearing affirming, with certain clarifications, its previous orders. Both Order Nos. 888 and 889 have been appealed to the U.S. Court of Appeals.

Neither the Authority nor LIPA is directly subject to the new rules. However, the Authority and LIPA are subject to the reciprocity provision in Order No. 888, described above. Moreover, the Authority has voluntarily filed an OATT that substantially conforms to the provisions of Order No. 888, as modified on rehearing, which FERC had made a condition to FERC's approval of the transfer to the Authority of LILCO's transmission assets. On September 22, 1998 FERC approved LIPA's OATT finding that it is consistent with the compatibility requirements of Order No. 888 as modified on rehearing for an acceptable reciprocity transmission tariff on the condition that LIPA adopt a code of conduct and maintain an OASIS. LIPA's OASIS is in place. LIPA has filed its code of conduct with FERC.

Under Part II of the Federal Power Act, "public utilities" are subject to regulation by FERC. A "public utility" includes any person or entity that owns, controls, or operates facilities used for the transmission of electric energy in interstate commerce or for the sale of electric energy at wholesale in interstate commerce. However, under Part II of the Federal Power Act a "public utility" does not include a state or any political subdivision of a state, or any agency, authority, or instrumentality of any one or more of the foregoing. As a corporate municipal instrumentality and political subdivision of the State of New York, the Authority, and, indirectly, LIPA, are largely exempt from FERC regulation as "public utilities" under Part II of the Federal Power Act. Notwithstanding this exemption, the Authority and LIPA are subject to the authority of FERC to order interconnection of its facilities pursuant to Section 210 of the FPA, and the authority of FERC to order "transmitting utilities" to provide transmission services in accordance with sections 211 and 212 of the Federal Power Act as amended by the Energy Policy Act.

Proposed Federal Deregulation Legislation

During several past sessions of the United States Congress, numerous bills were introduced (i) to restructure the electric utility industry, including providing choice of power suppliers at the retail level for customers of investor-owned and, under certain circumstances, consumer-owned utilities, including utilities owned by municipalities and other political subdivisions (certain of such bills included provisions relating to stranded cost recovery) and (ii) impacting the federal tax exemption of interest on bonds issued, and to be issued, to finance or refinance facilities owned by municipalities and political subdivisions used in the wholesale and retail power supply business (in certain cases, preserving such exemption and, in other cases, negatively impacting such exemption). Certain of these bills were introduced in furtherance of proposals by the Clinton Administration to restructure the electric utility industry (including proposals relating to such federal tax exemption). All of these bills expired without being enacted.

In the current Congress, the Clinton Administration, and others, have introduced or reintroduced legislation similar to their previous legislative proposals to restructure the electric utility industry. In addition, certain bills relating to the tax exemption of interest on municipal bonds issued, and to be issued, to finance or refinance municipally-owned electric generation, transmission and distribution facilities used in the wholesale and retail supply of electricity have been introduced or reintroduced (also, in certain cases, preserving such exemption and, in other cases, negatively impacting such exemption).

Because of the number and diversity of prior, pending and announced future proposed legislation on these issues, the Authority is not able to predict the final forms and possible effects of all such legislation which ultimately may be introduced in the current or future sessions of Congress. The Authority is also not able to predict whether any such legislation, after introduction, will be enacted into law, with or without amendment. Further, the Authority is unable to predict the extent to which any such electric utility restructuring legislation (i) would provide retail customers of investor-owned electric utilities, and possibly customers of consumer-owned utilities, including utilities owned by municipalities and other political subdivisions, with some form of ability to choose their supplier of electricity by a date certain, (ii) might (or might not) provide for some form of stranded cost recovery, (iii) may (or may not) provide protection of the federal tax exemption of the interest on bonds previously issued by municipalities and other political subdivisions for electric generation, transmission and distribution facilities that are used in wholesale or retail competition, but may prohibit future tax-exempt financing of some or all of such facilities, (iv) may, under certain circumstances, adversely affect the tax exemption of interest on bonds previously issued for such purposes or require payment by utilities owned by municipalities and other political subdivisions of federal income tax on a portion of their utility income, and (v) may contain provisions, among others, relating to customer protection, transmission reliability and access, environmental matters, and the development and/or utilization of certain renewable energy resources.

The Authority is not able to predict the final form of any such legislation which might be enacted into law, nor what effect any such new law (if enacted) will have on the Authority or on the exclusion from federal gross income of interest on indebtedness of the Authority.

New York State Electric Utility Industry Restructuring Matters

Public Service Commission Competitive Opportunities Proceeding. In March 1993, the PSC commenced a proceeding to investigate issues related to a future regulatory regime for New York's electric industry in light of increasing competitive opportunities. Following extensive proceedings, the PSC issued an Opinion and Order on May 20, 1996 ("Order 96-12") in the competitive opportunities proceeding which set forth the PSC's goals of, among other things, increasing competition and customer choice in the retail electric market, lowering electric rates, and encouraging the New York investor-owned electric utilities to divest their generation assets. In Order 96-12, the PSC required these investor-owned electric utilities (with certain exceptions) to file individual restructuring and rate proposals that were responsive to the PSC's goals.

Subsequent to the issuance of Order 96-12 and the filing of such proposals, the PSC ultimately approved multiyear restructuring and rate plans for each of the investor-owned electric utilities that the PSC deemed to be consistent with its goals set forth in Order 96-12. While each of the multiyear plans is different, these plans generally provide for customers being able to choose their retail electric supplier, lower electric rates, and for the investor-owned electric utilities to divest generation facilities. The PSC also has issued additional orders in the ongoing competitive opportunities proceeding (and other proceedings), including orders addressing customer billing, customer metering, and retail access business practices, that are designed to facilitate competition by energy service companies in the New York State retail energy market. While not subject to the regulatory authority of the PSC, the Authority has an interest in decisions by the PSC affecting the competitive structure of New York's electric industry since the Authority is a part of that industry.

Nuclear Plant Issues. In August 1997, the staff of the PSC issued a report in the context of the PSC's Competitive Opportunities Proceeding proposing, among other things, that, beyond a transition period, which is generally the period covered by the individual restructuring agreements before the PSC, nuclear generation should operate on a competitive basis. The report also proposed that the sale of nuclear plants to third parties be the preferred means of determining the fair market value of marketable generation plants, as it offers the greatest potential for mitigation of stranded costs and for the elimination of anti-competitive subsidies.

On March 20, 1998, the PSC initiated a proceeding to examine a number of issues raised by the staff report and the comments received in response thereto. In summary, the PSC (a) adopted as a rebuttable presumption the premise that nuclear power should be priced on a market basis to the same degree as power from other sources, with parties challenging that premise having to bear a substantial burden of persuasion, (b) characterized the proposals in the Staff report as by and large consistent in concept with the PSC's goal of a competitive, market-based electricity industry, (c) questioned staff's position that would leave funding and other decommissioning responsibilities with the sellers of nuclear power interests and (d) indicated interest in the potential for a New York Nuclear Operating Company ("NYNOC") to benefit customers through efficiency gains and directed pursuit of that matter in this nuclear generation proceeding or separately upon the filing of a formal NYNOC proposal. While the initiating order announced the intention to complete the proceeding by the second quarter of 1999, the proceeding is currently ongoing.

NYISO. For a description of the New York independent transmission system operator, NYISO, see "The System - New York Independent System Operator".

Regional Transmission Organizations. On December 20, 1999, the FERC issued its final rule ("Rule 2000") regarding the development of Regional Transmission Organizations ("RTO"). Rule 2000 established certain minimum characteristics an RTO must meet and functions an RTO must provide. Rule 2000 requires jurisdictional transmission entities to file with the FERC a proposal to either participate in an RTO or, in the case of an independent transmission system operator (such as NYISO), address the extent to which such operator conforms to the minimum functions and characteristics of an RTO, any plans to make such operator conform, and any obstacles to conformance with Rule 2000. The FERC filing required to be made by the NYISO is due on January 15, 2001. The FERC has not indicated what action, if any, will be required of entities that do not meet or conform with the minimum characteristics and functions of an RTO as set forth in Rule 2000.

IRS Regulations Affecting Transmission Systems

In January 1998, the IRS issued proposed and temporary regulations which, among other things, govern the use of transmission facilities financed with tax-exempt debt. Prior understandings among the Authority and certain other electric utilities in New York State were effectively endorsed by FERC. Based thereon, the Authority believes that its participation in the ISO does not adversely affect the treatment of interest on its tax-exempt debt. For a further description of NYISO, see "System Power Supply Resources—Independent System Operator" in the Independent Consultant's Report attached to this Part 2 as Appendix A and "The System—New York Independent Operator" in this Part 2.

Environmental

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that the facilities owned or under contract to LIPA will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures to comply, reduced operating levels or the complete shutdown of individual electric generating units, including NMP2 and those under contract to LIPA under the PSA, not in compliance.

The United States Environmental Protection Agency ("EPA"), the states and local jurisdictions may issue new regulations governing emissions from many types of power plants. By the year 2001 or shortly thereafter, New York State regulation of electric utility emissions is likely to change significantly. The changes could affect the cost of purchased power from combustion turbines and other types of plants. If enacted, the new regulations may change existing cost assumptions for electric utilities. While it is too early to determine which of these provisions will be enacted, in what form, or what their effect will be, the changes may have a material impact on the cost of power generated at affected electric generating units. See also "Environmental Matters" in this Part 2.

Nuclear Plant Matters

The Energy Policy Act provides, among other things, that utilities with nuclear reactors will contribute an aggregate total of $150 million annually, based upon an assessment, for a period of 15 years, up to a total of $2.25 billion (in 1992 dollars), for the costs for the decommissioning and decontamination of the DOE nuclear fuel enrichment facilities.

In accordance with the Nuclear Waste Policy Act of 1982, Niagara Mohawk, as the operator of Nine Mile Point, in August 1995, entered into a contract with DOE, under which DOE, commencing not later than January 31, 1998, would accept and dispose of spent nuclear fuel. However, it appears unlikely that DOE will accept any spent nuclear fuel from Niagara Mohawk or others before 2010. The contract provides that Niagara Mohawk will pay quarterly to DOE a fee based on nuclear generation and sales of electricity from Nine Mile Point at a specified rate. LIPA's share of such fees is 18%.

The NRC has adopted decommissioning rules which require reactor operators to certify that sufficient funds will be available for decommissioning the contaminated portion of nuclear plants in the form of prepayments or external sinking funds, either of which must be segregated from the licensee's assets and outside its administrative control, or by the surety of insurance payable to a trust established for decommissioning costs. LILCO established such an external decommissioning trust fund in 1990 to meet these regulatory requirements. The Authority expects that by the expiration of NMP2's operating license in 2026, there will be funds in LIPA's decommissioning trust fund sufficient to meet the current estimated costs for its 18% share of the decommissioning costs of Nine Mile Point 2. If the estimated NMP2 decommissioning costs should increase, based on future site specific studies or NRC regulatory changes, LIPA expects to increase its contributions into the decommissioning trust fund to meet the revised requirements.

The Federal Low-Level Radioactive Waste Policy Act, as amended in 1985, requires states to join compacts or to individually develop their own low-level radioactive waste disposal site. In response to the Federal law, the State had decided to develop its own site because of the large volume of such waste generated in New York, and had committed to develop a plan for the management of the low-level radioactive waste in New York State during the interim period until the disposal facility was available. No further action has been taken by New York State and LIPA cannot predict when, or if, such a facility may be available.

Niagara Mohawk currently ships low-level radioactive waste ("LLRW") generated at NMP2 to a disposal facility in Barnwell, South Carolina. During the period July 1, 1994 to June 30, 1995, the legislature of South Carolina denied access to the facility to out-of-region low-level radioactive waste generators, including New York State. Navigant Consulting cannot predict whether the Barnwell facility will be closed again at some future date to out-of-region low-level radioactive waste generators.

NMP2's contract with the Barnwell facility extends through June 2000. Through the remaining contract term, Niagara Mohawk intends to continue to use LLRW volume reduction and waste minimization techniques and to dispose of as much waste as possible at the Barnwell site. In the event disposal at the Barnwell facility is unavailable for contractual or political reasons, Niagara Mohawk is actively evaluating viable alternative waste disposal facilities. As a contingency, Niagara Mohawk is developing plans for LLRW disposal involving the long-term storage of LLRW in the NMP2 spent fuel pools. At current generation rates, Niagara Mohawk reports that NMP2 has at least twenty years of storage available. There is currently no LLRW in long-term storage at NMP2.

The NMP2 reactor core consists of 764 fuel assemblies. At each refueling outage, about a third of the oldest fuel assemblies are replaced with fresh assemblies. The used assemblies are stored in the spent fuel pool adjacent to the reactor. The NMP2 spent fuel pool is licensed for the storage of 4,049 fuel assemblies. Assuming a spent fuel discharge of 280 fuel bundles during NMP2's Spring 2000 fuel outage, the total fuel pool inventory will be 2,444 fuel assemblies. Based on a planned 24-month operating cycle, NMP2 can operate into 2012 with existing and planned spent fuel racks. Beyond 2012, provisions must be made to store an additional 2,000 fuel bundles. Dry storage is being considered as a possible option to meet this storage need.

Niagara Mohawk procures public liability and property insurance for NMP2, and LIPA will reimburse Niagara Mohawk for its 18% share of those costs. The Price-Anderson Amendments Act mandates that nuclear power plants secure financial protection in the event of a nuclear accident. This protection must consist of two levels. The primary level provides liability insurance coverage of $200 million (the maximum amount available) in the event of a nuclear accident. If claims exceed that amount, a second level of protection is provided through a retrospective assessment of all licensed operating reactors. Currently, this "secondary financial protection" subjects each of the 110 presently licensed nuclear reactors in the United States to a retrospective assessment of up to $76 million for each nuclear incident, payable at a rate not to exceed $10 million per year. LIPA's interest in NMP2 could expose it to a maximum potential loss of $13.6 million, per incident, through assessments of $1.8 million per year in the event of a serious nuclear accident at NMP2 or another licensed U.S. commercial nuclear reactor. These assessments are subject to periodic inflation indexing and to a 5% surcharge if funds prove insufficient to pay claims.

Niagara Mohawk has also procured $500 million primary nuclear property insurance with the Nuclear Insurance Pools and approximately $2.3 billion of additional protection (including decontamination costs) in excess of the primary layer through Nuclear Electric Insurance Limited ("NEIL"). Each member of NEIL, including LIPA, is also subject to retrospective premium adjustments in the event losses exceed accumulated reserves. For its share of NMP2, LIPA could be assessed up to approximately $1.6 million per loss. This level of insurance is in excess of the NRC required $1.06 billion of coverage.

LIPA has obtained insurance coverage from NEIL for the extra expense incurred in purchasing replacement power during prolonged accidental outages. Under this program, should losses exceed the accumulated reserves of NEIL, each member, including LIPA would be liable for its share of deficiency. LIPA's maximum liability per incident under the replacement power coverage, in the event of a deficiency, is approximately $0.7 million.

Y2K

The Authority and LIPA did not experience any problems (including any problems experienced by KeySpan, the KeySpan Subs, vendors or other utilities) as a result of the occurrence of the date change to the Year 2000. The Authority and LIPA believe that the occurrence of the date change to the Year 2000 did not, and will not, have any material adverse effect on their operations or financial condition. The Authority is continuing to monitor the effects of this date change on itself, LIPA and others with which it conducts business (including KeySpan, the KeySpan Subs, vendors and other utilities).

ENVIRONMENTAL MATTERS

General

As discussed in "LIPA's Retail Electric Service Business—Guarantees and Indemnities" in this Part 2, KeySpan Parties and LIPA Parties have entered into Liabilities Undertaking and Indemnification Agreements which, taken together, will provide, generally, that environmental liabilities will be divided between KeySpan Parties and LIPA Parties on the basis of whether they relate to Transferred Assets or LIPA Assets. In addition, to clarify and supplement these agreements, KeySpan Parties and LIPA Parties have also entered into an agreement to allocate between them certain liabilities, including environmental liabilities, arising from events occurring prior to the LIPA/LILCO Merger and relating to the business and operations to be conducted by LIPA Parties after the LIPA/LILCO Merger (the "Retained Business") and to the business and operations to be conducted by KeySpan Parties after the LIPA/LILCO Merger (the "Transferred Business").

KeySpan Parties will be responsible for all liabilities arising from all manufactured gas plant operations ("MGP Sites"), including those currently or formerly operated by KeySpan or any of its predecessors, whether or not such MGP Sites relate to the Transferred Business or the Retained Business; all environmental liabilities traceable to the Transferred Business; and certain scheduled environmental liabilities. Environmental liabilities that arise from the non-nuclear generating business may be recoverable by KeySpan Parties as part of the capacity charge under the PSA.

LIPA Parties will be responsible for all environmental liabilities traceable to the Retained Business and certain scheduled environmental liabilities. Notwithstanding the parties' contractual allocation of environmental liabilities, under certain circumstances the Authority could be liable for environmental costs related to Transferred Assets as the prior owner in the event the KeySpan Parties are unable to fulfill their contractual indemnity obligations.

A liability is traceable if it can be determined to have resulted from the activities of the Retained Business or the Transferred Business, or a percentage of each, based on available documentation, reasonable inferences, and other reasonable evidence. Environmental liabilities that exist as of the LIPA/LILCO Merger that are untraceable, including untraceable liabilities that arise out of common and/or shared services (whether known or unknown) have been allocated 53.6% to LIPA Parties and 46.4% to KeySpan Parties (of which 25.4% represents GENCO's allocated amount).

The Authority and LIPA are subject to a number of Federal, state and local environmental laws and regulations governing the installation, operation and maintenance of electric transmission and distribution systems. For example, various waste management regulations and siting laws will be pertinent.

Navigant Consulting Conclusion. Navigant Consulting has concluded in its Independent Consultant's Report that, based upon information provided by LILCO and independent review performed by and on behalf of Navigant Consulting, expected insurance proceeds and indemnification by KeySpan, together with other available moneys, provide LIPA access to funding levels consistent with prudent utility practice to remove environmental liabilities arising during the Study Period associated with the LIPA Assets which were known or suspected as of the date of the Independent Consultant's Report. The Independent Consultant's Report attached hereto as Appendix A should be read in its entirety for a complete understanding of the conclusions contained therein and the assumptions upon which they are based.

Environmental Liabilities

The Liabilities Undertaking and Indemnification Agreements allocate certain liabilities (including environmental liabilities) arising from events occurring prior to the LIPA/LILCO Merger and relating to the business and operations to be conducted by LIPA Parties after the LIPA/LILCO Merger (the "Retained Business") and to the business and operations to be conducted by KeySpan Parties after the LIPA/LILCO Merger (the "Transferred Business").

KeySpan Parties are responsible for all liabilities arising from all manufactured gas plant operations ("MGP Sites"), including those formerly operated by LILCO or any of its predecessors, whether or not such MGP Sites relate to the Transferred Business or the Retained Business; all liabilities traceable to the Transferred Business; and certain scheduled liabilities. Certain liabilities that are traceable to GENCO may be recovered by KeySpan Parties to the extent provided for under the PSA.

LIPA Parties are responsible for all liabilities traceable to the Retained Business (including environmental liabilities discovered in the future which arise from events or circumstances occurring prior to the LIPA/LILCO Merger) and certain scheduled liabilities. Notwithstanding the parties' contractual allocation of environmental liabilities, under certain circumstances LIPA could be liable for environmental costs related to Transferred Assets if a KeySpan Party fails to satisfy such liability.

Liabilities that existed as of the LIPA/LILCO Merger that are untraceable, including untraceable liabilities that arise out of common plant and/or shared services (whether known or unknown), are allocated 53.6% to LIPA Parties and 46.4% to KeySpan Parties (of which 25.4% is allocable to GENCO). Such liabilities that arise from events or circumstances occurring after the LIPA/LILCO Merger may be recovered by KeySpan Parties to the extent provided for under the PSA and MSA.

For purposes of allocations, a liability is traceable if it can be determined to have resulted from the activities of the Retained Business or the Transferred Business, or a percentage of each, based on available documentation, reasonable inferences, and other reasonable evidence.

For a description of specific actual and potential environmental liabilities of the LIPA Parties and the KeySpan Parties, see "Environmental" in Note 10 to the Consolidated Financial Statements attached hereto as Exhibit B.

REGULATION

The operations of the Authority and LIPA will be subject to regulation by various State and Federal agencies, discussions of which appear in other parts of this Official Statement. The principal agencies having a regulatory impact on the Authority and LIPA and the conduct of their activities are as follows:

New York State

PACB. The Authority is required by the Act to obtain certain approvals of the PACB. The PACB consists of five members appointed by the Governor of the State of New York. One of the members is appointed upon the recommendation of the Majority Leader of the State Senate, one upon the recommendation of the Speaker of the State Assembly, one upon the recommendation of the Minority Leader of the State Senate and one upon the recommendation of the Minority Leader of the State Assembly. The two members of the PACB appointed by the Governor upon the recommendations of the Minority Leaders of the Senate and the Assembly do not vote. The unanimous vote of the voting members of the PACB is required to authorize action by the PACB.

Pursuant to the Act, the Authority may not undertake any "project" without PACB approval. A "project" of the Authority is defined by the Act to mean an action undertaken by the Authority that: (i) causes the Authority to issue bonds, notes or other obligations, or shares in any subsidiary corporation; (ii) significantly modifies the use of an asset valued at more than one million dollars owned by the Authority or involves the sale, lease or other disposition of such an asset; or (iii) commits the Authority to a contract or agreement with a total consideration of

greater than one million dollars and does not involve the day-to-day operations of the Authority. The Act provides that the PACB shall only approve a proposed project of the Authority upon the PACB's determination that: (i) the project is financially feasible; (ii) the project does not materially adversely affect overall real property taxes in the Service Area; (iii) the project is anticipated to result generally in lower utility rates; and (iv) the project will not materially adversely affect overall real property taxes or utility rates in other areas of the State.

On July 16, 1997, the PACB adopted a resolution (the "PACB Merger Resolution") which approved the execution and delivery of all agreements required for the consummation of the LIPA/LILCO Merger. The PACB made its approval subject to certain conditions (the "PACB Conditions"), which were accepted by the Authority by a resolution of the Trustees adopted unanimously on August 21, 1997. Two of those conditions relate to the establishment of rates, and are described herein under the caption "Rates and Charges—Authority to Set Electric Rates." The PACB conditions, and the actions taken by the Authority to date and the Authority's plans to comply with such conditions, are described in the Independent Consultant's Report under the heading "Operating Results—Compliance with PACB Conditions."

New York State Comptroller. Pursuant to the Act, the Authority must obtain the written approval of the New York State Comptroller (the "Comptroller") of any private sale of bonds or notes of the Authority and the terms of such sale. By letter dated July 22, 1999, the Comptroller set forth his determination that pursuant to Section 1020-cc of the Act (which subjects all Authority contracts to "the provisions of the state finance law relating to contracts made by the state") certain Authority contracts that exceed $10,000 in amount must be approved by the Comptroller before such contracts become effective. The Authority has began submitting Authority contracts which are subject to such approval to the Comptroller.

Public Service Commission. The PSC is the principal agency in the State regulating the generation, transmission, distribution and sale of electric power and energy. It has no statutory jurisdiction over rates for power generated, transmitted, distributed or sold by the Authority or LIPA but does regulate the rates of New York State's investor-owned utilities and certain municipal systems to which the Authority or LIPA sells power. The PSC is empowered by the New York Public Service Law to issue Certificates of Environmental Compatibility and Public Need ("Certificates") prior to the construction of power transmission lines of certain capacities and lengths, including those of LIPA. Under the Act, the Authority is empowered to set rates for electric service in its Service Area without obtaining the approval of the PSC or any other State regulatory body. See, however, "Rates and Charges—Authority to Set Electric Rates."

State Board on Electric Generation Siting and the Environment. The New York State Board on Electric Generation Siting and the Environment is empowered to issue certificates for the construction of major electric generating facilities in New York.

Department of Environmental Conservation. The Department of Environmental Conservation is the principal agency of the State government regulating air, water and land quality. Before any Federal license or permit can be issued for any activity involving a discharge into navigable waters, the DEC must certify that the discharge will comply with the State water quality standards (or waive certification). Certain aspects of the DEC's regulatory authority over pollutant discharge permits, air quality permits and hazardous waste regulation arise from delegation of such authority to the State by Federal legislation.

Federal

Nuclear Regulatory Commission. The NRC regulates the construction and operation of nuclear power plants. An operating license is required for the operation of any nuclear power plant. In addition, the NRC prescribes various operating standards and other rules.

Federal Energy Regulatory Commission. Under Part II of the Federal Power Act, FERC regulates the rates, terms and conditions of (i) the sale for resale of electric power by "public utilities"; and (ii) the provision of transmission service in interstate commerce by public utilities. Neither the Authority nor LIPA is a "public utility" under the Federal Power Act. Although the rates, terms and conditions under which the Authority provides transmission service are not currently subject to general FERC jurisdiction, FERC may order the Authority to provide transmission service to individual customers meeting the requirements of Sections 211 and 212 of the

Federal Power Act on rates, terms and conditions comparable to those of the Authority for the Authority's own use of its system.

Environmental Protection Agency. The Environmental Protection Agency ("EPA") is the principal agency of the Federal government regulating air, water and land quality. However, with respect to nuclear facilities, the NRC reviews environmental impacts as part of its permit and licensing proceedings. The Authority and LIPA are subject to EPA rules requiring the securing of routine discharge permits for non-radiological emissions and effluents from all Authority and LIPA facilities.

Department of Energy. The Economic Regulatory Administration of DOE is authorized to issue Presidential permits for international transmission interconnections.

United States Army Corps of Engineers. The United States Army Corps of Engineers is authorized to approve construction undertaken in connection with a power plant or transmission line which affects navigation, involves dredging or filling in navigable waters, or involves crossing of navigable streams.

CORPORATE INCOME TAX RULINGS

The Authority, together with LILCO and KeySpan, obtained a private letter ruling from the Internal Revenue Service ("IRS") containing two rulings on certain federal corporate income tax matters in connection with the LIPA/LILCO Merger.

One of those rulings holds that the public utility income of LILCO after it was acquired by the Authority and became LIPA will be excluded from LIPA's gross income for federal income tax purposes, i.e., that such income will be exempt from federal income taxation. This ruling is based on LIPA continuing to limit its activities to those of a public electric utility.

The other ruling holds that LILCO would not recognize any taxable gain under certain sections of the Code, either as a result of the acquisition of its stock by the Authority or as a result of LIPA's public utility income becoming exempt from federal income tax. The ruling expresses no opinion as to the tax treatment of future actual or constructive dispositions of assets by LIPA (including the application of the depreciation recapture rules of the Code) which could result in taxable gains or losses by LIPA.

The rulings are based in part on the conclusion of the IRS that LIPA will not become an "integral part" of the Authority as a result of the transaction or at any time thereafter. That conclusion in turn was based on a number of representations by the Authority with respect to the absence of any financial or other support for LIPA from the Authority and other agencies of the State of New York. The ruling from the IRS provides expressly that, if "the facts and circumstances in the future are other than as contemplated" by the representations in the ruling, the Authority and LIPA "*should* seek an appropriate supplemental ruling" from the IRS with respect to the presence or absence of state support for LIPA and the effect of such state support on the status of LIPA and the original rulings.

The rulings described above are generally binding on the IRS, subject to a change in law, and are based upon the representations described above and the other facts presented to the IRS by LILCO and the Authority. The Authority is not aware of any facts or circumstances which would cause such representations or the facts as presented to be untrue or incomplete in any material respect. If the rulings were revoked, LIPA could be subject to significant federal income tax liability unless LIPA were otherwise exempt from federal taxation under applicable provisions of the Code. The Authority has covenanted that it shall not, nor shall it permit LIPA to, do or omit to do any act that would result in the revocation of the rulings and a resultant material federal income tax liability.

LITIGATION

The Offered Securities

There is no litigation pending or threatened in any court (either State or Federal) to restrain or enjoin the issuance or delivery of the Offered Securities or questioning the creation, organization or existence of the Authority,

the title to office of the Trustees or officers of the Authority, the validity or enforceability of the Resolution, Financing Agreement, the pledge of the Trust Estate, the proceedings for the authorization, execution, authentication and delivery of the Offered Securities or the validity of the Offered Securities.

Shoreham Litigation

See "Shoreham Property Tax Settlement—Pending Litigation" and "—Ratepayer Refund Litigation."

Routine Litigation

LIPA is also involved in numerous actions arising from the ordinary conduct of its business both prior to and subsequent to the LIPA/LILCO Merger. LIPA believes that such litigation, in the aggregate, will not have a material adverse effect on the business or the affairs of the Authority or LIPA.

Potential Litigation

The transactions described in this Official Statement, including the contemplated financing, have been the subject of criticism by various elected officials and other individuals and organizations which have publicly stated that additional litigation may be initiated challenging one or more aspects of the transactions described in this Official Statement.

AGREEMENT OF NEW YORK STATE

In the Act, the State pledges to and agrees with the holders of any obligations issued under the Act and the parties to any contracts with the Authority that the State will not limit or alter the rights vested in the Authority until such obligations together with the interest thereon are fully met and discharged and/or such contracts are fully performed on the part of the Authority, provided that nothing therein contained shall preclude such limitation or alteration if and when adequate provision shall be made by law for the protection of the holders of such obligations of the Authority, or those entering into such contracts with the Authority. The Authority, as agent for the State, is authorized to include such pledge and agreement by the State in all agreements with the holders of such obligations and in all such contracts. The Authority has included such pledge in the Resolution.

CONTINUING DISCLOSURE UNDERTAKINGS FOR THE OFFERED SECURITIES

Pursuant to the Continuing Disclosure Certificate dated as of the date of the closing of the sale of the Offered Securities (the "Continuing Disclosure Certificate"), a form of which is attached hereto as Appendix F, the Authority will provide for the benefit of the holders of the Offered Securities certain financial information and operating data relating to the Authority by the dates specified in the Continuing Disclosure Undertaking (the "Annual Report"), and provide notices of the occurrence of certain enumerated events with respect to the Offered Securities, if material. The Annual Report will be filed by or on behalf of the Authority with each Nationally Recognized Municipal Securities Information Repository and with the State Information Depository, if any, established by the State. The notices of such material events would be filed by or on behalf of the Authority with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities Rulemaking Board, with such State Information Depository, if any, and with the Trustee. The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in the form of the Continuing Disclosure Certificate which is included in its entirety in Appendix F hereto. The Authority's undertakings in the Continuing Disclosure Certificate are being made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12.

ADDITIONAL INFORMATION

Certain of the corporations mentioned in this Official Statement, including KeySpan Corporation and certain of the KeySpan Subs and Niagara Mohawk Power Corporation, the operator of NMP2, are subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, and are required to file reports and other information with the Securities and Exchange Commission (the "Commission"). Such reports and

other information are available for inspection at the public reference facilities of the Commission located in Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and also are available for inspection and copying at prescribed rates at the regional offices of the Commission located at 7 World Trade Center, Suite 1300, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of this material may also be obtained by mail, upon payment of the Commission's prescribed fees, by writing to the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material may also be obtained from the website that the Commission maintains at http://www.sec.gov. Reports and other information concerning these corporations should also be available for inspection at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. None of the above-mentioned additional information regarding any of these corporations is part of this Official Statement, and neither the Authority nor the Underwriters take any responsibility for the accuracy or completeness thereof.

LEGALITY FOR INVESTMENT

The Act provides that the Offered Securities will be legal investments for public officers and bodies of the State of New York and all municipalities, insurance companies and associations and other persons carrying on an insurance business, banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies, and other persons carrying on a banking business, all trusts, estates and guardianships, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or other obligations of the State of New York, or may properly and legally invest funds, including capital in their control or belonging to them. Under the Act, the Offered Securities are also securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter by authorized.

FINANCIAL ADVISOR

The Authority has retained Morgan Stanley & Co. Incorporated, New York, New York ("Morgan Stanley") as its financial advisor. Although Morgan Stanley has assisted in the preparation of the Official Statement, Morgan Stanley is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

INDEPENDENT CONSULTANT

Navigant Consulting, Inc. is the Authority's Independent Consultant. Navigant Consulting has prepared its Independent Consultant's Report which is attached to this Part 2 as Appendix A. THE REPORT OF NAVIGANT CONSULTING SHOULD BE READ IN ITS ENTIRETY.

APPENDIX A

Long Island Power Authority

Electric System General Revenue Bonds, Series 2000A

Independent Consultant's Report

March 29, 2000

NAVIGANT CONSULTING, INC.

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Navigant™
CONSULTING, INC.

March 29, 2000

Long Island Power Authority
Board of Trustees
333 Earle Ovington Boulevard
Suite 403
Uniondale, New York 11553

Chairman and Members of the Board of Trustees:

Navigant Consulting, Inc. ("Navigant Consulting") has been retained by the Long Island Power Authority (the "Authority") in connection with the issuance by the Authority of the Electric System General Revenue Bonds, Series 2000A (the "Offered Securities").

Navigant Consulting submits this report (the "Independent Consultant's Report") stating its findings, assumptions, and conclusions. Navigant Consulting consents to the inclusion of, and references to, the Independent Consultant's Report in the Authority's Official Statement relating to the Offered Securities.

In preparation of the Independent Consultant's Report, Navigant Consulting conducted an evaluation of the engineering, economic, system planning, operations, environmental, and related matters supporting an estimate of the annual operating results of the Authority for the period January 1, 2000 through December 31, 2008. For purposes of this assignment, Navigant Consulting has made investigations and analyses, including discussions with staff and representatives of the Authority and KeySpan Corporation d/b/a KeySpan Energy, among others, and examinations of reports and projections prepared by consultants and advisors to the Authority, which Navigant Consulting deemed necessary and appropriate to reach its conclusions. The Independent Consultant's Report attached hereto should be read in its entirety.

Respectfully submitted,

/s/Patrick S. Hurley
Patrick S. Hurley
Managing Director

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LONG ISLAND POWER AUTHORITY
ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2000A

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INTRODUCTION

Presented herein is the Independent Consultant's Report (the "Report") of Navigant Consulting, Inc. ("Navigant Consulting") resulting from Navigant Consulting's analysis and investigations in connection with the proposed issuance by the Long Island Power Authority (the "Authority") of approximately $323 million aggregate principal amount of Electric System General Revenue Bonds, Series 2000A (the "Offered Securities"). The Offered Securities are being issued pursuant to the Authority's Electric System General Revenue Bond Resolution (the "General Bond Resolution").

The Authority took over as the retail supplier of electric service in most of Nassau and Suffolk Counties and the Rockaway Peninsula of Queens County (the "Service Area") on May 28, 1998 by acquiring the Long Island Lighting Company ("LILCO") as a wholly-owned subsidiary of the Authority through a merger (the "LIPA/LILCO Merger"). Since the LIPA/LILCO Merger, LILCO has done business under the name LIPA. Before the LIPA/LILCO Merger, LILCO was a publicly traded, shareholder-owned corporation that, since the early 1900's, was the sole supplier of both retail electric and gas service in the Service Area. LIPA (LILCO) no longer provides gas service in the Service Area. For the period prior to the LIPA/LILCO Merger, LILCO is referred to herein as "LILCO" and, for the subsequent period, is referred to herein as "LIPA." As used in this Report, the term "Closing" refers to the date (May 28, 1998) that the LIPA/LILCO Merger was completed.

The Authority has outstanding $4,544,252,638 of fixed rate senior lien bonds (the "Outstanding Senior Lien Bonds") issued under the Authority's General Bond Resolution. Additional series of bonds, notes, or other obligations on a parity with the Outstanding Senior Lien Bonds and the Offered Securities (the "Additional Bonds") are assumed to be issued by the Authority to finance, among other uses, future capital expenditures. The Outstanding Senior Lien Bonds, the Offered Securities, and the Additional Bonds are collectively referred to herein as the "Bonds". A more complete description of the Bonds, including the Offered Securities, is contained in the Authority's Official Statement to which this Report is appended (the "Official Statement").

The Authority also has outstanding $1,968,300,000 of variable rate subordinate lien bonds (the "Outstanding Subordinated Lien Bonds"). The Outstanding Subordinated Lien Bonds were issued under the Authority's Electric System General Subordinated Revenue Bond Resolution (the "General Subordinated Resolution'). The Outstanding Subordinated Lien Bonds, together with all other subordinate lien bonds, notes, or other forms of indebtedness issued under the General Subordinated Resolution are referred to herein as the "Subordinated Indebtedness". A more complete description of the Authority's Subordinated Indebtedness is contained in the Authority's Official Statement. In addition to the Authority's Subordinated Indebtedness, LIPA also has outstanding $270,000,000 of Debentures and $332,425,000 of New York State Energy Research and Development Authority ("NYSERDA") Financing Notes that it is responsible for paying.

Navigant Consulting is an internationally recognized firm of engineers, economists, regulatory specialists, and management consultants headquartered in Chicago, Illinois. Navigant Consulting's staff of approximately 1,900 professionals provides services to various industries, including electric and gas utilities, power producers, fuel suppliers, and power marketers. Typical services include power marketing analysis, transmission and distribution system planning, generation facilities evaluation, rate and pricing studies, environmental assessments, conservation and demand-side management ("DSM") program development and evaluation, strategic planning, marketing studies, and related services. Navigant Consulting includes the staff of the former Resource Management International, Inc. ("RMI"), which prepared the independent consultant's reports and updates in connection with previous Authority

Bond and Subordinated Indebtedness issues. RMI was a wholly owned subsidiary of the Metzler Group, Inc. ("Metzler"). In 1999, the staff and operations of RMI were consolidated with those of other subsidiaries of Metzler, and Metzler was renamed Navigant Consulting.

Navigant Consulting serves as the Authority's Consulting Engineer and Rate Consultant (both as defined in the Authority's General Bond Resolution) and provides day-to-day assistance to the Authority on various issues, including operation, management, and expansion of its facilities, power supply resource development, rates and charges, environmental compliance, financial forecasting, and budget review and development, among other issues. In connection with the Offered Securities, Navigant Consulting has been retained by the Authority to evaluate the engineering, economic, system planning, operations, environmental, and related matters supporting the preparation of an estimate of the annual operating results (the "Operating Results") of LIPA for the January 1, 2000 through December 31, 2008 period (the "Study Period") shown in Exhibit 1 to this Report. For purposes of this assignment, Navigant Consulting has made investigations and analyses, including, but not limited to, discussions with staff and representatives of and/or review of reports or information produced by the Authority, KeySpan Corporation d/b/a KeySpan Energy ("KeySpan"), Niagara Mohawk Power Corporation ("Niagara Mohawk"), the Federal Energy Regulatory Commission ("FERC"), the New York State Public Service Commission ("NYPSC"), New York Public Authorities Control Board (the "PACB"), the New York State Department of Environmental Conservation ("NYSDEC"), the United States Nuclear Regulatory Commission ("NRC"), the United States Environmental Protection Agency ("EPA"), the Power Authority of the State of New York ("NYPA"), and examinations of reports and projections prepared by consultants and advisors to the Authority, which Navigant Consulting deemed necessary and appropriate to reach its conclusions. Navigant Consulting's investigations and analyses were conducted with particular emphasis on consideration of those items of major potential economic, financial, environmental, and operational impact on the future operations of LIPA. This Report summarizes Navigant Consulting's findings and presents certain technical and economic information concerning the Authority, LIPA, and KeySpan and the Offered Securities. The Official Statement to which this Report is appended should be read in its entirety for additional information on the Authority and LIPA and the Offered Securities.

LONG ISLAND POWER AUTHORITY

The Authority is a corporate municipal instrumentality and political subdivision of the State of New York authorized under the Long Island Power Authority Act (the "Act"). The Act authorizes the Authority's Board of Trustees (the "Trustees" or "Board") to set rates and charges for electric service after conducting public hearings. The Act provides that the Authority is generally not subject to regulation by the NYPSC, including rate regulation. However, the Authority has agreed to comply with the provisions contained in the PACB resolution, dated July 16, 1997, approving LIPA's acquisition of LILCO. Information on the conditions established by the PACB relative to the acquisition of LILCO and agreed to by the Trustees is discussed in Part 2 of the Official Statement.

The Agreements

The Authority, through LIPA, owns, among others, the following assets (the "LIPA Assets"): (i) an electric transmission and distribution system serving most of Nassau and Suffolk Counties and the Rockaway Peninsula of Queens County (the "Service Area), including assets, facilities, equipment, and contractual arrangements used to provide the transmission and distribution of electrical capacity and energy to electric customers within this area (the "T&D System"); (ii) an 18 percent ownership interest in the Nine Mile Point 2 Nuclear Power Station ("NMP2") located in upstate New York; and (iii) certain

other intangible assets resulting from the LIPA/LILCO Merger, including the Shoreham Nuclear Power Station ("Shoreham") property tax claims.

In order to assist the Authority (acting through LIPA) in providing electric service in the Service Area, at the time of the LIPA/LILCO Merger, the Authority entered into a Management Services Agreement (the "MSA"), a Power Supply Agreement (the "PSA"), an Energy Management Agreement (the "EMA") and certain other agreements (collectively, the "Agreements"), each with a separate wholly-owned subsidiary of KeySpan (each, a "KeySpan Sub" and collectively, the "KeySpan Subs"), and assigned them to LIPA. These KeySpan Subs include those subsidiaries to which LILCO transferred its fossil-fueled generating facilities and its gas supply, transmission and distribution system simultaneous with the LIPA/LILCO Merger. The performance of each such KeySpan Sub under the respective Agreements as well as any payment obligations it may have under such agreement are guaranteed by KeySpan. The purpose of the Agreements is to provide the Authority and LIPA with the operating personnel and power supply resources necessary for LIPA to continue to provide electric service in the Service Area.

There follows a summary description of certain of the Agreements.

Management Services Agreement

The MSA provides for a subsidiary of KeySpan (the "Manager") to (i) perform the day-to-day operation and maintenance of the T&D System in accordance with policies established by LIPA and (ii) administer and manage LIPA's interest in NMP2 using employees and management previously employed by LILCO. The MSA terminates on May 28, 2006. The MSA mandates that in the sixth year (beginning May 29, 2003), the Authority will seek competitive proposals for a new management contract effective at the expiration of the MSA. The MSA does not grant any rights of control or ownership of the T&D System or NMP2 to the Manager, KeySpan, or its subsidiaries, other than those rights necessary for the routine operation and maintenance of the T&D System and for the management and administration of LIPA's interest in NMP2. For additional information on the MSA, please see the section entitled "TRANSMISSION AND DISTRIBUTION SYSTEM—Management and Operation" in this Report and Appendix E of the Official Statement.

Power Supply Agreement

The PSA provides that a subsidiary of KeySpan ("GENCO"), formed to own all of the existing oil and natural gas-fired generating facilities on Long Island previously owned by LILCO, will sell to LIPA all of the capacity of such generating facilities. However, the PSA does not obligate LIPA to make energy purchases from GENCO. The PSA terminates on May 28, 2013. The PSA contains provisions that provide LIPA the opportunity to reduce its obligation to purchase generating capacity from GENCO under a "rampdown" schedule beginning in the seventh year of the PSA, subject to continuation of certain capacity-related payments. The Authority has the option to renew the PSA at the end of its term on terms consistent with the original PSA for all capacity which has not been ramped down. For additional information regarding the PSA, please see the section entitled "POWER SUPPLY AGREEMENT" in this Report and Appendix E of the Official Statement.

Energy Management Agreement

The EMA provides that a subsidiary of KeySpan (the "Energy Manager") will (i) procure and manage fuel supplies for LIPA to fuel the GENCO generating facilities, (ii) perform off-system capacity and energy purchases on a least-cost basis to meet LIPA's needs, and (iii) make off-system sales of output from the GENCO generating facilities and other power supplies either owned or under contract to

LIPA. LIPA is entitled to two-thirds of the profit from any off-system energy sales arranged by Energy Manager. The term for the service provided in (i) above is fifteen years (ending May 28, 2013), and the term for the service provided in (ii) and (iii) above is eight years (ending May 28, 2006). The Agreements provide for a continuation of the present gas transportation rate through November 28, 2009 for gas delivered over the gas distribution system to the GENCO plants and to new generation resources above a minimum unit size established by the Authority. For additional information regarding the EMA, please see Appendix E of the Official Statement.

Other Agreements

In addition to the agreements summarized above, the Agreements include (i) the Generation Purchase Right Agreement which provides LIPA with the right to acquire all GENCO generation facilities during the 12-month period ending May 28, 2002; (ii) the Grant of Future Rights, including rights to the acquisition of additional generating sites; and (iii) other rights integral to the acquisition, management, and operation of the T&D System, LIPA's interest in NMP2, and LIPA's ability to provide electric service to its customers. For more information on these agreements and rights, please see Appendix E of the Official Statement.

DESCRIPTION OF THE SERVICE AREA

The map contained in the Official Statement at the end of Part 1 provides an illustration of the Service Area and the location of LIPA's major facilities and KeySpan generating facilities. These and other characteristics are described below.

Geographic Area

The Service Area encompasses the bulk of Long Island in New York State, and is comprised of Nassau and Suffolk Counties and the Rockaway Peninsula in Queens County, an area of approximately 1,230 square miles, excluding areas served by three existing municipal utilities: the villages of Freeport, Greenport, and Rockville Centre. Suffolk County is the easternmost county within the Service Area and covers an area of approximately 911 square miles, followed by Nassau County with a 287 square mile area, and the Rockaway Peninsula with an area of approximately 32 square miles. The Service Area is bounded by the Atlantic Ocean on the south and east, by the Long Island Sound on the north and by portions of New York City on the west. Based on the LIPA Long Island Population Survey for 1999, the population of the Service Area was estimated to be approximately 2.8 million as of January 1, 1999.

Climatic Factors

Long Island experiences seasonal conditions typical of the northeast United States. Summers are usually hot with high temperatures in excess of 90°F. Winters include snow and icing conditions that can be damaging to overhead power lines. In addition, the Service Area experiences severe storms, including nor'easters and hurricanes, that can be particularly damaging due to Long Island's coastal location. In response to these conditions, the T&D System has been constructed and maintained to minimize damage from high winds, and LIPA has adopted storm response procedures consistent with LILCO's past practices that are designed to restore service expeditiously. Please see the section entitled "THE TRANSMISSION AND DISTRIBUTION SYSTEM—Storm Restoration Program" in this Report for a description of LIPA's storm response procedures.

Regional Economy

Once considered a "bedroom community" of New York City, Long Island has evolved into a significant regional economy that benefits from its proximity to Manhattan, but also generates its own income, employment, and regional output. Prior to the 1980's, the Long Island economy was dominated by the activities of several large defense contractors, including Grumman, Baton AIL, Fairchild Republic, and Sperry. In less than ten years, however, all four of these large defense companies either discontinued operations on Long Island or have significantly downsized their operations. Defense activity, which was once the mainstay of the economy, is not likely to regain its prior dominance on Long Island, and the region is unlikely to attract any large industrial customers in the foreseeable future.

Future economic gains on Long Island are likely to be based, in part, on the effective utilization of the region's current assets, such as:

- Highly skilled labor force;
- Close proximity to New York City;
- Diverse institutions of higher education;
- Location advantages for European markets;
- Strong, diversified technology base;
- Core research institutions, such as Brookhaven National laboratory, Cold Spring Harbor Laboratory, and medical research centers, such as North Shore Hospital; and
- Suburban life style.

Long Island's residential market is relatively affluent. Long Island is ranked highly in economic characteristics among the metropolitan statistical areas throughout the United States. According to the *Long Island Business News*, Long Island ranks first in the United States in:

- Median household effective buying income;
- The percentage of households having income of $50,000 or more; and
- The percentage of household incomes of $150,000 and over.

The Long Island economy benefits from low unemployment (approximately 3.2 percent in 1999), high average personal income, and a strong service-based economy. Annual new housing starts have grown from 4,500 in 1994 to 6,000 in 1999. Office vacancy has declined from a peak of nearly 16 percent in 1995 to approximately 7.1 percent at year-end 1999. The decline in unemployment and office space vacancy as well as the gain in new housing starts has occurred despite the decline in manufacturing activity on Long Island. Recent historical electric sales reflect this trend, revealing a modest decline in sales to manufacturing customers in recent years, while sales to customers in retail and service sectors have increased. Please see the section entitled "SYSTEM LOADS AND RESOURCES—System Capacity and Energy Requirements" in this Report for additional information on historical capacity and energy sales within the Service Area.

Customer Base

Approximately 99 percent of LIPA's total sales revenues are derived from electric sales to retail customers. As of March 15, 2000, LIPA served approximately 1.1 million retail electric customers, of whom approximately 90 percent were residential users. During the year ending December 31, 1999,

residential customers provided approximately 50 percent of LIPA's annual retail electric revenues and commercial and industrial customers provided approximately 47 percent of annual retail electric revenues. The balance of retail electric revenues is derived from electric sales for public lighting and sales to public authorities.

Although commercial and industrial customers provide a significant portion of annual electric sales revenues, these customers account for only 10 percent of the retail electric customers served by LIPA. In general, individual commercial and industrial customers are relatively small, with approximately 93 percent of these customers having peak demands less than 75 kilowatts ("kW"). Furthermore, the Service Area does not contain traditional "industrial" loads, and customers served under this rate classification are primarily large commercial customers. The single largest customer in the Service Area accounts for less than two percent of total electric sales. Overall, the 20 largest electric customers, in aggregate, accounted for less than four percent of total retail energy sales and revenues during 1999. Although a decline in manufacturing has reduced base load energy requirements within the Service Area, the remaining service-dominated economy is believed to represent a more stable economic base, with less risk of loss of load, as compared to a customer base with a greater concentration of manufacturing and other industrial load.

In addition to its retail customers, LIPA makes wholesale sales (sales for resale) to other electric utilities, including the three existing municipally owned electric utilities on Long Island (the villages of Greenport, Freeport, and Rockville Centre). These villages rely primarily upon their own generation and purchases from NYPA for their power supply. LIPA has historically sold only minimal amounts of energy directly to these villages for resale.

LIPA also provides electric transmission service to NYPA for the delivery of NYPA capacity and energy to the three municipal utilities and other NYPA-power recipients on Long Island, including the Suffolk County Electrical Agency ("SCEA") and the Nassau County Public Utility Agency ("NCPUA"). Please see the section in this Report entitled "SECURITY OF CUSTOMER REVENUE—Long Island Electrical Agencies" for a discussion concerning SCEA and NCPUA.

Historical Sales and Revenues

Exhibit 2 of this Report provides summary information on annual retail energy sales and retail electric revenues within the Service Area during the 1995 through 1999 period. Also included in Exhibit 2 is information on numbers of retail electric customers for this historical period. Retail electric sales during 1999 approximated 17,634 gigawatt hours ("GWh"), an increase of approximately 5.9 percent over the 1998 level. This increase was partially influenced by an overall 20 percent rate reduction implemented by LIPA in May 1998. Annual retail electric revenues for 1999 exhibited an overall increase of approximately 6.1 percent over corresponding 1998 levels after adjusting for the 20 percent rate reduction.

THE TRANSMISSION AND DISTRIBUTION SYSTEM

Description of Facilities

The T&D System is an integrated electric transmission and distribution system consisting of overhead and underground facilities, vehicles, equipment, contractual arrangements, land parcels, easements, and other assets used to provide the transmission and distribution of electric capacity and energy to and within the Service Area. Key components of the T&D System are summarized below.

Transmission Interconnections

Electricity is transmitted to and from the Service Area over five transmission interconnections that are owned in part or are under contract to LIPA. These interconnections tie the T&D System to other utilities and enable delivery of (i) capacity and energy produced by NMP2; (ii) additional off-system capacity resources needed to meet the peak demands of the electric customers; (iii) favorably-priced energy to supplement or displace generation from on-island generating resources; and (iv) excess generation from on-island generating facilities to off-island purchasers when conditions merit. Table 1 provides summary information on the transmission interconnections.

TABLE 1

SERVICE AREA TRANSMISSION INTERCONNECTIONS

Name	Off-System Terminal Location	Interconnecting Utility (1)(2)	Voltage Level (3)
Dunwoodie to Shore Road	Westchester County, NY	Con Edison	345kV
East Garden City to Sprainbrook	Westchester County, NY	NYPA	345kV
Northport to Norwalk Harbor	Norwalk, CT	CL&P	138kV
Jamaica to Lake Success	Queens, NY	Con Edison	138kV
Jamaica to Valley Stream	Queens, NY	Con Edison	138kV

(1) These utilities own the portion of the interconnections not owned by LIPA, except for the interconnection with NYPA, which is owned entirely by NYPA.

(2) Con Edison = Consolidated Edison Company of New York, Inc; CL&P = Connecticut Light and Power.

(3) Kilovolt or "kV".

Two of the T&D System's transmission interconnections are tied to the Consolidated Edison Company of New York, Inc. ("Con Edison") transmission system in Queens County, New York. LIPA owns these facilities to the border of Nassau County and Queens County, at which point ownership transfers to Con Edison. The three remaining interconnections extend under water across Long Island Sound to New York or Connecticut. One of these lines, the East Garden City to Sprainbrook line is owned entirely by NYPA (the "NYPA Line") and is used by LIPA under the terms of a contract with NYPA. The other two interconnections are owned by LIPA from their termination points on Long Island to the middle of Long Island Sound, at which point ownership is held by the interconnecting utility.

The agreement for use of the NYPA Line provides that LIPA will reimburse NYPA for the costs it incurs in connection with the NYPA Line, including, but not limited to, debt service, reserves, and operation and maintenance expenses, in return for the use of the capacity of the line. LIPA is contractually obligated to pay such costs based on the full capacity of the NYPA Line; however, to the extent that NYPA allocates capacity to other parties, LIPA's payment obligations will be proportionately reduced, with such other parties making payments pursuant to rates under NYPA's Open Access Tariff. In the past, NYPA has allocated capacity of the NYPA Line to certain loads served by NYPA in the Service Area when there has been insufficient capacity to serve such loads on another transmission line jointly owned by LIPA and Con Edison. As a result of changes in transmission market conditions (as discussed in the section of this Report entitled "SYSTEM POWER SUPPLY RESOURCES—Independent System Operator") this practice is unlikely to continue in the future. Instead, the allocation of transmission capacity to certain loads served by NYPA in the Service Area is likely to remain constant or NYPA may decrease its transmission allocation to these loads.

Transmission Facilities

The transmission facilities permit the transmission of capacity and energy from the transmission interconnections and the on-island generating facilities owned by GENCO and other power suppliers to LIPA's electric distribution system. The transmission system includes approximately 1,321 miles of overhead and underground lines. Table 2 provides a summary of LIPA's transmission line statistics, inclusive of transmission lines associated with LIPA's off-system transmission interconnections.

TABLE 2

CIRCUIT MILES OF TRANSMISSION LINE (1)

Voltage Level	Overhead	Underground	Total
345kV	—	8	8
138kV	218	116	334
69kV	638	55	693
33kV	97	3	100
23kV	133	53	186
Total	1,086	235	1,321

(1) Miles of line as of December 31, 1998. Data for 1999 is not available.

The on-island transmission system has been constructed following standards similar to those employed by other major electric utilities in the Northeast and includes wood poles, steel poles, and lattice steel towers. Many of the existing transmission structures include distribution circuits and/or connections for telephone, cable television, or fiber optics.

Thirty-one transmission substations are in service and utilized on the T&D System. The combined capability of these substations is approximately 6,926 million-volt amperes ("MVA"). The transmission system also includes transformation equipment at 13 generating sites used to step up the generation voltage to transmission levels. With the exception of certain facilities at the GENCO generating facilities (e.g., auxiliary and starting transformers), transformation equipment at these sites is owned by LIPA.

Distribution Facilities

The distribution system consists of 13-kV and 4-kV facilities. These facilities are a combination of overhead and underground equipment. There are 144 substations throughout the Service Area that step the voltage down from transmission to distribution levels. These distribution substations have a combined transformation capability of approximately 5,834 MVA. The distribution system also includes approximately 56,900 cable miles of overhead and underground line and approximately 147,800 line transformers with a total capacity of approximately 7,500 MVA. Approximately 42 percent of the poles on which LIPA's distribution facilities have been installed are owned by Bell Atlantic and used by LIPA pursuant to a joint-use agreement. A small portion of LIPA's transmission facilities is also installed on joint-use poles. Table 3 provides a summary of LIPA's distribution line statistics.

TABLE 3

CABLE MILES OF DISTRIBUTION LINES

Type of Construction	Cable Miles (1)
Overhead	46,086
Underground	10,791
Total.....	56,877

(1) Miles of lines as of December 31, 1998. Data for 1999 is not available.

Condition of Facilities

During November 1999, Navigant Consulting conducted limited on-site observations of principal and representative facilities comprising the T&D System. These observations consisted of visual examinations of facilities that Navigant Consulting deemed adequate to allow it to assess the general condition of the facilities. In addition to field observations, Navigant Consulting reviewed historical operation and maintenance records for the T&D System to assess past performance levels and examined written maintenance procedures to evaluate the adequacy of existing maintenance practices. Navigant Consulting also reviewed the total 2000 T&D System capital and operating expenditure levels agreed to by the Authority and the Manager to assess their relationship to historical expenditure levels. Based on the observations and assessments conducted by Navigant Consulting and the measured reliability of the T&D System as discussed further below, the T&D System is considered to be in good condition.

Three submarine cables installed across Long Island Sound form part of the interconnection between the T&D System and other utility systems. The Dunwoodie to Shore Road line, a 345-kV cable designated as Y-50 and placed in operation in August 1978, is owned jointly with Con Edison. This cable is of pipe-type construction in which dielectric fluid is circulated to cool the conductors and maintain the electrical insulation. A second interconnection, the NYPA Line, was installed in 1991 and is designated the Y-49 line. The eight-mile, 345-kV submarine portion of this line extends from Westchester County to Nassau County and is constructed of self-contained dielectric fluid-filled cables that operate under high pressure. The land-based portions of the NYPA line are of conventional pipe-type construction. This line connects to the T&D System at the East Garden City substation. A third interconnection is the Northport to Norwalk Harbor line, a 138-kV submarine cable installed in 1969, that extends approximately twelve miles under the Long Island Sound from the Northport generating station in Suffolk County to Connecticut. LIPA has ownership of this line to the New York-Connecticut state boundary. This dielectric fluid-filled cable system has periodically incurred damage from ship and barge anchors, most recently in 1999.

At the present time, the Northport to Norwalk Harbor transmission interconnection is out of service due to a transformer failure. Replacement of the transformer is expected to be completed by May 2000. Prior to this time, final repairs are expected to be made to the cable damaged during 1999. In addition, the normal import capability of the NYPA Line has effectively been derated 50 percent as a result of the loss of one of the two transformers in East Garden City. Replacement of the transformer and return of the interconnection to service is expected to occur before the end of May 2000. Subject to the successful return of the Northport to Norwalk Harbor line and the NYPA Line to service, the transmission interconnections appear to be in good operating condition.

LIPA is continuing and expanding a program commenced in 1992 to improve the reliability and quality of electric service within the Service Area. For the distribution system, this program is focused on five major areas, consisting of (i) circuit improvements, including line clearance; (ii) distribution system automation; (iii) underground feeder exit replacement; (iv) pole replacement; and (v) conversion and reinforcement projects. For the transmission system, this program is focused on (i) circuit improvements; (ii) substation reliability improvements; and (iii) pole replacements. The programs undertaken for the T&D System have resulted in material reductions in the frequency of customer outages and have helped to mitigate increases in the duration of these outages.

LIPA regularly evaluates the implementation of new programs geared towards improving the reliability of the T&D System. During 2000, a program designed to proactively replace aging primary paper insulated lead cable in the secondary distribution network was implemented. Failures experienced by neighboring utilities of this type of cable during the summer of 1999 caused significant customer interruptions. LIPA expects this program to continue for at least 10 years.

Two key industry standard criteria for measuring transmission and distribution system reliability are:

1. **System Average Interruption Frequency Index ("SAIFI"),** which is derived by dividing the total number of customers affected or interrupted during the year by the total number of customers served; and

2. **Customer Average Interruption Duration Index ("CAIDI"),** which is derived by dividing the total number of customer hour duration of interruptions during the year by the total number of customers affected.

The MSA establishes incentive measures for the Manager to maintain SAIFI and CAIDI indices for the T&D System within prescribed levels. Information on these incentives may be found in Appendix E of the Official Statement. Figures 1-A and 1-B compare the historical T&D System reliability, as measured by these two indices, to (i) the system-wide average incentive levels under the MSA; and (ii) the average performance of the five other investor-owned electric utilities in New York State with predominately overhead distribution systems. The utilities included in this comparison are:

- Central Hudson Gas & Electric Corporation
- Niagara Mohawk Power Corporation
- New York State Electric & Gas Corporation
- Orange and Rockland Utilities Incorporated
- Rochester Gas & Electric Corporation

Con Edison has been excluded from Figures 1-A and 1-B because much of its system is of underground construction and therefore not subject to the potential for damages typical of aboveground systems. The results graphically depicted in Figures 1-A and 1-B represent a system-wide average for the T&D System, whereas the specific MSA incentives are tied to performance within four distinct operating districts of the T&D System. For both SAIFI and CAIDI, a low value is favorable and, for SAIFI, indicates less frequent service interruptions, and, for CAIDI, indicates a shorter average duration of the outages that have occurred. Consistent with industry practice, the statistics shown in Figures 1-A and 1-B exclude the effects of major storms.

Through 1999, the average duration of customer interruptions on the T&D System was approximately 30 minutes shorter than that experienced by the other large electric utilities in the State. The total CAIDI for year end 1999 is equal to 68.2 minutes, which is an improvement of approximately 7.5 percent over the previous four-year average for the T&D System.

FIGURE 1-A

AVERAGE NUMBER OF OUTAGES PER CUSTOMER PER YEAR (SAIFI)

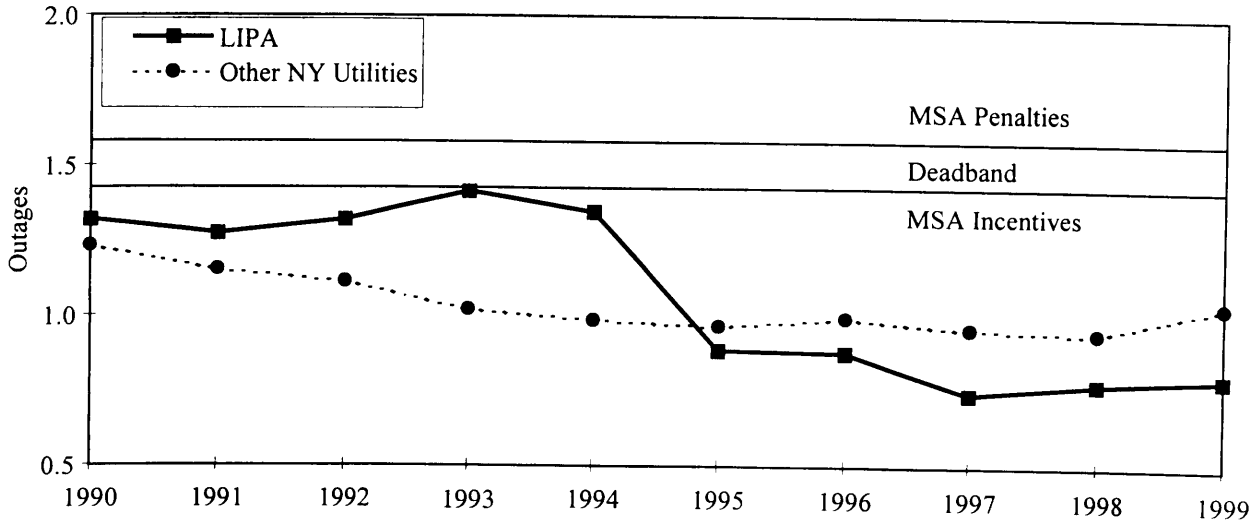
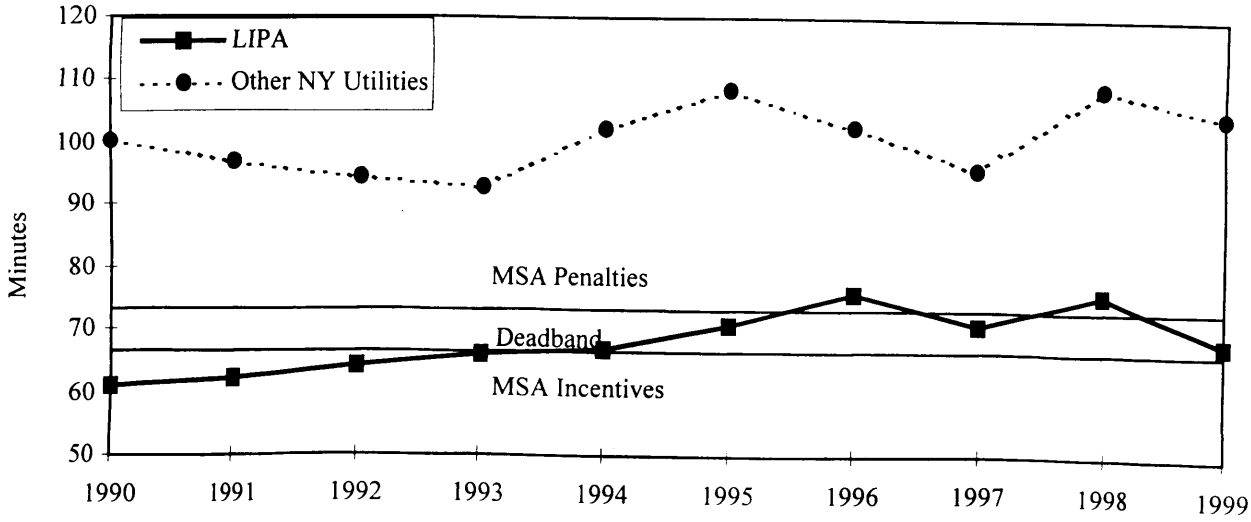


FIGURE 1-B

AVERAGE TOTAL ANNUAL OUTAGE TIME PER CUSTOMER (CAIDI)



Long Island is exposed to high winds and periodic icing conditions and has a high concentration of heavily treed rights-of-way. Achieving levels of reliability above the levels experienced by comparable

New York State utilities, while facing these adverse conditions, is evidence of the emphasis LIPA has placed on reliability of service in programs and budgets. As discussed under "Capital Expenditures" in this section, LIPA has increased capital expenditures to support the reliability of electric service on Long Island. During 1998, LIPA spent approximately $46 million on capital programs designed to enhance the reliability performance of the T&D System. This spending reflects an increase of 16.5 percent over the prior four-year average level of expenditure. The capital budgets reflected in the estimated Operating Results discussed later in this Report provide for similar continued levels of expenditures in the future.

As Figure 1-A illustrates, from 1990 through 1999, the average annual number of outages per customer has declined substantially. Since 1995, continued proactive measures in programs such as circuit improvement projects, circuit automation, and tree trimming have allowed LIPA to maintain a consistent SAIFI and have allowed the performance of the T&D System to compare favorably to the other large electric utilities in the State. Through 1999, average frequency of interruption for LIPA's customers was once every 15 months, while the average frequency for comparable large electric utilities in the State was once every 12 months. The 1999 SAIFI is equal to 15.1 months between interruptions, which is approximately 2.5 percent better than the previous four-year average.

Management and Operation

Pursuant to the MSA, LIPA relies on the Manager to operate and maintain the T&D System in accordance with policies established by the Authority. The Manager's responsibilities under the MSA include, but are not limited to, (i) the day-to-day operation, and maintenance of the T&D System, including emergency repairs, customer service, billings, and meter readings; (ii) routine facility additions and improvements, including customer connections, procurement of goods and services from third-parties, and inventory management; (iii) preparing and monitoring budgets, load and energy forecasts, and power resource models and plans; and (iv) maintaining an operation and maintenance manual for the T&D System. In addition to complying with all applicable laws and prudent utility practices, the Manager must also comply with T&D System policies and procedures established by the Authority.

The Authority is responsible for, among other things, (i) setting rates and charges; (ii) line extension policies; (iii) service rules and regulations; (iv) approval of long-term strategic plans; (v) determination of customer service programs; (vi) approval of annual budgets; (vii) approval of the Manager's load forecast and power resource models and plans; (viii) determination of all energy efficiency, conservation and load management policies and plans, (ix) governmental relations and reporting; (x) overall legal responsibilities; (xi) oversight of the Manager's operations and performance, and (xii) community and public relations. The Authority also has the right to approve the appointment of key personnel of the Manager who report directly to a designated representative of the Authority.

In exchange for the services rendered under the MSA, the Manager is entitled to receive an annual service fee as compensation. The service fee is paid on a monthly basis and is calculated based on five components, consisting of a (i) fixed direct fee; (ii) third party cost reimbursement component; (iii) variable payment; (iv) cost incentive fee; and (v) non-cost performance component. In addition to the service fee, the Manager is reimbursed for all approved third-party costs and is paid or reimbursed for certain capital and unforeseeable costs.

The Manager is entitled to incentive payments for cost savings and is subject to penalties for cost overruns on both the operating and capital budgets. On the operating side, $5 million of the Manager's annual fee ($15 million) is contingent upon achieving a comparable amount of cost savings each year. In addition, the Manager is entitled to payments equal to 50 percent of any savings in excess of this amount, provided that no incentive is payable for savings in excess of 15 percent of the operating budget. To the

extent costs exceed the operating budget (excluding the Manager's fee), the Manager must absorb overruns up to a maximum total of $15 million. With regard to the capital budget, the Manager is entitled to incentive payments for cost savings and penalties for cost overruns equal to 50 percent of all variances, provided that no incentive payment will be earned nor penalty incurred for cost variances in excess of 15 percent of the capital budget.

Cost-based incentives have not been finalized for 1998, however, for the seven months ending December 31, 1998, it appears the Manager will be entitled to approximately $4 million of cost-based incentives related to the operating budget and $0.1 million related to the capital budget. The process for evaluating the documentation supporting the cost-based incentives for 1999 has just commenced and therefore information on expected cost-based incentives or penalties for 1999 has not been finalized.

In addition to the cost savings incentives, the Manager is eligible annually for incentives for performance above certain threshold target levels and subject to penalties for performance below certain threshold minimum levels with regard to T&D System reliability. The incentives and penalties can reach $4 million and are apportioned to each of four geographic districts of the T&D System, the performance of which are separately monitored. These incentives and penalties encourage the Manager to undertake measures across the T&D System that are reasonably anticipated to maintain or improve reliability.

The MSA also provides for non-cost performance incentives and penalties for call answering and meter reading, which are in the process of being negotiated. When combined with reliability, these services comprise the key performance areas of concern to most utility customers. The objective of the call answering incentive will be to improve customer call response times within a specified range. The monthly meter reading incentive targets a reduction in the number of estimated meter reads. The MSA also provides for a worker safety incentive payment or penalty aimed at achieving and maintaining lost-time accident levels below historical levels. Non-cost performance incentives and penalties also apply with respect to accounts receivable and payments in-lieu of taxes ("PILOTs"). The accounts receivable incentive or penalty is targeted at improving historical accounts receivable performance, while the PILOTs incentive or penalty is aimed at eliminating excessive PILOTs on LIPA Assets.

For the seven months ending December 31, 1998, KeySpan earned approximately $3.7 million in non-cost performance incentives. Review and evaluation of 1999 non-cost performance incentives has just recently commenced and information on the incentives earned by KeySpan for 1999 has not been finalized. The methodology for determining non-cost performance incentives for call answering, accounts receivable, and PILOTs payment challenges have not yet been agreed to by LIPA and the Manager and therefore compensation or penalties associated with these incentives is not reflected in the above numbers.

For a more complete description of the MSA, please see Appendix E of Part 2 of the Official Statement.

Storm Restoration Program

Under the terms of the MSA, the Manager is responsible for storm response and storm restoration programs. During these restoration efforts, the Manager utilizes, as necessary, appropriately trained personnel not normally assigned to field duties, as well as gas and generation department personnel, in order to perform electric distribution emergency restoration services. This utilization of personnel increases the availability of field forces to restore service to customers affected by the storm damage. The Manager, on behalf of LIPA, also relies on standard electric utility industry mutual aid programs wherein neighboring and regional utilities provide emergency assistance to one another in the event of

outages from major storms. Table 4 presents the total cost of storm damage within the Service Area since 1993. Numbers shown for 1999 are preliminary, subject to final accounting of costs incurred during the year.

TABLE 4

HISTORICAL STORM EXPENDITURES FOR THE T&D SYSTEM ($000)

Year	
1993	$19,945
1994	13,061
1995	16,428
1996	22,551
1997	12,493
1998	8,625
1999	27,557

The Authority relies on a combination of reserves and insurance to provide for the funding of storm damage restoration. Under the MSA, approximately $4.4 million annually is budgeted for the Manager to provide storm restoration services and is included in the estimated Operating Results presented in Exhibit 1 of this Report. This allowance covers the cost of direct labor, excluding overtime pay, incurred by the Manager for storm restoration services. The Authority has included in revenue requirements an annual storm allowance of $10 million, which is available to cover storm restoration costs other than the Manager's direct labor costs. The Authority also maintains property damage insurance to cover catastrophic events, which provides approximately $35 million of insurance coverage for storm and property damage. This coverage is available to cover damages in excess of $15 million per occurrence. An allowance for insurance premiums associated with such coverage is included in the estimated Operating Results in Exhibit 1 in this Report. Storm losses outside of the range covered by insurance are self-insured by LIPA. Depending on the extent of damage, the Authority may also become eligible for funds from the Federal Emergency Management Agency ("FEMA"). During 1998, the Authority received approximately $1.2 million of funding from FEMA for storm damage within the Service Area. A final determination of the funding, if any, available to LIPA from FEMA for storm damage during 1999 has not been reached as of the date of this Report.

Capital Expenditures

During the 1994 through 1998 period, an average of approximately $103 million per year was spent on additions and improvements to the T&D System. The approved capital budget for 1999 approximated $105 million for T&D System additions and improvements, excluding retirements. These expenditures included moneys for reliability enhancements, capability expansion, new customer connections, facility replacements, and public works projects.

The Authority and the Manager have agreed to a capital program of approximately $192 million (excluding approximately $11 million for retirements) for the T&D System for 2000. The 2000 capital expenditure program provides for a continuation of the historical programs to improve reliability and quality of electric service, as well as appropriate levels of expenditure for capability expansion, new customers, facility replacements, and public work projects that are comparable to historical levels. Also included in the 2000 capital expenditures is construction of a major new transmission line and certain

other non-recurring projects. Table 5 provides a breakdown of the 2000 capital expenditure program by principal activity, together with information on the historical level of capital expenditures during the 1994 through 1998 period and budgeted capital expenditures for 1999.

TABLE 5

T&D SYSTEM CAPITAL EXPENDITURES (1)
(Millions of Dollars)

	Historical					Budget (2)	
Expenditure Category	**1994**	**1995**	**1996**	**1997**	**1998(2)**	**1999(3)**	**2000**
Reliability	$34	$40	$33	$42	$46	$42	$43
Expanded Capability(4)	9	16	15	12	10	14	94
New Customers	14	19	19	24	20	20	21
Replacements	29	31	25	19	33	28	31
Public Works	6	5	5	3	5	2	3
Total (5)	$92	$111	$97	$100	$113	$105	$ 192

(1) Amounts do not include retirement costs.
(2) Amounts shown exclude allowance for funds used during construction and certain other costs totaling approximately $10 million annually that have been included historically.
(3) Actual capital expenditures for 1999 approximated $111 million, net of retirement costs. The Manager has not completed its review of these expenditures and therefore they are not available according to the breakdown provided in this table.
(4) Increase in capacity of overhead and underground lines and substations. Amounts for 2000 include a non-recurring expenditure of approximately $75 million for a 22-mile underground 69 kV transmission line in eastern Long Island.
(5) Amounts may not total exactly due to rounding.

The 2000 T&D System capital expenditure program includes several non-recurring major new projects designed to increase LIPA's load serving capability and improve reliability. These projects include the addition of a 22 mile 69 kV underground transmission line in eastern Long Island and the installation of bulk transmission and distribution-level capacitor banks at various points on the T&D System. These projects were determined by LIPA to be necessary to support significant load growth in eastern Long Island. Without these major, non-recurring projects, LIPA's capital expenditure program for 2000, net of the costs of retirements, would total approximately $117 million.

The Authority anticipates that future annual T&D System capital expenditures will be somewhat greater than the annual expenditure levels experienced during the 1994 through 1999 period. This increase over the 1994 through 1999 period reflects the need for capacity additions and transmission upgrades to meet increased customer demands and reliability goals. T&D System capital expenditures will be subject to the Authority's annual approval process under the terms of the MSA. Exhibit 3, "Estimated Capital Expenditures," includes Navigant Consulting's estimate of LIPA's T&D System capital expenditures for the Study Period. Please see the section entitled "FINANCING REQUIREMENTS—Capital Expenditures" in this Report for more details.

Environmental Review

LIPA's electric system includes approximately 260 properties, consisting of approximately 2,205 parcels of land, and 40,000 easements on properties owned by others. Navigant Consulting reviewed information on liabilities associated with the environmental investigation and remediation activities

currently required, or that may be required, in connection with the T&D System properties owned by LIPA. In addition to these liabilities, other liabilities may accrue to LIPA in connection with certain Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") Superfund sites which allege a nexus to LILCO's historical operations, liabilities associated with common facilities, and liabilities associated with being an operator under CERCLA for easements granted to LIPA for the T&D System. Liabilities related to contamination from past manufactured gas plant ("MGP") sites are the result of historical gas utility operations and contractually are not LIPA's responsibility. KeySpan has provided LIPA with complete indemnification for all liabilities arising from all MGP operations. As a result of this indemnification, no reserves for the remediation of the MGP sites resulting from gas plant operations have been included in the estimate of LIPA's annual Operating Results.

Navigant Consulting reviewed reports, data, and other documentation provided by the Manager concerning remediation efforts at eleven T&D System properties, ten Superfund sites, and other miscellaneous environmental liabilities. In addition, in 1998, Navigant Consulting commissioned, through a subcontractor retained on behalf of the Authority, an independent environmental site assessment of the T&D System and other LIPA Assets. The environmental site assessment performed by Navigant Consulting's subcontractor used the American Society for Testing and Measurement E-1528-96 standard for transaction screens, which includes literature research of past activity and limited on-site surface inspection of certain sites, locations, and rights-of-way. These site assessments identified 69 LIPA properties as requiring additional study due to concerns over the potential for on-site contamination, as well as the potential for contamination from adjacent properties. There can be no assurance, however, that environmental contamination does not exist at other sites.

Based upon the known Superfund sites, the review of known contaminated properties, and discussion with and representations by LIPA and KeySpan, Navigant Consulting is unaware of any environmental liabilities of a magnitude which would have a material adverse impact on the Operating Results presented in Exhibit 1 of this Report. As shown in Exhibit 1, and as discussed under the section "OPERATING RESULTS" in this Report, the rate stabilization fund created by LIPA (the "Rate Stabilization Fund") is estimated to maintain a significant balance each year, even after substantial accelerated payment of Authority debt. LIPA is expected to use insurance proceeds and other available funds, including the Rate Stabilization Fund, for the payment of such remediation and related costs. For additional information on LIPA's environmental liabilities, please see the section entitled "ENVIRONMENTAL MATTERS" in the Official Statement.

Health and Safety

The Manager has continued the health and safety programs previously designed and implemented by LILCO to meet Occupational Safety and Health Administration and local government requirements. Historically, worker injury and accident rates have been slightly better than the industry averages reported by the Bureau of Labor Statistics and on a par with National Safety Council members participating in the "Occupational Safety Health Award Program." The Manager's health and safety management program is generally typical of programs found at utilities with similar operations.

POWER SUPPLY AGREEMENT

The PSA provides for GENCO to supply LIPA with all of the capacity of the electric generation facilities on Long Island owned by KeySpan. The GENCO facilities consist of 53 fossil fuel generating units at 13 sites on Long Island. These steam, combustion turbine, and internal combustion generating units operate using oil, natural gas, or both. The PSA establishes a target dependable maximum net capability ("Target DMNC") for such generating facilities of 3,973 megawatts ("MW"). Dependable

maximum net capability ("DMNC") represents the maximum rate of production of the generating facilities, as determined through periodic testing in accordance with procedures established by the New York Power Pool ("NYPP"). During the summer of 1999, KeySpan conducted summer capacity season DMNC tests on the GENCO facilities, resulting in a 1999 summer DMNC value of 4,017 MW. Descriptive information for these facilities is summarized in Exhibit 4 of this Report.

Although the GENCO facilities are operated and maintained by GENCO, the Energy Manager, under the EMA, is responsible, on behalf of LIPA, for procuring fuel for the GENCO facilities and for dispatching all power resources owned by, or under contract to, LIPA. The PSA terminates on May 28, 2013, and may be renewed by LIPA on terms comparable to the original PSA.

Under the PSA, the Authority pays GENCO certain fixed and variable rates for the generating capacity supplied by GENCO. The Authority and GENCO have agreed to a formula for the adjustment of these charges through the term of the PSA. These rates are subject to the jurisdiction of the FERC. Under the terms of the PSA, GENCO's capital expenditures for which LIPA is responsible are subject to approval by the Authority. LIPA pays for approved GENCO capital expenditures through the depreciation accruals and return on investment included in the rates charged under the PSA. The PSA also provides for certain incentives and disincentives related to targeted performance levels by GENCO, including summer DMNC (a maximum of $1 million per year), summer availability (a maximum of $2 million per year), and efficiency levels (heat rate) (a maximum of $1 million per year) of the generating facilities. During both 1998 and 1999, KeySpan earned $1 million for summer DMNC ratings, $2 million for summer availability, and approximately $0.3 million for heat rate/efficiency under these incentive provisions. Please see the section in this Report entitled "MANAGEMENT AND OPERATION OF THE SYSTEM--Cost and Performance Control by LIPA—Power Supply Agreement" for additional information on FERC's oversight of the rates charged under the PSA.

Monthly charges for generating capacity provided under the PSA ("Monthly Capacity Charge") are subject to certain contract price re-openers. During the term of the PSA, either party may petition FERC to revise the return on common equity component of the revenue requirement underlying the Monthly Capacity Charge. Additionally, either party may petition FERC, on a one-time basis, to adjust the allocations of administrative, general and common cost components of the revenue requirements underlying the Monthly Capacity Charge. As of the date of this Report, no such petitions have been filed by LIPA with FERC. The PSA provides that if KeySpan or its subsidiaries engage in any new business ventures after the Closing Date (as defined in the PSA), LIPA may be eligible to receive a one-time payment from KeySpan. KeySpan has entered into a variety of such new business ventures and LIPA is currently investigating any cost reductions or payments it may be due. Navigant Consulting cannot predict what, if any, cost reductions or payments LIPA will realize as a result of these investigations.

The PSA provides LIPA the option of electing to reduce or "ramp-down" the capacity it purchases from GENCO beginning in year seven of the PSA, in accordance with schedules set forth in the PSA. In years seven through ten of the PSA, if LIPA elects to ramp-down, GENCO is entitled to payment for 100 percent of the present value of the capacity charges otherwise payable over the remaining term of the PSA. If LIPA ramps-down the generation capacity in years 11 (2009) through 15 (2013) of the PSA, the capacity charges otherwise payable by LIPA will be reduced in accordance with a formula established in the PSA. If LIPA exercises its ramp-down option, GENCO may use any capacity released by LIPA to bid on new LIPA capacity requirements or to bid on LIPA's capacity requirements to replace other ramped-down capacity. If GENCO continues to operate the ramped-down capacity, the PSA requires it to use reasonable efforts to market the capacity and energy from the ramped-down capacity and to share any profits with LIPA. In the event of such power sales, the profits will take into consideration all costs

that have been recovered by GENCO, including previous payments from LIPA. Capacity and energy sold by GENCO from ramped-down capacity must be transported over the T&D System and GENCO will be required to pay transmission rates assessed by the New York State independent system operator (as discussed later in this Report) and distribution rates charged by LIPA for this service. The PSA will be terminated in the event that LIPA exercises its generation purchase right under the Agreements. For a more complete description of the PSA, please see Appendix E of the Official Statement.

The GENCO capacity will comprise approximately 77 percent of LIPA's total capacity resources during 2000 and approximately 68 percent by the end of the Study Period. Nonetheless, while LIPA has the rights to all energy from the GENCO capacity, LIPA is not obligated under the PSA to purchase any specified amount of energy from GENCO and will procure energy resources from the lowest cost sources available. During 1999, the GENCO resources accounted for approximately 65 percent of the Service Area's energy requirements. Please see the section entitled "SYSTEM POWER SUPPLY RESOURCES" in this Report for additional information on the operating history of the GENCO facilities.

Condition of GENCO Facilities

In December 1999, Navigant Consulting representatives conducted field observations of the major GENCO facilities to observe their condition. These observations consisted of plant walk-through, discussions with plant staff, and a limited review of operating and maintenance records. This review was undertaken to observe the general condition of the generating facilities and to provide familiarity with the units in order to put the capital budget and operation and maintenance budgets in context. As a whole, the facilities that Navigant Consulting observed were found to be in good operating condition, as evidenced by a reasonably constant DMNC and unit availability during recent years and taking into account their age and operating history. Under the PSA, GENCO has implemented an on-going capital improvement program to identify deteriorated equipment and replace it if appropriate.

Capital Expenditures

During the period 1994 through 1999, capital expenditures for the GENCO units averaged $29.5 million annually. A significant portion of these expenditures may be characterized as one-time, rather than recurring, in nature. These one-time expenditures include natural gas conversions to enable dual-fuel capability at the existing oil-fired steam units and control system upgrades at other units. Navigant Consulting expects the magnitude of such expenditures to diminish after completion of similar projects underway or planned. The GENCO capital budget for 1999 approximated $25 million. This capital budget level was developed with consideration for historical spending for recurring items and specific one-time capital projects. Total GENCO capital expenditures for 1999 were approximately $25.1 million. The GENCO capital budget for 2000 is approximately $27 million.

The PSA provides for annual review of and approval by the Authority of the capital additions to the GENCO units. In October 1999, KeySpan proposed an updated five-year capital budget that averages $24.4 million per year for the 2000 through 2004 period. Navigant Consulting expects the capital improvement program and associated budgets to enable GENCO to maintain the capacity ratings and availability of these generating facilities near recent historical levels; however, a slight decline in unit availability may occur as the generating units age.

The five-year GENCO capital improvement budget does not include projects that may be required to comply with Phase III of the Federal 1990 Clean Air Act Amendments. As discussed in the section entitled "Environmental Review" which follows, KeySpan is currently evaluating compliance options

and is expected to present a compliance plan to LIPA for consideration in the near future. Navigant Consulting believes that any potential capital improvements required for compliance can be effectively implemented by KeySpan and will not have a material impact on LIPA's overall power supply cost.

Environmental Review

Navigant Consulting's review of the regulatory requirements for GENCO's generating facilities consisted of a review of (i) the list of environmental permits and permit expiration dates provided by KeySpan; (ii) key regulatory program compliance; (iii) notices of violations, fines, and enforcement actions; and (iv) KeySpan's internal audit reports on environmental compliance. Navigant Consulting also reviewed existing regulatory programs and requirements as well as programs and requirements that have been promulgated and approved, but not yet implemented. Based on this review, GENCO appears to hold or is actively renewing all required environmental permits for its generating facilities and Navigant Consulting is unaware of any environmental permits that are not held by GENCO and required for the operation of the generating facilities. GENCO appears to be in compliance with the conditions set forth by those permits, except for New York State opacity limits pertaining to the visibility of power plant air emissions.

LILCO signed a Consent Order with the NYSDEC on May 6, 1998, to resolve issues concerning its occasional exceedance of mandated opacity limits, which have generally occurred during start-up and shut down of certain generating facilities. The consent order establishes LILCO's Opacity Reduction Program as an enforceable operating condition under the Clean Air Act Title V operating permits issued by NYSDEC for the generating facilities. The Consent Order includes, among other things, a schedule of fines that will apply if KeySpan exceeds prescribed emission levels in the future. KeySpan has advised Navigant Consulting that any fines assessed in the future as a result of the Consent Order are estimated to total less than $84,000 per year, and are not expected to have a material impact on the costs or operations of the GENCO facilities.

In 1999, the Governor of the State of New York directed the Department of Environmental Conservation ("DEC") to promulgate new air emission regulations intended to reduce sulfur dioxide ("SO_2") by 50 percent below Phase II federal Clean Air Act levels starting in 2003, and to extend the nitrogen oxides ("NOx") control season from five to 12 months of the year. DEC is tentatively scheduled to issue these regulations in early 2001. While the content of the regulations is not yet publicly available, these regulations could materially impact the cost of GENCO's operations. GENCO has indicated in preliminary discussions that it believes its operations will comply with the intent of these regulations when it installs controls to meet Phase III NOx control requirements, which are currently mandated. These controls are estimated to cost between $5 and $25 million, depending on the addition of new generating resources and off-island interconnections. GENCO is likely to be less impacted by the new SO_2 limits, but will likely comply as necessary by switching fuels from oil to gas. The PSA provides for a pass through to LIPA of additional costs related to changes in environmental regulations.

Table 6 provides a comparison of the GENCO facilities' emission levels during 1997, the latest year for which comparative data is available, and the emission levels experienced by the other large electric utilities in the State. Lower emission rates are favorable. As shown in Table 6, the GENCO facilities' emission levels are approximately one-half the average for utilities in New York State.

As of the date of this Report, information on NOx and SO2 emissions for the New York State utilities, other than KeySpan, is not available beyond 1997. For KeySpan's GENCO facilities, NOx emissions averaged 1.74 pounds per MWh during 1998, reflecting a greater reliance on oil than during

1997. KeySpan's SO2 emissions averaged 4.90 pounds per MWh during 1998. Emissions data is not yet available for the GENCO facilities for 1999.

TABLE 6

COMPARISON OF AIR EMISSION LEVELS FOR 1997(1)
FOSSIL GENERATION UNITS
(Pounds per MWh)

	NOx Emission Rate	SO2 Emission Rate
Rochester Gas & Electric Corporation	4.41	34.59
New York State Electric & Gas Corporation	4.36	10.17
Niagara Mohawk Power Corporation	4.36	27.92
Central Hudson Gas & Electric Corporation	4.31	10.61
Orange & Rockland Utilities Incorporated	3.78	7.51
Consolidated Edison Company of New York	2.17	1.48
New York Power Authority	1.83	1.18
KeySpan (2)	**1.53**	**3.30**
New York State Average	3.03	9.64

(1) Most recent year for which data is available.
(2) Generating facilities owned by GENCO.

Fuel Supply

In 1999, approximately 63 percent of the fuel burned for electric generation in GENCO's units came from natural gas, with the balance from residual oil and distillate oils. The Energy Manager procures fuel needed by GENCO for generation pursuant to the EMA. LIPA pays directly for fuel purchased for the GENCO facilities. The Energy Manager purchased natural gas for the generating facilities through the spot market. Oil fuels were purchased through the spot market or term contracts that were based on market prices at or near the time of delivery. Oil fuels are delivered via ship, barge, or truck, depending on the particular generation site.

The particular fuel used for generation will depend on generation plant fuel capability, fuel supply and transportation availability, and fuel cost. Most of the GENCO steam units can burn either natural gas or oil, although some of these units may be limited to burning a single type of fuel due to emission constraints. Natural gas or distillate fuel is burned in the gas turbines. Table 7 summarizes historical fuel usage at the GENCO plants.

TABLE 7

HISTORICAL GENERATION FUEL USAGE
PERCENT OF TOTAL ANNUAL USE

Year	Natural Gas	Fuel Oil	
		Residual	Distillate
1993.....	36.8%	62.1%	1.1%
1994.....	48.0	50.3	1.7
1995.....	68.0	30.6	1.4
1996.....	52.6	45.5	1.9
1997.....	67.8	30.1	2.1
1998.....	52.3	44.6	3.1
1999.....	62.8	32.6	4.6

LIPA's estimated fuel costs for oil and natural gas are based on proprietary fuel price forecasts developed by KeySpan for each type of fuel. The fuel cost forecast relied on for Exhibit 1 at the end of this Report was prepared by KeySpan in January 2000 and takes into account recent price trends in oil and natural gas. KeySpan's estimate of oil prices reflects a decline from forecasted year 2000 price levels of approximately 3.2 percent per year through 2004, representing a gradual return to recent historical price levels for crude oil. From 2004 through 2008, KeySpan estimates oil prices will increase by approximately 1.8 percent per year. KeySpan's estimate of natural gas prices reflects an average annual increase of approximately 1.1 percent per year from 2000 through 2008.

To assess the reasonableness of KeySpan's fuel price projections, Navigant Consulting compared KeySpan's fuel price forecasts to current spot-market and futures prices for natural gas, crude oil, and petroleum products traded on the New York Mercantile Exchange ("NYMEX") on February 20, 2000. The spot and futures markets provide a basis for estimating natural gas prices through January 2003, and crude-oil prices through December 2005. This comparison revealed that natural-gas futures prices correlated well with KeySpan's estimated gas prices through January 2003, the maximum period over which natural gas futures contracts are traded on the NYMEX. KeySpan's estimate of refined oil prices also correlated well with crude oil futures prices through December 2005. Beyond the end of the NYMEX trading periods for oil and natural gas , the rates of price growth developed by KeySpan were compared by Navigant Consulting to fuel price forecasts developed in December 1999 by the federal Energy Information Administration ("EIA"). This comparison indicated that KeySpan's fuel price forecasts, while reflecting more moderate rates of increase than reflected in EIA's base case forecast, were comparable to EIA's lower case forecast of fuel prices. As a result, the 2000 through 2008 fuel price forecast developed by KeySpan and used in Exhibit 1 is considered reasonable for purposes of this Report.

As discussed later in this Report, the Authority's Board has adopted a fuel and purchased power adjustment clause that enables the Authority to recover or return variations in fuel and purchased power costs to its ratepayers. The estimated operating results shown in Exhibit 1 reflect the assumed use of this clause during the Study Period.

Gas Supply and Transportation

The deregulation of natural gas production and the partial deregulation of transportation in the United States and Canada have opened competitive markets for gas consumers. Major gas production regions that LIPA can access include the Gulf Coast and the Mid-continent regions in the United States and the province of Alberta in Canada. Gas in these supply regions can be purchased under term

contracts, usually at market-based prices, or on the spot market. Numerous interstate pipelines and trans-Canada pipelines connect the New York-area market to these gas supply regions. Gas storage is available in the producing regions and near the New York market. KeySpan and Con Edison are parties to the New York Facilities Agreement that provides for the use of their joint systems to allow the parties to receive gas from interstate pipelines.

Once gas reaches Long Island, it is delivered to the respective power plants directly from interstate gas pipelines or the local gas transmission and distribution system owned by KeySpan. Pursuant to the Grant of Future Rights set forth in the Agreements, transportation of gas over the on-island gas distribution system, including to power plants connected to the interstate pipeline system, is provided to LIPA on an interruptible basis at a price not exceeding $0.19 per million British thermal units ("MMBtu") through November 28, 2009. This rate will only be adjusted for capital improvements required to provide this service to LIPA and is applied to gas transported to the GENCO facilities and to new generating capacity of a size above a minimum level established by the Authority that is constructed by or on behalf of LIPA. Generation plants are the lowest priority on the gas distribution system and these facilities are curtailed first during supply delivery constraints. During periods of curtailment, most of the GENCO steam units, which comprise the main on-island electric capacity and energy resource, can switch to fuel oil to meet generation needs.

Historically, interstate pipeline capacity not required by firm gas customers has been made available to other transporters at a discounted price by KeySpan. These parties have used the released pipeline capacity to offer discounted gas supplies to the operators of electric generating facilities on Long Island. In November 1998, the NYPSC issued a policy statement encouraging gas utilities in New York State to cease merchant gas sales and become transportation-only providers within three to six years. If KeySpan exits the gas procurement function, its need to hold up-stream gas pipeline and storage capacity may be reduced and all or a portion of these assets may be released or assigned to third parties. Such action could reduce the supply of discounted gas offered to generating facilities on Long Island and, therefore, the potential fuel cost savings realized by LIPA's customers. At the present time, Navigant Consulting can not predict the likely impact of the NYPSC's policy statement or the increase, if any, in GENCO fuel costs resulting therefrom.

Oil Supply and Transportation

Oil is stored on site or at locations accessible to each GENCO facility. Normal usable residual fuel storage totals 2.3 million barrels. Normal usable distillate fuel storage capacity totals 249,000 barrels. Maximum storage capacity, including normal usable storage and amounts available on an emergency basis, total approximately 2.8 million barrels for residual oil and 277,000 gallons for distillate oil. This storage capacity, plus an active oil management program, is employed by the Energy Manager to help LIPA avoid fuel oil supply disruptions at the GENCO facilities. Conversion of additional GENCO units to burn natural gas in the future, if economic, will further reduce exposure to potential fuel oil interruptions.

Generating Facility Performance

The DMNC test values represent the maximum capability of each generating unit under ideal conditions and with steam units in manual control and gas turbines operating in peak mode. At any given time, it is unlikely that such ideal conditions will exist. Additionally, operation of gas turbines is normally restricted to the lower base mode, rather than peak mode, except during abnormal or emergency conditions. Therefore, under peak operation, it is unlikely that the total DMNC value will be available for dispatch.

KeySpan has from time to time experienced extended forced outages on individual generating units due to equipment failures. The forced outages experienced to date are of a nature that is typical for the utility industry, taking into consideration the age of KeySpan's generating units. KeySpan has been able to make repairs to the equipment in a timely manner and has restored the affected units to service at their previous DMNC values. Forced outages of the GENCO facilities have not resulted in an inability to meet customer electrical needs on the T&D System.

NINE MILE POINT NUCLEAR POWER STATION, UNIT 2

NMP2 is part of a two-unit nuclear power station located at a 900-acre site on the south shore of Lake Ontario near the town of Scriba, New York. NMP2 received its operating license from the NRC in July 1987 and initiated commercial operation in April 1988. NMP2's operating license expires in 2026. NMP2 utilizes a General Electric Company boiling water reactor ("BWR") and turbine generator. NMP2 was uprated to 1,144 MW of capacity following a turbine rotor replacement in 1995. NMP2's condenser water is cooled by a natural draftcooling tower, with makeup water from Lake Ontario.

NMP2 is the second of two units at the Nine Mile Point Nuclear Power Station ("Nine Mile Point") site. Unit 1 ("NMP1") began commercial operation in 1969 and includes an older model reactor than NMP2. NMP1 and NMP2 are operated separately under different ownership interests and LIPA has no ownership interest in NMP1. The Fitzpatrick Nuclear Power Plant ("Fitzpatrick"), owned and operated by NYPA, is located on a site adjacent to Nine Mile Point.

NMP2 Ownership and Management

NMP2 is owned by five co-tenants, as shown in Table 8. Ownership of NMP2 is governed by the Basic Agreement, dated September 22, 1975 (the "Basic Agreement"). The current operating agreement ("NMP2 Operating Agreement") was executed on December 29, 1992, with a term continuing until decommissioning in 2026, unless terminated earlier in accordance with its provisions. Among other things, the NMP2 Operating Agreement establishes a management committee (the "Management Committee") comprised of one representative from each co-tenant. Voting of the Management Committee is based on ownership percentage and a simple majority of ownership percentages is required for approval of matters brought before the Management Committee. The NMP2 Operating Agreement also establishes provisions for the payment of each co-tenant's share of NMP2 costs and provides for the co-tenants to advance funds to Niagara Mohawk in proportion to their ownership interests in the event of the failure of a co-tenant to cover its share of NMP2 costs. As the plant operator, Niagara Mohawk has override authority over the Management Committee on capital expenditures it believes are required to meet regulatory and safety requirements.

Under the MSA, KeySpan, at the direction of the Authority, is responsible for the administration and management of LIPA's interest in NMP2, including participation in meetings of the joint owners of NMP2. KeySpan provides LIPA with the services of an NMP2 oversight staff whose purpose is to maintain knowledge of NMP2, the applicable regulatory requirements, its performance status, and its costs.

TABLE 8

OWNERSHIP OF NMP2

Name of Owner	Ownership Interest
Niagara Mohawk Power Corporation	41%
LIPA	18
New York State Electric & Gas Corporation	18
Rochester Gas & Electric Corporation	14
Central Hudson Gas & Electric Corporation	9
Total	100%

The NMP2 Operating Agreement provides for the retention of a person or organization to monitor activities related to NMP2 on behalf of the non-operating co-tenants, including LIPA, and to provide assessments related to these activities. The non-operating co-tenants have retained MATS Incorporated ("MATS") to perform these functions on their behalf. MATS' responsibilities include (i) coordination of the on-site activities of the employees and agents of the non-operating co-tenants; (ii) representation, as appropriate, of the non-operating co-tenants' interests to Niagara Mohawk management and Niagara Mohawk operational managers; and (iii) communication of observations and assessments concerning the operation and maintenance of NMP2 to Niagara Mohawk.

In late 1998, AmerGen Energy Company, L.L.C. ("AmerGen") proposed to purchase 100 percent of NMP1 and NMP2 from the current owners for a specified price predicated on a December 31, 1999 closing date. Niagara Mohawk and New York State Electric & Gas Corporation ("NYSEG") accepted the AmerGen proposal, subject to approval of the NRC, FERC, and NYPSC, among others. Under the Basic Agreement, RG&E exercised its right of first-refusal to match the AmerGen offer and acquire the NMP2 ownership shares held by Niagara Mohawk and NYSEG. Please see the section entitled "THE SYSTEM—Nine Mile Point Nuclear Power Station, Unit 2" in the Official Statement for a more complete discussion of AmerGen's and RG&E's acquisition proposals.

NMP2 Performance

Table 9 sets forth annual capacity factors and generation levels attributable to LIPA's 18 percent share of NMP2 for the period 1994 through 1999. This table also presents comparative industry data for all nuclear generating units in the United States. Over the 1994 through 1997 period, NMP2 generally exceeded average industry operating performance demonstrated by annual capacity factors. Performance during 1998 was below industry averages due to an extended refueling outage. During 1999, operating performance improved, but lagged performance in recent non-refueling years. Table 9 sets forth annual capacity factors and generation levels attributable to LIPA's 18 percent share of NMP2 for the period 1994 through 1999.

The primary cause for NMP2's relatively low capacity factor during 1998 was an extended refueling outage. The outage was scheduled to last 35 days, but extended to 64 days, primarily due to additional inspections resulting from indications of inter-granular stress corrosion cracking of the reactor shroud. The reactor shroud is a hollow cylinder surrounding the reactor core that serves to channel cooling water recirculation flow. The shroud cracking is a generic issue facing BWR plants and was anticipated by Niagara Mohawk prior to the inspection. Niagara Mohawk reported that the cracking indications were not of any safety significance and the NRC allowed NMP2 to resume operations with no restrictions. Niagara Mohawk intends to institute a water chemistry program intended to reduce the rate at which the

cracking progresses. Design problems with the control building heating, ventilating, and air conditioning system, and delays in reactor pressure vessel disassembly and core off-load also contributed to the refueling outage length.

TABLE 9

HISTORICAL NMP2 PERFORMANCE

	NMP2			
Calendar Year	Annual Net Generation (MWh) (1)	Annual Net Capacity Factor (2)	Three-Year Average Net Capacity Factor (3)	Industry Average Net Capacity Factor (4)
1994	1,504,065	90.8%	74.4%	77.9%
1995	1,305,662	76.5%	81.9%	79.6%
1996 (5)	1,565,731	87.1%	84.8%	79.5%
1997	1,598,046	89.2%	84.3%	79.6%
1998	1,315,288	73.4%	83.2%	84.3%
1999	1,580,814	86.9%	83.2%	88.5%

(1) LIPA's 18 percent share of total NMP2 output.
(2) Net capacity factor is a measure of the utilization of the NMP2's theoretical maximum annual output.
(3) The three-year average smoothes the effects of refueling outages.
(4) Source: Nuclear Energy Institute. Includes all nuclear plants operating during the respective year.
(5) In 1995 the design electrical rating of NMP2 was increased from 1,062 MW to 1,144 MW.

On March 3, 2000, NMP2 shut down for a planned refueling outage. The facility is scheduled to restart on April 11, 2000. Operating cycles, inclusive of refueling outages, have been lengthened to 24 months with the intent to improve overall NMP2 capacity factors. Refueling outages are used to perform a major portion of NMP2's repairs and maintenance, as well as refuel the reactor. Overall, planned and actual outage times had decreased through 1997 due to effective outage management and fewer emergent problems. The extended outage in 1998 reversed this trend.

Nuclear Fuel Supply and Disposal

NMP2 has contracts with vendors for a portion of its future requirements for supply, conversion, enrichment, and fabrication of its nuclear fuel. Due to the favorable market for these services, NMP2 plans to rely on the spot market for the balance of future uranium and enrichment requirements beyond that covered by these contracts.

The NMP2 reactor core consists of 764 fuel assemblies. At each refueling outage, about a third of the oldest fuel assembles are replaced with fresh assemblies. The used assemblies are stored in the spent fuel pool adjacent to the reactor. Space must always be reserved in the pool to receive the off-loading of all assemblies in the core. Based on the 24-month operating cycle currently practiced, NMP2 can operate into 2012 with existing and planned on-site spent fuel pool storage.

Niagara Mohawk, along with all other nuclear utilities in the United States, executed a contract for disposal of spent nuclear fuel and/or high-level radioactive waste with the United States government in 1985. This contract requires DOE to take title to and dispose of all spent nuclear fuel and high level waste of United States origin for civilian nuclear power reactors. For this service, NMP2's owners pay a

fee of 1.0 mill per kilowatt hour ("kWh") for all electricity generated by NMP2, less an amount to account for transmission losses. DOE was obligated to begin accepting fuel in 1998, but has failed to meet this commitment. Niagara Mohawk has joined other utilities in litigation over this contract, as well as litigation to escrow the disposal fees.

The decommissioning cost estimate prepared by ABZ Inc. ("ABZ") on behalf of Niagara Mohawk for NMP2 in October 1995 includes an allowance for funds sufficient to construct and operate a dry waste fuel storage facility on site at NMP2. The dry storage facility would accommodate spent fuel assemblies from the NMP2 spent fuel pool until such time as they can be transported to permanent storage off-site. The dry storage cost estimate is based on the assumption that DOE will begin to accept NMP2 spent fuel during 2020 and that all NMP2 spent fuel will be accepted by DOE by the end of 2044.

Low-Level Radioactive Waste

Niagara Mohawk currently ships low-level radioactive waste ("LLRW") generated at NMP2 to a disposal facility in Barnwell, South Carolina. During the period July 1, 1994 to June 30, 1995, the legislature of South Carolina denied access to the facility to out-of-region low-level radioactive waste generators, including New York State. Navigant Consulting cannot predict whether the Barnwell facility will be closed again at some future date to out-of-region low-level radioactive waste generators.

NMP2's contract with the Barnwell facility extends through June 2000. Through the remaining contract term, Niagara Mohawk intends to continue to use LLRW volume reduction and waste minimization techniques and to dispose of as much waste as possible at the Barnwell site.

In the event disposal at the Barnwell facility is unavailable for contractual or political reasons, Niagara Mohawk is actively evaluating viable alternative waste disposal facilities. As a contingency, Niagara Mohawk is developing plans for LLRW disposal involving the long-term storage of LLRW on site. At current generation rates, Niagara Mohawk reports that NMP2 has at least twenty years of storage available. There is currently no LLRW in long-term storage at NMP2.

Plant Operations

Nine Mile Point operation and maintenance practices and status are reviewed by the NRC as part of its ongoing inspection process. Prior to 1991, Nine Mile Point was on the NRC "Watch List" for troubled plants. Nine Mile Point demonstrated an improving trend in Systematic Assessment of License Performance ("SALP") ratings from 1991 through 1996. SALP ratings were assessed by the NRC by plant site and constituted an assessment of operations, maintenance, plant support, and engineering functions. During 1997, the SALP ratings for Nine Mile Point declined. The NRC attributed the decline in ratings to a reactor overfill event at NMP1. The SALP program was discontinued during 1998 and replaced with a new reactor oversight assessment program, which began on a pilot basis in June 1999. This program is expected to be adopted for all plants in 2000.

Operation performance at NMP2 continued to decline during 1999. In February 1999, the National Nuclear Accrediting Board ("NNAB") placed the Nine Mile Point technical training programs on probation. In September 1999, following corrective actions by Niagara Mohawk, NNAB removed the Nine Mile Point technical training programs from probation. The NNAB was created by the Institute of Nuclear Power Operations ("INPO"), a nuclear industry assessment organization. In August 1999, the INPO completed an evaluation of plant operations. INPO concluded that Nine Mile Point's (NMP1 and NMP2 combined) overall performance was acceptable, but improvements were needed in a wide range of areas, and significant weaknesses were noted in several areas. In September 1999, NRC staff

completed its mid-cycle plant performance review of Nine Mile Point. The NRC evaluated operations at both Nine Mile Point units and noted declining performance in several areas.

In response, Niagara Mohawk has implemented a program to improve performance significantly in four areas; management effectiveness, operational safety ethics, equipment reliability, and operator training. The cost of this plan has been budgeted at $7 million for capital improvements and $9.5 million for operating expenses in the 2000 budget, of which LIPA's share will be approximately $1.3 million for capital improvements and $1.7 million for operating expenses

Environmental Review

The list of environmental and regulatory permits required for the operation of NMP2, as provided by MATS and compared against the list contained in the Basic Agreement, was reviewed by Navigant Consulting and found to be current. In November 1997, Niagara Mohawk was awarded an International Standards Organization 14001 certificate. This certificate was issued in recognition of the conformance of Nine Mile Point's environmental management systems to the principals, policies, and procedures for corporate-wide environmental management established by the International Standards Organization. Nine Mile Point is the first nuclear generating facility in the United States to obtain this certification.

Capital Expenditures

During the last five years, NMP2 capital expenditures attributable to LIPA's ownership share averaged approximately $7.4 million per year for plant modifications and nuclear fuel purchases. Table 10 provides a summary of LIPA's 18 percent share of historical NMP2 capital expenditures during the 1995 through 1999 period.

TABLE 10

HISTORICAL NMP2 CAPITAL EXPENDITURES
LIPA'S 18 PERCENT SHARE
($000)

Year	Plant Modifications	Nuclear Fuel (1)	Total NMP2 Capital Expenditures
1995	$4,134	$1,224	$ 5,358
1996	3,786	8,895	12,681
1997	1,095	699	1,794
1998	4,210	9,752	13,962
1999	1,940	1,061	3,001

(1) Capital cost of nuclear fuel purchased during the year. Nuclear fuel expenditures are capitalized and subsequently expensed based on actual generation levels at NMP2.

LIPA's 18 percent share of NMP2's calendar year 2000 capital budget approximates $4.5 million for plant modifications and $7.7 million for nuclear fuel. The capital budget for plant modifications is expected to remain at generally this level through the remainder of the Study Period. If new generic issues arise for NMP2, or if NRC regulation intensifies, capital expenditures could be higher. Annual expenditures for nuclear fuel are estimated to average approximately $5.9 million during the 2000 through 2008 period, reflecting the two-year refueling cycle. Estimated annual capital expenditures for

LIPA's share of NMP2 are reflected in Exhibit 3, "FINANCING REQUIREMENTS—Capital Expenditures," of this Report.

Decommissioning

The co-tenants expect to commence the decommissioning of NMP2 shortly after the planned cessation of operations in 2026. LIPA's share of the decommissioning costs, based on a site specific study conducted in 1995 by ABZ , is estimated to be $145 million in 1996 dollars, or $352 million in 2026 dollars. ABZ is a nationally known engineering and consulting organization with extensive experience in the evaluation of nuclear power plant decommissioning alternatives and associated costs.

ABZ assumed a "DECON" method of decommissioning for NMP2 based upon current technology. This method provides for removal or decontamination of all equipment and structures necessary to permit release of the site property for unrestricted use. This is the method that was used for the completed decommissioning of the Fort St. Vrain nuclear facility in Colorado and for Shoreham. The actual costs incurred for the decommissioning of these plants were taken into account by ABZ in preparing its estimate for NMP2.

Niagara Mohawk anticipates that all spent fuel will be stored on site until the year 2020, with annual transfers to an off-site DOE-administered waste disposal facility thereafter. ABZ's decommissioning cost estimate includes an allowance for annual on-site storage costs, waste transportation costs, and waste disposal costs at this DOE facility from 2020 through 2044, at which time all waste is expected to have been transferred to the DOE facility. LIPA maintains an external trust fund for the decommissioning of the contaminated portion of NMP2. At year-end 1999, the fund for decommissioning the contaminated portion of NMP2 had a value of approximately $20 million. In addition, LIPA has accrued an additional $4.1 million for deposit in this fund. LIPA has determined that an annual contribution of approximately $3.3 million will be required through 2026 to fully fund its 18 percent share of the decommissioning of the contaminated portion of NMP2. Total costs in 1996 dollars for decommissioning LIPA's 18 percent share of the contaminated portion of NMP2 are estimated to be $111 million. LIPA has indicated that it will establish a separate decommissioning fund for the non-contaminated portion of NMP2 during 2000. At year-end 1999, LIPA had accrued approximately $1.6 million. LIPA has determined that an annual deposit of approximately $1.4 million will be necessary to fully fund LIPA's 18 percent share of the decommissioning of the non-contaminated portion of NMP2. The total estimated cost of LIPA's 18 percent share of NMP2's non-radioactive decommissioning costs in 1996 dollars is approximately $34 million.

SYSTEM POWER AND ENERGY REQUIREMENTS

Historical Power and Energy Requirements

Electricity usage patterns and seasonal weather conditions in the Service Area result in maximum electrical demand during the summer season and relatively low load factors on an annual basis. Exhibit 6 sets forth historical annual peak demands and energy requirements for the period 1995 through 1999. Annual system load factors during this period ranged from 48 percent to 56 percent due, in large part, to variations in seasonal weather conditions.

On July 6, 1999, LIPA experienced a record-high peak load of 4,590 MW, an increase of 9.1 percent over the previous all-time peak demand of 4,208 MW experienced during 1998. The new record demand resulted from unusually hot weather conditions experienced on Long Island, including near record dry-bulb temperatures and temperature-humidity indices. Taken together, these conditions

represent the most extreme heat that Long Island has experienced in more than thirty years. Actions taken by LIPA on the peak day contributed to a lower peak load than would otherwise have occurred. These actions included voltage reductions on the T&D System and public appeals for energy conservation. After adjusting for these actions, the weather-normalized 1999 summer peak was 4,275 MW, an increase of 1.7 percent over the 1998 weather normalized peak demand of 4,203 MW.

LIPA's historical demand and energy requirements are summarized in Exhibit 6 at the end of this Report for the 1995 through 1999 period.

Estimated Power and Energy Requirements

The Manager has prepared an estimate of annual peak demand and energy requirements within the Service Area for the Study Period, which are set forth in Exhibits 7 and 8. Peak demand growth is expected to range between 2.0 percent and 1.3 percent annually, averaging 1.6 percent over the 2000 to 2008 period. This growth rate would increase the summer peak demand, net of the effects of demand side management ("DSM"), to approximately 4,905 MW in 2008. The projected growth rate is consistent with the historical demands that grew at an annual average rate of 1.4 percent from 1993 through 1999. Energy growth is estimated to range between 2.3 percent and 1.6 percent annually, averaging 1.9 percent over the same period. For the period 2000 through 2008, residential sales are estimated to grow by approximately 1.8 percent per year and annual commercial energy sales approximately 2.0 percent per year.

Estimated demand and energy requirements take into account the effects of economic development power provided directly by NYPA and by NYPA through SCEA and NCPUA. Economic development power from NYPA has been estimated by KeySpan to increase from 30 MW in 2000 to 38 MW in 2002 and then remain constant over the next six years due to the limited supply of inexpensive power available to NYPA that can be used to support economic development and limitations on available electric transmission import capacity. Please see the section entitled "SECURITY OF CUSTOMER REVENUE—Long Island Electrical Agencies" in this Report for a discussion of other matters related to SCEA and NCPUA.

LIPA's estimated demand and energy requirements also take into account estimated load reductions associated with conservation program savings and cogeneration facility production, each of which is described below. Exhibits 7 and 8 at the end of this Report provide a summary of LIPA's estimated demand and energy requirements for the Study Period.

Conservation Program Impacts

LIPA's estimate of annual demand and energy requirements takes into account the estimated effects of the Clean Energy Initiative, a five-year DSM program approved by the LIPA Board of Trustees in 1999. The Clean Energy Initiative extends to mid-May 2004, at which time the program may be extended, in whole or part, for an additional period of time. Estimated demand and energy requirements presented in this Report reflect the assumption that a similar program to the Clean Energy Initiative will be implemented during 2004 and that demand savings associated with this program will approximate 75 percent of those targeted for the Clean Energy Initiative. The LIPA Board of Trustees has not yet authorized the extension of the Clean Energy Initiative beyond 2004, however, and Navigant Consulting can not predict when, or if, such an extension will be authorized.

Peak demand reductions resulting from the Clean Energy Initiative are estimated to result from (i) energy efficiency programs; and (ii) a peak reduction program. During 1999, estimated peak demand

reductions resulting from measures undertaken during 1999 are estimated to be 39 MW. Of this total, 25 MW was achieved through the peak reduction program and the remaining 14 MW were achieved from the remaining programs. Demand reductions during the Study Period are estimated to increase to approximately 102 MW by 2008.

Energy reductions from Clean Energy Initiative activities undertaken during 1999 are estimated to be 16,000 MWh, with more than half of this total attributable to programs continued from 1998. Cumulative energy reductions from Clean Energy Initiative activities begun in 2000 are expected to increase to 332,000 MWh by 2008.

Estimated demand and energy reductions from LIPA's Clean Energy Initiative activities are based on eleven residential and commercial programs which are aimed at improving the efficiency of lighting, appliances, new commercial construction, motors, heating, ventilation, and air conditioning equipment ("HVAC"), and other technologies. These programs also seek to promote solar electricity (photovoltaics) and customer reduction of electricity demand during peak demand periods.

The direct cost of the Clean Energy Initiative is estimated at $160 million through mid-May 2004, with an additional $40 million in revenue reductions resulting from customer energy savings. The Authority's Board has not yet finalized a long-term funding mechanism, however, the Authority expects this mechanism to rely on a combination of direct and indirect funding sources, including (i) net revenues from electric sales; (ii) contributions by industry groups, federal agencies, and retail customers; and/or (iii) proceeds of Additional Bonds issued for this purpose, among other sources.

Cogeneration Loads

Estimated demand and energy requirements for the Study Period reflect the effects of cogeneration currently installed by certain customers. Cogeneration is estimated to result in customer load reductions of approximately 68 MW and 475 MWh during 2000, increasing to 76 MW and 531 MWh by 2008. Cogeneration, which is used in whole or in part to directly serve customer loads, is distinguished from independent power producer ("IPP") facilities, which sell their output to LIPA as a supply resource.

SYSTEM POWER SUPPLY RESOURCES

Existing Power Supply Resources

LIPA is expected to rely on existing power supply resources, including the GENCO facilities and its share of NMP2, to meet the bulk of its capacity and energy requirements during the Study Period. Exhibit 6 of this Report sets forth the historical annual contribution of the GENCO facilities and NMP2 to the Service Area's capacity and energy requirements during the 1995 through 1999 period. Exhibit 9 provides additional information on the historical operating performance of the GENCO facilities. During the Study Period, NMP2 and the GENCO facilities are expected to be operated in a manner consistent with their historical operations.

In addition to NMP2 and the GENCO facilities, LIPA is expected to rely on existing power purchase agreements and other resources to meet its annual capacity and energy requirements. The Service Area's historical reliance on these resources is shown in Exhibit 10. Presented below is a description of the resources estimated to be available to LIPA during the Study Period. This information reflects the results of resource planning assessments conducted for purposes of this Report and is not intended to represent resource specific power supply expansion plans adopted by the Board.

New York Power Authority Fitzpatrick and Gilboa Capacity

LIPA is expected to purchase 160 MW of summer peak capacity from NYPA's Fitzpatrick nuclear plant and receive an additional 25 MW of reserve credit from NYPA. LIPA is also expected to purchase 50 MW of capacity from NYPA's Blenheim-Gilboa pumped storage facility. These purchases are expected to continue throughout the Study Period.

On March 28, 2000, NYPA approved the sale of its Fitzpatrick and Indian Point Unit 3 nuclear plants to Entergy Corporation. Navigant Consulting can not predict what impact this sale, if completed, would have on the availability or price of Fitzpatrick capacity and energy to LIPA. However, LIPA's cost for capacity and energy under this contract is below current market values. Should it be necessary to replace this power supply resource, the price paid by LIPA for replacement capacity and energy would be expected to materially increase over the price now paid to NYPA. Any increase in the cost of purchased power resulting from the loss of Fitzpatrick capacity and energy is expected to be recovered by LIPA through the fuel and purchased power cost adjustment clause (the "FPPCA") contained in its retail rate tariffs.

Non-Dispatchable On-Island Independent Power Producers

LIPA is expected to purchase approximately 213 MW of summer peak capacity and associated energy from IPPs within the Service Area. These IPPs are mostly resource recovery or landfill gas facilities, are under contract at relatively high power purchase rates, and are not subject to dispatch or control by LIPA. The IPPs are assumed to operate through their contract expiration dates, which are set forth in Exhibit 10. For purposes of this Report, any contracts expiring during the Study Period are assumed to be renewed at current prices. These non-dispatchable resources represent less than five percent of LIPA's total capacity and can be readily accommodated in LIPA's total resource operations. In addition to the above, LIPA is expected to continue to purchase energy, without firm capacity, from a cogeneration facility at the State University of New York ("SUNY") at Stony Brook.

New York Power Authority, Richard M. Flynn Plant

LIPA is expected to continue to purchase the full 138 MW summer peak capability of NYPA's Richard M. Flynn ("Flynn") plant located in Holtsville, Suffolk County, New York. The Flynn plant is a combined cycle facility completed in May 1994, in response to a competitive bidding program by LILCO. LILCO entered into a contract with NYPA, which has been assumed by LIPA, which guarantees LIPA that the plant will have an overall equivalent availability of at least 90.42 percent and a minimum availability during LIPA's summer peak load periods of 90 percent. Actual plant availability above or below these levels results in an increase or decrease, respectively, in LIPA's fixed payments to NYPA for the Flynn plant. Unlike the other IPP contracts, NYPA's Flynn plant may be dispatched to meet least-cost system operation. The contract for this facility extends until 2014.

Purchases from On-Island Municipal Utilities

In prior years, LIPA has acquired a total of 34 MW of summer peak capacity and associated energy from three municipal utilities within the Service Area. This capacity was typically held as reserves and only negligible amounts of energy were purchased under these contracts. Due to the changing nature of the electric utility industry resulting from deregulation, the start-up of the New York Independent System Operator ("NYISO"), and economic considerations, the municipal utilities have not extended the contracts with LIPA for the 34 MW of capacity. LIPA will rely on capacity reserve alternatives available to it in the marketplace, which may include market purchases of some or all of the 34 MW of municipal capacity.

Firm Capacity Purchases

Based on an 18 percent reserve margin requirement, LIPA has identified a need for additional firm capacity purchases of approximately 200 MW for the 2000 summer season. This capacity need has been satisfied through a combination of firm capacity purchases from the broker/bilateral market and a Request for Proposals process. Any deficiency in summer 2000 capacity needs arising from changing conditions is expected to be acquired through a capacity auction to be conducted by the NYISO.

LIPA anticipates the need to make additional short-term capacity purchases from time-to-time during the remainder of the Study Period. These purchases are expected to be accomplished through a process similar to that employed for the 2000 summer capacity needs. The amounts and timing of these capacity purchases are shown in Exhibit 7 at the end of this Report.

NYPA Power for Jobs Program

NYPA's Power for Jobs is a program sponsored by the State that allocates a portion of the power from NYPA's Fitzpatrick nuclear facility and from competitively bid sources to specific qualified customers to promote job growth, job retention, and economic development. Program power is sold to the utilities serving the eligible recipients pursuant to sale for resale agreements at rates which reflect the cost of power to NYPA, plus a charge for transmission service. Under the present terms of the NYPA Power for Jobs program, LIPA resells this power to the eligible recipients at the rates charged by NYPA, plus LIPA's applicable transmission and distribution charges, under three-year contracts. With the pending sale of Fitzpatrick, it is unclear at what level this program will continue beyond the existing three-year contracts. For purposes of this Report, it is assumed that LIPA will be responsible for the load associated with this program beyond 2003.

Economy Energy

In addition to the above agreements, LIPA is expected to purchase economy energy from utilities outside of the Service Area. These purchases are made when the price of energy from these suppliers falls below the incremental cost of generation from GENCO's electric generating facilities. During 1999, approximately ten percent of the Service Area's energy requirements were obtained through economy energy purchases.

LIPA's economy energy purchases are expected to be made through the NYISO and/or directly with third party suppliers. The NYISO, as described in more detail later in this Report, is a tightly coordinated and centrally dispatched pool that matches regional loads with the least expensive statewide generating units available to meet those loads, subject to transmission constraints. GENCO generation for LIPA is reduced when economy power is available at a lower cost.

System Import Constraints

The current maximum import capability into the Service Area is nominally rated at 1,175 MW under typical conditions. This capability varies depending on electrical loads within and outside the Service Area and the availability of generating units and transmission capacity. The five major transmission lines which connect the T&D System with the Con Edison and NYPA systems to the west and with southern Connecticut to the north are shown on the map following Part 1 of the Official Statement. At present, the transmission import capability into the Service Area is derated due to transmission facility outages. These outages are expected to be corrected and the facilities restored to service by the end of May 2000. Maximum import capability of these lines is expected to improve to

approximately 1,295 MW by the summer of 2000 as a result of enhancements being made at transmission substations owned by LIPA.

The net import capability of the T&D System is derived by taking the total capability of the transmission lines and subtracting (i) the capability that is used to export power for Con Ed; and (ii) the capability owned by Con Ed which is used to import power. The net import capability also takes into account the portion of the Northport to Norwalk Harbor line that can not be used for imports when the Northport and Norwalk Harbor generating units are operating and the portion of line capability that is reserved for emergency operations in order to maintain T&D System reliability.

The Authority has requested proposals for the addition of new off-island transmission interconnections as a key element of its long-term strategy to meet the capacity and energy needs of its customers on Long Island. The availability of additional interconnections would increase the maximum import capability to the Service Area and provide access to additional power supply resources. Additionally, new interconnections would serve to increase competition between power sources inside and outside the Service Area and provide LIPA with greater flexibility for contracting power supply resources.

At the present time, Navigant Consulting is unable to predict whether or when new off-island transmission interconnections will be constructed. Neither the cost of an additional off-island transmission interconnection, nor the potential savings in power supply costs associated therewith, are included in the projected Operating Results presented in this Report.

Independent System Operator

On November 18, 1999, the NYISO officially assumed control of New York State's electric power grid pursuant to tariffs and market rules approved by FERC. Overall, the NYISO is designed to facilitate competition in the wholesale market for electric capacity and energy and to reflect the economic cost of transmission congestion. In the long term, this structure is intended to provide market-based incentives to develop new generation and transmission facilities in areas where the local price of energy is high or to transmit energy from those areas where the local price is low. The relative market value of various generation facilities may be modified as a result.

The NYISO has responsibility for the operation of certain of the transmission lines of the New York State electric utilities and for scheduling the use of these lines by parties wishing to use the facilities. LIPA reached an agreement to allow its participation in the NYISO with provisions designed to protect the Authority's tax exempt status and retain control over its revenue stream. Under normal circumstances, the NYISO would not be expected to operate or schedule transmission facilities owned by LIPA. The NYISO is responsible for collecting some fees from all parties based on their use of the transmission lines. Each utility retains ownership and responsibility for maintenance of its respective transmission facilities and is responsible for billing and collecting for the use of these facilities.

In addition to its transmission-related responsibilities, the NYISO provides power pooling and power coordination functions. New operational features of the NYISO include (i) the establishment of a day-ahead and real-time bid-based spot energy market; (ii) the implementation of congestion pricing for transmission services); (iii) the creation of transmission congestion contracts ("TCC"); and (iv) markets for certain ancillary services.

LIPA's cost of power and its energy purchases from off-island sources is expected to increase over historical levels due to changes in the pricing of economy energy transactions and the adoption of

transmission congestion pricing principles. The costs incurred for economy energy and transmission services as a participant in the NYISO is, however, anticipated to be significantly less than the costs that would be incurred if LIPA did not participate in the NYISO. Given that much of LIPA's energy needs are under long-term contract, which are not affected by the NYISO market rules, the cost impact of NYISO market-based pricing is significantly mitigated. Furthermore, LIPA can mitigate market risk associated with serving higher loads due to growth by entering into additional contracts with power suppliers.

Long Island Choice Program

The Authority has adopted a policy of promoting power supply competition at both the wholesale and retail levels for the benefit of LIPA's customers. One objective of this policy is to implement a structure where LIPA is indifferent as to who supplies power to its customers. Although LIPA will always remain the power supplier of last resort, the Authority intends to pursue programs which will enable its customers to choose from alternative sources of power supply and that will encourage the participation of a diversified mix of new power suppliers within the Service Area.

The Authority's retail choice program (called "Long Island Choice") offers electric customers the opportunity to choose their electric supplier. The program is being implemented in three phases. Phase I, implemented during 1999, made retail choice available to both residential and non-residential customers representing, in the aggregate, 400 MW of LIPA's system load. In Phase I, customers desiring to participate in Long Island Choice must designate an energy service company ("ESCO") through which to receive electric service. Phase II is scheduled to begin in May 2000 and will extend eligibility to retail customers representing an additional 400 MW of aggregate LIPA system load. As part of Phase II, the Authority will also implement certain administrative and pricing changes that are expected to make Long Island Choice more attractive to LIPA's retail customers and the ESCOs. In Phase III, all of LIPA's retail customers will have an opportunity to select their power supplier. The scheduled implementation date for Phase III is May 2001, with the expanded program to be phased in through 2003.

Currently, there are several ESCOs licensed by LIPA serving customers under the Long Island Choice program. Since deliveries of energy under Phase I began in August 1999, LIPA has not seen a significant migration to retail choice. As of March 2000, 195 commercial accounts, with a coincident peak demand of approximately 35.8 MW, have enrolled in Long Island Choice. There are currently no ESCOs offering service to residential customers under the Long Island Choice program.

Under Long Island Choice, LIPA is the provider of last resort ("POLR") and, as such, is responsible for offering firm power supply to those customers who are either unwilling or unable to arrange for alternative power suppliers. LIPA's POLR responsibility necessitates the adoption of flexible power supply arrangements to accommodate uncertain levels of customer loads. These arrangements may include capacity options and direct market sales or purchases.

Regardless of a customer's choice of electricity supplier, LIPA remains the sole provider of transmission and distribution services in the Service Area. The Authority's rates for transmission and distribution services are designed to recover all costs not otherwise avoided through the customer's decision to rely on alternative power supply resources.

New Resource Additions

The Authority encourages the development of all economical, safe, and reliable power supply options for the Service Area as a means of lowering the cost of electricity to its customers. The load forecast for the Service Area indicates a need for approximately 200 MW of additional firm capacity for the 2000 summer peak period. This need is being satisfied through a combination of purchases from the broker/bilateral market and a Request for Proposals process.

Until the Long Island Choice program has evolved and a competitive power supply market has been firmly established, the Authority will rely upon traditional generation planning models to estimate the costs and performance of new supplies of capacity and energy to meet LIPA's future needs. For purposes of this Report, an assumed capacity expansion plan that simulates the NYISO energy supply market within the Service Area has been developed to meet LIPA's power supply needs during the Study Period.

As an indicator of the performance and cost of new power supply resources, several typical industry-standard and prototype technologies were considered by the Authority in the resource planning model, including gas turbine and combined cycle generating units and upgrades to existing GENCO generating units. The results of the resource planning analysis indicate that firm purchases from off-island sources of between 250 and 460 MW are expected over the Study Period. The capacity payments for these contracts are expected to be less expensive than the cost of building new combustion turbine capacity and therefore provide a lower cost alternative for meeting reserve requirements. Firm purchase contracts are limited to about 460 MW by transmission constraints.

Since import capability is limited, it is expected that new capacity resources within the Service Area will be needed. LIPA is assumed to be indifferent to the ownership of the new capacity and is expected to pay comparable rates for the capacity and energy produced by the units regardless of ownership, since it is assumed that market forces will keep this power competitively priced. The marketplace is likely to build at least as much capacity as is needed. Should market participants build more capacity than is needed, prices will decline as wholesale energy prices drop due to the increased competition for limited power sales.

The costs associated with incremental capacity additions, DSM program savings, firm power purchase contracts, NMP2, purchases under the PSA and EMA, and economy energy purchases were modeled as an estimate of the future results of the competitive power supply market. The results of this model are reflected in the fuel and purchased power cost projections contained in the estimated Operating Results shown in Exhibit 1 of this Report.

FINANCING REQUIREMENTS

Capital Expenditures

Exhibit 3 provides a summary of LIPA's estimated annual capital expenditures during the Study Period. These capital expenditures consist primarily of annual expenditures for capital improvements, additions, and replacements, and working capital requirements in connection with the LIPA Assets. Capital expenditures associated with assets owned by KeySpan and required to fulfill its obligations under the MSA and PSA are not included in Exhibit 3 and will be funded by KeySpan through the compensation provisions of the MSA and PSA.

Financing Requirements

The Authority expects to issue Additional Bonds to fund LIPA's capital expenditures during the 2000 through 2008 period. The net proceeds of the Offered Securities will be used to fund a portion of the Shoreham property tax settlement, as described in the Official Statement. The use of the Offered Securities for this purpose is consistent with LIPA's prior expectations and consolidates the previously planned multi-year financing program into a single bond issue. Exhibit 5 sets forth the estimated Offered Securities and Additional Bonds to be issued during the Study Period, including the use of the proceeds from these issues.

MANAGEMENT AND OPERATION OF THE SYSTEM

The Authority manages the performance and cost of electric service within the Service Area with a highly qualified senior management team, while minimizing its total work force. The day-to-day operation of the T&D System is accomplished by contracts through the MSA, PSA, and EMA using management and other personnel previously performing these functions for LILCO. LIPA's ownership interest in NMP2 is also managed in this manner through the MSA with oversight by the Authority. The Authority is responsible for on-going planning and development functions, including, but not limited to, (i) certain system planning; (ii) certain power marketing; (iii) DSM program definition; and (iv) financing activities. The Authority uses a combination of (i) a core group of senior managers; (ii) internal professional and administrative support staff; and (iii) outsourced services by specialists to meet the wide variety of skills and experience required to guide the management of the electric utility.

The Authority has adopted an organization which provides for senior management positions, including, but not limited to: (i) a chairman, president, and chief executive officer; (ii) a chief operating officer; (iii) a chief financial officer; (iv) a general counsel; (v) a vice president and controller; (vi) a vice president of power markets; (vii) a vice president of communications; and (viii) a vice president of retail services. In addition to these senior management positions, the Authority has hired experienced support personnel to assist in its day-to-day activities.

In addition to the above services, the Authority utilizes outside experts for those tasks or functions that require independent resources or, by their nature, are best performed by contractors. Examples of tasks performed through this outsourcing arrangement include, but are not limited to, the following:

- Review of actual costs incurred under the MSA, PSA, and EMA;
- Review of the incentive/disincentive compensation provisions under the MSA, PSA, and EMA;
- Review of the application of price escalation indices under the MSA, PSA, and EMA;
- Planning, implementation, and monitoring of Long Island Choice;
- Review of electricity and fuel purchases under the EMA;
- Review and evaluation of annual operating and capital budgets;
- Solicitations for new capacity and energy supplies;
- Evaluation of ramp-down opportunities under the PSA;
- Evaluation of generation purchase rights;
- Review of system dispatch and off-system sales and purchases; and

- Review of on-going programs to ensure compliance with applicable environmental, health, and safety requirements.

The Authority provides the continuity of policy making, rate setting, financial planning, and management of the T&D System and NMP2 by maintaining capability on its management team and in-house staff to administer the MSA, PSA, and EMA, and by making efficient use of outsourced services.

Cost and Performance Control by the Authority

The Agreements are structured in a manner to provide the Authority control over the performance and cost of the T&D System and NMP2 without the requirement to directly provide the day-to-day operation and maintenance of these facilities. The MSA, PSA, and EMA establish the obligations of the contractors to perform T&D System operation and maintenance and provide for the cost effective management of NMP2, provide electric capacity from the GENCO generating facilities, and provide for the dispatching of the GENCO facilities, the acquisition and management of fuel supplies, and the management of other power supply resources, respectively.

Management Services Agreement

The Authority exercises control over the performance of the T&D System through specific standards for performance and incentives to the Manager. The primary standards of performance for the delivery of power are the frequency and duration of outages, as described under the section entitled "TRANSMISSION AND DISTRIBUTION SYSTEM—Management and Operation" in this Report. Reliability standards established by the Authority in the MSA have generally been set at levels equal to or above the average levels LILCO had achieved in recent years.

Annual monetary incentives or penalties to the Manager under the MSA can reach $4 million by meeting or exceeding reliability targets or failing to meet such targets. The incentives are apportioned to each of four geographic districts of the T&D System, the performance of which are separately monitored. This incentive encourages the Manager to undertake measures across the T&D System that are reasonably anticipated to maintain or improve reliability. The operating budget that has been established for 2000 provides for at least the level of labor LILCO maintained prior to the acquisition and merger, adjusted in accordance with relevant cost indices. The capital additions budget approved for 2000 is at a level greater than that which has been expended in recent years, during which the T&D System has undergone a significant improvement in reliability.

Budget expenditures for the operation and maintenance of the T&D System and NMP2 under the MSA consist of (i) "Direct Costs", which include the Manager's labor; (ii) "Third Party Costs", which are the costs of materials or services provided by others; and (iii) "Other Costs", which are those costs which are not able to be anticipated and are outside the control of the Manager. Direct Costs have been set at a fixed annual amount based on historical levels, adjusted for known changes in circumstances. The Direct Cost portion of the budget is adjusted solely by agreed-upon cost indices over the remaining five years of the MSA. For 2006 through 2008, T&D System Direct Costs have been included in the estimated Operating Results based on estimated 2005 costs and assumed escalation in such costs.

LIPA is currently in the process of reviewing proposed Third Party Costs for the 2000 operating budget. These costs are subject to advance approval every year, which provides the Authority with substantial cost control. Other Costs are those unexpected costs that any owner of a transmission and distribution system may encounter.

As discussed earlier in this Report, the MSA establishes customer service incentives for call answering and meter reading. The call answering incentive is intended to be developed based upon the results of recent operations under the MSA, with the objective of improving call response times within a specified range. This incentive has not yet been implemented by LIPA. The monthly meter reading incentive targets a reduction in the number of estimated meter readings. This incentive results in a $200,000 per month incentive, or payment obligation, during any month in which the number of estimated meter readings is below, or above, respectively, a specified tolerance band. Through the end of 1998, the Manager has earned the maximum incentive possible each month under this provision. The MSA also provides for a worker safety incentive payment to achieve and maintain lost-time accident levels below historical levels. This incentive can total $1 million annually. The Manager has also earned the maximum possible under this provision during 1998. The Manager's 1999 performance relative to these incentive provisions is being reviewed as part of LIPA's overall assessment of MSA incentives and penalties for the year and information as to the incentive payments or penalties earned by the Manager for 1999 has not been finalized.

Power Supply Agreement

The PSA provides for a FERC-regulated wholesale rate applicable to the electric generating capacity purchased by LIPA from GENCO and is to be adjusted annually according to a process described in the PSA. Under the PSA, the rates may be modified in the future in accordance with the terms of the PSA for (i) agreed upon labor and expense indices applied to the base year; (ii) capital expenditures required for the GENCO generating facilities, which will require approval by the Authority; and (iii) reasonably incurred expenses that are outside the control of GENCO. This rate formula provides for the containment of GENCO costs.

In addition to cost control, Appendix F of the PSA provides incentives and penalties for GENCO to maintain the output capability, availability, and efficiency of its generating facilities, as measured by annual industry-standard tests of operating capability, and to make capital improvements which benefit plant availability. These combined incentives and penalties may total as much as $4 million annually and are expected to provide a meaningful inducement for favorable performance. GENCO has earned approximately $3.3 million under this incentive provision during 1998. LIPA is currently evaluating GENCO's performance with respect to the PSA incentive provisions and therefore information on the amount of PSA incentive payments or penalties earned during 1999 has not been finalized.

Energy Management Agreement

The EMA provides for payment of the costs of sufficient professional and support staff to procure fuel and energy for LIPA. The EMA further provides incentives for control of the cost of fuel and electricity purchased on behalf of LIPA by the Energy Manager. While LIPA pays for the actual fuel and electricity purchased, fuel and electricity purchases are compared to regional price indices and the Energy Manager receives a payment from LIPA, or is obligated to make a payment to LIPA, for fuel and/or purchased electricity costs which are below or above, respectively, specified tolerance bands of regional indices. The total fuel purchase incentive or penalty can be no greater than $5 million annually and the electricity purchase incentive or penalty can be no greater than $2 million annually. However, in no event can the electricity purchase incentive or penalty under the EMA, together with the net non-cost performance incentives and penalties under the MSA, exceed $7.5 million for any year. Preliminary incentive compensation earnings for the Energy Manager for 1998 approximate $2.9 million. In addition, the Energy Manager is estimated to have earned an additional $0.6 during 1998 for transactions involving the sale of excess generation from the GENCO facilities. GENCO's 1999 performance with

respect to the EMA incentive provisions is being reviewed by LIPA and information relating to the EMA incentive payments or penalties earned by GENCO during 1999 has not been finalized.

The budgets for all of the above-described agreements have been established in recognition of past budgets and actual expenditures and capital improvement requirements. This benchmarking to past costs is believed to provide a reasonable basis for estimating the levels of future costs to be included in the budgets for the MSA, PSA, and EMA.

Other Mechanisms to Maintain Control of Cost of Service

The Agreements also provide the Authority the means to foster long-term competition in power supply and in T&D System management in the following ways:

- The Agreements enable LIPA, or its designee, to acquire or lease appropriately sized and sited parcels, as well as appropriate easements, at any of the Generating Facility Sites (as defined in the Agreements). This right was obtained principally so that LIPA could make sites available to install generation to help create a competitive power supply market.
- The Generation Purchase Right Agreement grants LIPA the right, in the fourth year of the Agreements, to acquire all of GENCO's existing generation at fair market value.
- LIPA has a right to lease common property owned by KeySpan that is needed for the operation and maintenance of the T&D System for use by a subsequent Manager. This right ends in 2097.
- KeySpan cannot compete with LIPA for transmission and distribution services within the Service Area. Any capacity and energy sold by GENCO or its affiliates within the Service Area must be delivered over LIPA's T&D System. This provision was established to enable LIPA to recover all of the charges it would otherwise receive for the use of the T&D System in the event power from the GENCO facilities not otherwise used by LIPA is sold outside the Service Area or into an authorized retail choice market within the Service Area.

UTILITY RATES AND CHARGES

LIPA's retail rates generally reflect traditional rate designs and include daily service charges, block rate and time of use energy charges, demand charges for larger commercial and industrial customers, and several energy-based or percentage-based riders. Time of use rates are offered in both the residential and commercial customer classes, and economic development and load retention incentives are provided to a small number of commercial customers. A real time pricing experiment is in place for five large commercial users.

LIPA's retail rates became effective May 29, 1998, and, together with certain credits, reflected an average 20 percent across-the-board reduction from LILCO's prior base rates for all customers receiving standard retail tariff service. These reductions amounted to approximately $250 annually for an average residential customer and totaled $498 million annually for all retail customers. These new retail rates, together with certain credits, were designed to produce average revenues from retail electric sales ("Average System Rate") of 12.18 cents per kWh (compared to average revenues of 15.23 per kWh under LILCO). LIPA expects to maintain its base average rates at this initial level through May 2003.

The rates implemented by the Authority were based in large part on LILCO's previous rate designs to avoid potential confusion on the part of customers and to allow for a smooth and timely transition to LIPA billing. In addition to the basic tariffs, LIPA's rates include the FPPCA, a PILOT recovery rider, a Shoreham property tax adjustment rider, and a rider applicable to the RICO Credit, all as described

below. Miscellaneous service charges, pole attachment charges, and rental rates were maintained at their levels prior to the merger and acquisition without reductions.

Fuel and Purchased Power Cost Adjustment Clause

LIPA's rates include the FPPCA mechanism whereby rates may be adjusted to reflect significant changes in the cost of fuel, purchased power, and related costs. The FPPCA applies to all service classifications and is designed to ensure that LIPA will recover from or return to customers any fuel and purchased power costs that fall outside an established base fuel and purchased power tolerance band. For 1999, the tolerance band was equal to one percent above and one percent below LIPA's base cost of fuel and purchased power. The tolerance band increases one percent above and one percent below the base cost of fuel and purchased power each year after 1999. Should fuel and purchased power costs increase in excess of five percent cumulatively over the original base fuel and purchased power cost, the FPPCA will recover, from that year forward, all costs in excess of the original base cost. Exhibit 1 shows the estimated revenues that will be recovered through the FPPCA based upon the fuel and purchased power cost forecast incorporated in the estimated Operating Results.

Shoreham Property Tax Settlement Rider

The Shoreham property tax settlement will result in a rate differential between ratepayers in Nassau County and Rockaway Peninsula and ratepayers in Suffolk County. Initially, this differential is attributable to the smaller Shoreham credits provided to Suffolk County ratepayers. Beginning in May 2003, the differential is entirely attributable to the Shoreham surcharge on Suffolk County ratepayers. For additional information on the Shoreham property tax settlement, please see the section entitled "SHOREHAM PROPERTY TAX SETTLEMENT" in Part 2 of the Official Statement.

LIPA's rates include a rider that implements the Shoreham property tax settlement. The rider describes the calculation of percentage factors to be applied to bills, including the FPPCA portion thereof. Separate factors are established for Nassau County and the Rockaway Peninsula, and for Suffolk County to accomplish the goals of the Shoreham property tax settlement.

PILOT Payments Recovery Rider

LIPA's rates include a revenue tax factor to collect gross receipts taxes to be paid by LIPA in the form of PILOTs. Gross receipts taxes vary within the Service Area according to taxing jurisdiction. This rider is designed to recover the applicable gross receipts tax from each ratepayer. The PILOT payments recovery rider also accommodates the Metropolitan Transportation Authority Temporary Surcharge that LIPA pays as a PILOT.

RCAR Rider

The Ratepayer Class Action Refund ("RCAR") Rider, part of a settlement arising from a class action suit filed against LILCO, returns $60 million per year to customers through May 2000 (the "RICO Credit")[1]. The RICO Credit is applied as a percentage of customer electric bills. The Authority includes the RICO Credit in LIPA's rates, with full reimbursement from KeySpan.

[1] KeySpan has assumed responsibility for payments to customers of remaining obligations resulting from a civil lawsuit brought against LILCO under the federal Racketeer Influenced and Corrupt Organization Act ("RICO") which alleged that LILCO had made inadequate disclosures before the NYPSC concerning the construction of nuclear generating facilities.

Regional Comparison

Table 11 provides a comparison of average revenues per kWh for 1998, by revenue classification, for the major electric utilities in New York State, including LIPA. This table illustrates that the rate reduction adopted by the Authority has improved the level of rates paid by electric consumers relative to the retail rates of other New York utilities. Prior to the acquisition by LIPA, LILCO's rates were the highest for the major utilities in the State in all three customer categories. The average revenue per kWh presented for LIPA reflects the 20 percent rate reduction implemented by the Authority on May 29, 1998.

The comparisons shown in Table 11 do not take into account proposed or anticipated rate modifications that the New York State investor-owned utilities expect to implement as part of industry restructuring activities. These modifications are expected to range from base rate freezes to rate reductions of 25 percent, depending on the utility and the specific rate classification.

TABLE 11

COMPARISON OF AVERAGE UNIT REVENUES
(Cents per kWh) (1)

	Rate Classification		
	Residential	Commercial	Industrial
Consolidated Edison Company of New York	16.24	12.79	11.10
New York State Electric & Gas Corporation	13.92	11.53	7.68
Long Island Power Authority	13.45	11.12	NA(2)
Orange & Rockland Utilities Incorporated	12.87	8.95	5.57
Niagara Mohawk Power Corporation	12.46	10.55	4.80
Rochester Gas & Electric Corporation	11.80	9.99	6.83
Central Hudson Gas & Electric Corporation	11.09	8.13	5.48

(1) Reflects average revenues per kWh for calendar year 1998, except for LIPA, which represents 1999. Source: Federal Energy Information Administration, Form 861. These revenues do not reflect reductions approved or expected to be approved by the NYPSC as part of utility restructuring plans.

(2) The Service Area has little traditional "industrial" load. For LIPA, this rate classification has not been reported to FERC for 1998.

Open Access Transmission Tariff

On May 13, 1998, the Authority adopted an open access transmission tariff consistent with regulations issued by FERC. On November 18, 1999, the NYISO officially assumed control of the New York State bulk power system. The NYSIO is responsible for the safe and reliable operation of the New York State electric power system and for providing transmission service on a comparable and non-discriminatory basis. In its role as transmission service provider, the NYISO has adopted an open access transmission tariff ("OATT") for use of the New York State transmission system. Except in the case of grandfathered contracts, the NYISO OATT supersedes the transmission tariff adopted by LIPA.

OPERATING RESULTS

LIPA's estimated Operating Results for the Study Period are shown in Exhibit 1 of this Report. Estimated Operating Results shown in Exhibit 1 are presented on an accrual basis consistent with LIPA's financial statements. Also included in Exhibit 1 is a cash equivalent reconciliation of annual operating results and an estimate of Rate Stabilization Fund balances during the Study Period.

Estimated operating revenues shown in Exhibit 1 have been based on the demand and energy forecast discussed earlier and reflect a continuation of the rates recently adopted by the Board through 2002, with assumed annual increases of one percent per year thereafter. Included in estimated operating revenues, where appropriate, is the recovery or return of variations in fuel and purchased power costs through the FPPCA. Annual operating revenues also take into account the effects of the FPPCA, the Shoreham property tax settlement, the RICO Credit, and miscellaneous operating revenues.

Estimated revenue requirements shown in the Statement of Operations in Exhibit 1 include annual operating expenses, PILOTs, annual depreciation and amortization expense, and interest income and expenses. Estimated operating expenses have been developed based on the terms of the Agreements and the budgets adopted or approved for 2000. Estimated PILOTs reflect a continuation of recent historical tax levels applicable to the LIPA Assets and incorporate annual escalation rates consistent with LILCO's historical experience. Earnings on invested funds were developed based on estimated cash fund balances and are treated as an offset to annual revenue requirements. The cash-equivalent reconciliation of annual operating results includes annual debt service payments based on debt service schedules provided by the Authority's financial advisor for the Bonds, the Subordinated Indebtedness, and LILCO debt assumed by LIPA. Promissory notes receipts represent payments by KeySpan equal to the annual debt service payments on certain LILCO debt retained by LIPA.

Page 1 of Exhibit 1 presents LIPA's estimated Operating Results for the Study Period, as well as historical results for 1998 and 1999. Annual revenues are expected to be sufficient throughout the Study Period to meet annual revenue requirements and provide funds available for other purposes.

Included on page 2 of Exhibit 1 is a reconciliation of annual operating results to cash-equivalent results and a calculation of annual debt service coverage during the Study Period. The Authority's General Bond Resolution and General Subordinated Bond Resolution contain covenants that obligate LIPA to make PILOTs to State and local taxing jurisdictions. The priority of payments under the General Bond Resolution also specifies that payments of PILOTs are subordinate to debt service. Navigant Consulting's calculation of debt service coverage shown on page 2 of Exhibit 1 is consistent with this priority of payments.

Annual debt service coverage on the Authority's Bonds is estimated to range from 2.8 to 3.7 during the Study Period. Combined coverage levels for the Bonds and the Subordinated Indebtedness are expected to range from 2.2 to 3.0, and for LIPA's total annual debt service, including debt service on the Debentures and NYSERDA Financing Notes, from 2.0 to 2.7 during the Study Period.

Funds available after satisfaction of annual cash-equivalent revenue requirements are expected to be used in whole or part for the prepayment of a portion of the Authority's outstanding Bonds. Optional prepayment of the Authority's debt has been incorporated based on schedules provided by LIPA's financial advisor. Interest savings resulting from the prepayment of the Bonds are included in Exhibit 1 as a reduction in annual debt service requirements.

Page 3 of Exhibit 1 presents LIPA's actual and estimated Rate Stabilization Fund balance during the 1998 through 2008 period. Page 4 of Exhibit 1 presents average revenues per kWh under the rates adopted by the Trustees without the inclusion of the RICO Credit or the Shoreham Credits. On this basis, these rates represent an average reduction from LILCO's previous base electric rates of 16.6 percent initially and 15.1 percent for the ten-year period beginning May 29, 1998.

Sensitivity of Results

To assess the sensitivity of the Operating Results to changes in key variables, Navigant Consulting evaluated the impact of four additional cases, each of which address variables that are largely beyond LIPA's control and which could adversely affect net cash flow available from operations during the Study Period. The selection of these sensitivity cases is not an indication of expectation of their occurrence. The variables selected include fuel costs, system capacity and energy requirements, rates of increase in non-fuel costs, changes in interest rates, and loss of the highest fixed cost power supply source serving LIPA.

Presented below is a description of the sensitivity analyses performed by Navigant Consulting. In all cases, the rates charged by LIPA are assumed to equal those adopted by the Trustees on April 9, 1998, which, together with certain credits, reflect a 20 percent reduction from LILCO's base electric rates immediately prior to the Closing. These rates are assumed to be held constant by the Authority through May 2003, after which annual increases of 1.0 percent per year are included through 2008. In each of the sensitivity analyses, all of the financial and operating variables have been held at the levels reflected in the Base Case (as presented in Exhibit 1) except for those specifically discussed below. In addition, each of the sensitivity cases assumes the optional accelerated prepayment of prior Bonds in accordance with LIPA's estimated financial capacity to do so.

Case 1—Base Case: The Base Case represents the estimate of future Operating Results presented in Exhibit 1 of this Report. The Base Case provides a reference case from which to measure the changes in estimated Operating Results associated with the sensitivity analyses.

Case 2—Higher Fuel Cost: Under the Higher Fuel Cost case, LIPA's power supply costs have been modeled using commodity prices for fuel which reflect an immediate 10 percent increase for natural gas and 15 percent increase for fuel oil, with future price level changes tracking the Base Case annual percentage change. Under this case, the added cost of fuel and purchased power is expected to be subject to recovery in accordance with the provisions of the FPPCA.

Case 3—Lower Load Forecast: The Lower Load Forecast case reflects average annual growth in electric sales of approximately 1.0 percent. This growth rate compares to the 1.9 percent per year average increase incorporated in the Base Case. The lower growth rate reflected in this sensitivity case was based on an analysis of historical sales levels and is representative of the load forecast variance that has occurred historically.

Case 4—Higher Escalation Rate: The Base Case incorporates an annual escalation rate of 3.5 percent for most non-fuel and purchased power cost elements. In the Higher Escalation Rate case, an escalation rate of 4.5 percent has been used to test the sensitivity of the estimated Operating Results to changes in the escalation of these cost elements. This change affects certain costs occurring under the MSA and PSA, as well as non-fuel and purchased power costs under the EMA. Also included in this sensitivity analysis was a 100 basis point (one percent) increase in the escalation rates assumed for fuel and purchased power. Certain other costs included in the estimate of annual Operating Results are also affected by the increase in escalation rates.

Case 5—Higher Assumed Interest Rates: This sensitivity case measures an increase of 100 basis points in the interest rate on all Additional Bonds which are issued beginning in 2000, and an increase of 100 basis points in the interest rate on LIPA's variable rate indebtedness that has not been synthetically fixed.

Table 12 provides a comparison of key differences between the estimated Operating Results shown in Exhibit 1 for the Base Case and for the sensitivity cases.

TABLE 12

COMPARISON OF SENSITIVITY RESULTS (1)

	Bonds			Total Debt(5)	
	Cumulative Optional Accelerated Debt (Millions)(2)	Average Coverage Ratio(3)	Minimum Coverage Ratio(4)	Average Coverage Ratio(3)	Minimum Coverage Ratio(4)
Case 1—Base Case	$3,003	3.1	2.8	2.2	2.0
Case 2—Higher Fuel Cost	2,748	3.0	2.6	2.2	1.9
Case 3—Lower Load Forecast	2,435	2.8	2.7	2.1	2.0
Case 4—Higher Escalation Rate	2,681	3.0	2.7	2.2	2.0
Case 5—Higher Assumed Interest Rate	2,775	3.0	2.8	2.1	2.0

(1) All amounts are totals for the period January 1, 2000 through December 31, 2008, unless otherwise noted. All cases reflect LIPA's existing rates. LIPA's rates are assumed to be held constant through May 2003 and increased by one percent per year thereafter through 2008.

(2) Cumulative amount of unscheduled debt repayment made during the January 1, 2000 through December 31, 2008 period.

(3) Average debt service coverage for the period from January 1, 2000 through December 31, 2008.

(4) Minimum debt service coverage in any single year.

(5) Includes the Bonds, Subordinated Indebtedness, the Debentures, and the NYSERDA Financing Notes.

Compliance with PACB Conditions

The Authority agreed, in connection with the approval of the LIPA/LILCO Merger by the PACB, that it would comply with certain conditions established by the PACB. These conditions included (i) establishment of a plan for retail choice within the Service Area and the extension of that plan to all retail customers served by LIPA within 10 years of the PACB's approval of the LIPA/LILCO Merger; (ii) prohibition from LIPA purchasing the GENCO facilities pursuant to the rights afforded by the Agreements at a price greater than book value; (iii) LIPA's agreement not to impose any permanent increase (or to extend or reestablish any portion of a temporary rate increase) in average customer rates over a 12 month period in excess of 2.5 percent without approval of the NYPSC following a full evidentiary hearing; and a requirement that the Authority reduce average rates within the Service Area by no less than 14 percent over a ten-year period (commencing on the date that LIPA began providing electric service) when measured against LILCO's base rates in effect on July 16, 1997 (excluding the impact of the Shoreham property tax settlement, but adjusted to reflect emergency conditions and extraordinary unforeseeable events). Presented below is a brief description of the Authority's efforts to comply with these conditions:

Open Access

The Authority has implemented a plan for open access (retail choice), as described under the section in this Report entitled "SYSTEM POWER SUPPLY RESOURCES—Long Island Choice Program." This plan provides for:

- A framework for retail choice which provides for unlimited access to retail choice for all customers by 2003;

- Power suppliers that are required to be certified by LIPA to meet certain experience and performance requirements and with LIPA serving as "provider of last resort" to provide continued safety and reliability of T&D System operations;
- Residential customers provided with standardized bills and contracts for services (i) through LIPA's power supplier certification program; and (ii) with all billing coordinated through LIPA;
- Contractual protection of the T&D System workforce through the terms of the MSA; and
- The Authority's commitment to increasing the funding for energy efficiency and clean energy generation technology compared to historical expenditures by LILCO, beginning with a $32 million initial funding level, which is nearly three times the amount funded historically.

Generation Purchase Right Agreement

Under the Agreements, LIPA has a right to purchase the GENCO generating facilities in the fourth year of the Agreements at their fair market value. The Generation Purchase Right Agreement specifically provides for the terms of the PSA to be considered in determining fair market value of the generation assets. The PSA provides LIPA the right to purchase capacity from GENCO at cost-based rates for up to 15 years. The cost-based rates result in capacity costs under the PSA directly reflecting the depreciated book value of the GENCO facilities. To minimize customer costs, the Authority would be expected to exercise the option to purchase the GENCO generation assets only if there were alternative costs of power supplies available in the market, after accounting for the cost of acquiring the GENCO facilities, which would provide electric capacity and energy at lower costs than available under the PSA. In this event, the value established by the market would be below the book value-based capacity payment LIPA makes to GENCO under the PSA.

Average Rate Reduction of At Least 14 Percent

Exhibit 1 of this Report shows that, over a ten-year period commencing on May 29, 1998 (the date LIPA began providing electric service), LIPA is expected to achieve average rate reductions of approximately 15.1 percent when measured against LILCO's base retail rates in effect July 16, 1997 (the date of the PACB resolution approving the Agreements). These reductions exclude the impacts of the Shoreham property tax settlement, the RICO credits, and pass-through adjustments, such at the FPPCA.

NYPSC Approval of Certain Rate Increases

The estimated Operating Results shown in Exhibit 1 reflect annual operating revenues which assume that LIPA's existing rates will be held constant through May 2003 and will increase by one percent per year thereafter through 2008. The revenues computed on this basis are estimated to be sufficient to meet all of LIPA's annual revenue requirements, including debt service payments on the Bonds, and provide optional prepayment of a portion of the Bonds. These Operating Results are achieved without the need to increase LIPA's retail rates by more than the PACB's 2.5 percent threshold during any 12-month period.

SECURITY OF CUSTOMER REVENUE

As competition in the electric utility industry becomes a reality, customers are expected to increasingly focus on rate comparisons in assessing the reasonableness of the cost of retail electric service. As discussed previously, the rate reductions adopted by the Authority have substantially closed the gap between rates paid by electric consumers within the Service Area and the rates of the New York State investor-owned utilities. This change alone has improved LIPA's revenue security by reducing the

potential economic benefits of any measures LIPA's customers might consider in an effort to reduce their costs of electricity. Nevertheless, as other utilities reduce their rates under restructuring plans, increased customer focus on electricity costs warrants a careful consideration of the potential customers may have to either leave the T&D System or otherwise avoid the fixed costs of the T&D System.

Potential threats to LIPA's revenue security arise from actions or events which could reduce the long-term sale of capacity and energy which support the payment of LIPA's fixed costs. The potential conditions which could result in a reduction in LIPA's electric sales include (i) a permanent decline in individual customer demand and energy requirements; and (ii) customers permanently leaving the T&D System as a result of self-generation, direct bypass, or other measures. These conditions are described below.

Gas Competition for Electric Load

In reviewing the forecast of electric loads within the Service Area, Navigant Consulting gave consideration to the potential for impact to such forecast by the conversion of existing electric appliances and other electric end uses to natural gas. Several factors influence a customer's decision to make such a conversion, including (i) access to the local gas distribution network; (ii) the cost of natural gas versus electricity; (iii) the cost of conversion to natural gas end use, including the price of the gas appliance and the installation of in-house gas piping; (iv) the maturity of the gas appliance technology; and (v) non-economic factors, such as perceptions of safety and performance.

Electric space heating, central air conditioning, water heating, cooking, and clothes drying are typically the end uses that are theoretically considered most vulnerable to conversion to natural gas. According to saturation data previously developed by LILCO, electric clothes dryers and ranges are the only end uses within the Service Area with saturation levels in excess of 50 percent (61 percent and 52 percent, respectively). Electric space heating (5 percent saturation), electric water heating (12 percent saturation), and electric central air conditioning (21 percent saturation) are used in such small amounts that even if a significant percentage of such end uses converted to natural gas, the conversion would have a relatively minor impact on LIPA's annual operating revenues. However, the cost of converting individual homes or businesses to natural gas, which would include both the incremental cost of new end use appliances or equipment as well as the cost of connecting to the gas system and installing gas piping within the home or business, is likely to preclude the wide spread conversion of these end uses to natural gas.

In response to the conditions imposed by the PACB in approving LIPA's acquisition of LILCO, KeySpan agreed to invest $1.3 billion in energy-related and economic development projects and infrastructure projects in the counties of Queens, Nassau, and Suffolk over a 10-year period following the Closing. However, based on historical spending levels, a significant portion of this sum may be accounted for by normal capital expenditures by KeySpan in gas system infrastructure improvements, and therefore should not stimulate additional conversions of electric load to natural gas.

Retail Choice

The Long Island Choice plan has been developed in a manner that makes LIPA economically indifferent as to whether a customer selects LIPA or another power supplier to serve the customer's power supply needs. Under this plan, the Authority provides all of its customers with the option of selecting a party other than LIPA as their power supplier. Under any circumstance of retail choice, power delivered to a LIPA retail customer will continue to be delivered over the T&D System. The Authority's retail choice plan is designed to protect LIPA's ability to fully recover revenues to pay its

fixed costs. The Authority has adopted unbundled retail rates under which the costs of power supply that can be avoided as a result of retail choice is separated from the cost of delivering that power supply to the customer. Should a customer select an alternative power supplier, the customer pays for all of LIPA's costs, other than incremental power supply costs, in the delivery charge. Consequently, to the extent a customer selects a power supplier other than LIPA, LIPA's obligation to supply power to such customer is eliminated, as are the costs associated with power supply service to that customer.

LIPA provides capacity to customers where marketers are unable to secure sufficient or more economical capacity. Over time, incremental growth in LIPA's power supply requirements is expected to be increasingly served by the competitive market. Under this structure, LIPA is not expected to encounter revenue loss without a corresponding reduction in its power supply cost obligation.

Self-Generation

Customers could reduce LIPA's role of supplying and delivering electric capacity and energy through the installation of their own generating facilities. The economics of self-generation are greatly influenced by the characteristics of the capacity and energy sales displaced by the customer's generation. Self-generation is most attractive to customers who are high load factor energy users and can spread the fixed costs of self-generation over a large volume of energy usage. There are few customers of this nature within the Service Area. Exhibit 11 provides a summary of the peak demand and annual energy usage of the 20 largest electric users in the Service Area during 1999. As shown in Exhibit 11, the 20 largest customers during 1999 had combined energy sales and revenues of less than four percent of total energy sales and revenues, indicating that even the largest customers in the Service Area are generally not major, high load factor customers. Customers with low load factors face the burden of allocating substantial fixed capital costs and fixed annual operation and maintenance costs associated with self-generation over a relatively low total annual energy use. Such customers are generally not good candidates for self-generation. As shown in Exhibit 11, the largest individual customers with relatively high load factors served by LIPA are found in the health services and communications industries. These types of customers generally place a high value on electric service reliability and are less likely to be attracted to self-generation options in lieu of conventional electric system supply.

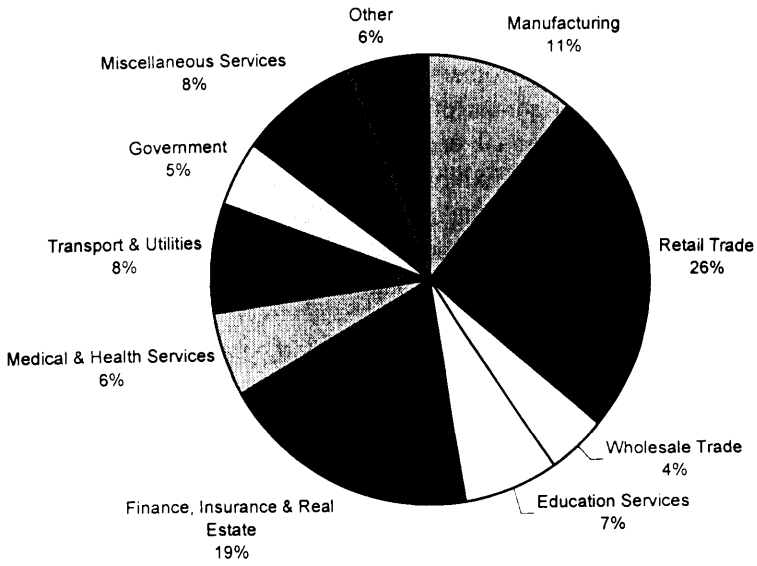
Figure 2 shows the distribution of the Service Area's historical commercial and industrial customer mix by type of business. The industry segments with the highest likely load factors are the manufacturing and health segments, which together comprise only 17.2 percent of total commercial and industrial electric revenue. Based on information for 1999, these customers represented approximately $158 million of annual revenue, or less than 7.5 percent of the total for the year. In addition, power supply costs are less than 47 percent of total annual revenue requirements. Therefore, power supply-associated revenues from the combined manufacturing and health sectors would approximate $74 million per year. Only a portion of the costs covered by this revenue would theoretically be subject to being stranded, even if the entire customer segments elected to self-generate. The remaining commercial and industrial customers are expected to have lower load factors and consequently even lower likelihood of self-generation. Without large, single electric loads to serve, there are few opportunities within the Service Area for the loss of significant electric sales through individual customer self-generation.

Absent large individual customer loads, the principal opportunities for self-generation are expected to involve either the (i) installation of generating plants with capacity larger than the individual customer loads, with the sale of excess generating output into the power supply market; or (ii) installation of very small generating plants to serve the typically smaller customer load within the Service Area. In over 20 years since the passage of the Public Utility Regulatory Policies Act of 1978, which created the opportunity to sell excess co-generation output into the power supply market, only three significant

cogeneration facilities have been constructed within the Service Area. These facilities were constructed to supply the individual customer's electrical needs, with excess electric output sold to LIPA. A total of approximately 201 MW of such capacity has been constructed within the Service Area in the past 22 years, with the last plant starting operation in 1996. Since 1993, approximately 53 MW of self-generation capacity has been installed on Long Island, of which 42 MW is the SUNY plant at StonyBrook. Therefore, other than this single plant, only 11 MW, or an average of less than 2 MW per year, of self-generation has been installed in the Service Area. This represents less than four one-hundredths of one percent of peak demand per year lost to self-generation. This self-generation, other than the unique StonyBrook co-generation plant, also has represented an average annual incremental loss of less than seven one-hundredths of one percent of annual energy requirements. Given the long history of high electric rates within the Service Area, the Authority's recent rate reduction of 20 percent is likely to decrease the prospect of additional projects of this type being developed.

FIGURE 2

Distribution of Sales from Commercial and Industrial Customers
(MWH Sales for 12 months ending 9/99)



Based on the profile of electric users within the Service Area, self-generation, if it were to occur, would likely be limited to the evolving small power generation technology. There are a number of potential situations in which customers could meet some or all of their power supply needs with their own generation resources. These situations include:

- Residential users meeting their needs with small distributed generation sources, such as photo voltaic power generating units, gas-fired "micro-turbines," gas-fueled fuel cells, or similar emerging technologies;

- Commercial or industrial users installing commercial scale small generation to serve their needs; and
- Groups of commercial and/or industrial customers within proximity to one another jointly installing larger scale generation to serve their collective needs (referred to herein as "cluster" self-generation).

These three situations address the range of circumstances in which the typically smaller customers could elect to provide their own power supply without forming a utility. In conjunction with the development of this Report, Navigant Consulting performed quantitative evaluations of the cost of three alternatives. These evaluations were targeted at commercial users and based upon the current cost of generation equipment of the size that generally matches the individual or "cluster" of customers, present fuel costs, assumed cost of capital and term for debt repayment, and the cost of acquiring either back-up power supply from LIPA or installing redundant generating capacity to provide back-up power supply at or near utility-grade levels of reliability.

Several power generation equipment vendors are seeking to enter the market of what is referred to as "micro-turbines," which, in presently available technology, are sized in the 28 kW to 75 kW range. This technology has recently become commercially available at costs which vendors claim are competitive with the cost of utility-supplied power sources. For purposes of Navigant Consulting's evaluation, the target size of customers, or cluster of customers, was assumed to be in the 28 kW to 300 kW level. This micro-turbine technology was used as an example of the cost and performance of generation that would be installed by small customers, or groups of small customers. The following three scenarios are expected to reasonably cover the range of situations where a small to medium-sized commercial customer or adjoining groups of customers might seek to install their own generation as a means to reduce their electric costs:

- Scenario 1--One 28 kW micro-turbine unit with firm gas supply and stand-by power provided by LIPA. The likely application for this scenario is a commercial building seeking more energy self-sufficiency with utility back-up power supply.
- Scenario 2--Two 75 kW micro-turbine units (to provide redundancy and allow disconnection from the grid), firm gas supply, and no stand-by power. This scenario provides for a "disconnect from the grid" approach to be totally self sufficient.
- Scenario 3--Five 75 kW micro-turbine units, with firm gas supply, and no stand-by power. One of the micro-turbine units would be used for redundancy. This scenario is the same as 2, but includes larger installed capacity in order to serve a cluster of users, such as a small commercial office park, to achieve some economies of scale. This scenario is expected to be representative of the costs to serve LIPA's larger commercial customers, if such situation could be achieved without the need to create a municipal utility.

Table 13 summarizes the estimated cost of power under each scenario. The costs set forth in Table 13 are based on the assumption that the customer would not be responsible for any of LIPA's stranded costs caused by its actions. To the extent legal recourse exists for LIPA to recover all or a portion of any of its stranded costs, the effective cost of self-generation to customers within the Service Area would be even higher than the estimates shown in Table 13.

TABLE 13

COMPARISON OF SELF-GENERATION POWER SUPPLY COSTS TO LIPA AVERAGE SYSTEM RATE
(Cents per kWh in 2000 Dollars)

	Gas	O&M Costs	Capital Costs	Taxes	Stand-By Power	Total Cost	LIPA Retail Rate(1)	Increase Over LIPA Retail Rate
1	8.9	0.7	4.7	2.3	3.0	19.6	13.6	6.0
2	7.1	0.7	5.6	2.8	--	16.2	13.6	2.6
3	6.0	0.4	4.3	2.2	--	12.9	11.0	1.9

(1) Based on service class 2L for Scenarios 1 and 2 and service class 2-MRP for Scenario 3.

In addition to its cost, the following issues would mitigate against self-generation occurring on a wide scale basis within the Service Area:

- Capital Commitment: Self-generation requires a significant capital commitment, with a likely term of debt or payback on investment of at least 10 to 15 years. This commitment is likely to be a major obstacle to widespread self-generation and would require substantial demonstrable, sustained net savings for customers to opt for the inconvenience of self-generation. The above estimates suggest adequate levels of savings are not available.
- Relatively Large Capacity: The size of most of the generation technologies with reasonable fuel efficiency and reliability as a sole, or primary, source of power supply is larger than needed to serve a single residence or small business. As an example, the micro-turbine equipment that is presently becoming available is generally being manufactured at a capacity of 28 to 75 kW or greater, as compared to the average peak demand for a residential dwelling of 5 kW to 15 kW. Small commercial customers under LIPA's present tariff are customers with 7 kW peak demand and below. Consequently, in most cases, individual customers would need to combine with other customers to aggregate their loads. This raises legal questions as to the creation of a local "utility." Furthermore, the effort required for multiple customers to jointly finance or contract for the equipment, construct a miniature distribution system, establish individual customer submetering and billing, and other practical problems would likely be an obstacle to the joint use of generation equipment.

Because self-generation would likely result in cost increases, and considering the above pragmatic obstacles to self-generation, it is unlikely additional self-generation will be installed in any meaningful numbers within the Service Area. To gain more knowledge of small self-generation technologies, LIPA plans to install and monitor several fuel cells on a demonstration basis. Fuel cells are another form of small-scale generating technology. The demonstration units will be pre-commercial technology. The demonstration program is intended to provide LIPA with additional, location-specific details concerning the installation and operation of such units.

Long Island Electrical Agencies

SCEA is a municipal power agency created by Suffolk County, New York, in 1983 for the purpose of purchasing gas or electric energy from state, municipal, or other entities for resale to gas and electric consumers within its boundaries. SCEA purchases limited amounts of hydropower and economic development power from NYPA for resale to residential customers and commercial and industrial

customers, respectively. Pursuant to an agreement entered into by LILCO and SCEA on November 14, 1985, and subsequently amended, power purchased from NYPA by SCEA has been transmitted, distributed, and billed by LILCO. This agreement was assumed by LIPA at Closing. Subsequently, LIPA agreed to an extension of the existing service at slightly revised prices. For calendar year 1999, energy purchased by SCEA from NYPA and resold to Suffolk County electric consumers was less than 0.2 percent of LILCO's retail electric sales for the same period.

The legal status and retail energy services provided by NCPUA are comparable to that provided by SCEA. Since 1986, NCPUA has purchased limited amounts of hydropower from NYPA for resale to residential customers in Nassau County. In accordance with an agreement dated November 14, 1985, and subsequently amended, between LILCO and NCPUA, which was assumed by LIPA at Closing, LIPA transmits, distributes, and bills for the NYPA power purchased by NCPUA. During 1999, the energy purchased by NCPUA and delivered to Nassau County residential users approximated 0.2 percent of LILCO's total annual energy sales.

On January 17, 1996, SCEA applied for an order from FERC requiring LILCO to provide firm network transmission service, as well as certain ancillary, billing, and collection services. SCEA is seeking transmission service to wheel SCEA-purchased electricity at 100 percent load factor from designated points of receipt on the T&D System to the homes of residential consumers now receiving full requirements service from LIPA. In a December 31, 1996 "Proposed Order Directing Transmission Services and Ordering Further Procedures," FERC ordered LILCO to provide transmission services to the extent necessary to accommodate SCEA's proposed sale of 200 MW of power to residential customers to which it was providing electric service on the date of enactment of the Energy Policy Act (October 24, 1992). FERC also ordered further proceedings to establish the rates, terms, and conditions of such service. Prior to the Closing, LILCO and SCEA were not able to reach an agreement on the rates, terms, and conditions of such service and referred their various disputes to FERC. FERC has not taken any action in this case and it is not certain when FERC will act on the matter or what action it will take. LIPA succeeded to LILCO's interest in the case upon Closing.

On March 3, 1998, LIPA received a letter from NCPUA requesting, under Section 211 of the FPA, firm transmission service for up to 300 MW of firm capacity and energy to be delivered to unspecified customers in Nassau County. LIPA reports that no further actions have taken place on this matter.

PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS

The results of the analyses performed in the preparation of this Independent Consultant's Report and the conclusions presented herein are predicated upon the general condition that the assumptions presented herein are reasonable and will continue, as stated, for the period covered by the analyses, without major modification or change. Although Navigant Consulting believes the assumptions made are reasonable, Navigant Consulting makes no representation that the assumed conditions will, in fact, occur. In this connection, Navigant Consulting's conclusions may be affected favorably or unfavorably by unforeseen future events, and therefore, to the extent conditions differ from those assumed herein, the results that will be achieved by LIPA will vary from those forecast. In addition, Navigant Consulting's studies, analyses, investigations, and projections have been based upon its understanding of certain documents and information provided to Navigant Consulting by the Authority, the Authority's legal, financial, and accounting advisors, KeySpan, and others. While Navigant Consulting believes these sources to be reliable, except as otherwise noted herein, they have not been independently verified for either accuracy or validity, and no assurances are offered with respect thereto. To the best of Navigant Consulting's knowledge, the data and summaries presented herein accurately reflect the information

furnished to Navigant Consulting by the Authority, the Authority's legal, financial, and accounting advisors, KeySpan, and others. Further, Navigant Consulting has assumed that all contracts, agreements, or ordinances that have been relied upon in the conduct of its investigations will be fully enforceable in accordance with their terms and conditions. Navigant Consulting makes no representations or warranties, and provides no opinion concerning the enforceability or legal interpretations of such contractual and legal requirements.

The assumptions on which this Independent Consultant's Report is based include, but are not limited to, the following:

1. The Authority will issue the Offered Securities for the purpose of providing a portion of the funds necessary to fund a portion of the Shoreham property tax settlement and the Additional Bonds as set forth in Exhibit 5. The Offered Securities and the Additional Bonds, along with debt already issued by the Authority, will require debt service payments as set forth in Exhibit 1.
2. KeySpan and its subsidiaries will carry out their obligations in accordance with the terms of the Agreements and the Promissory Notes.
3. LIPA will fund repairs, renewals, and replacements to the T&D System, and the Manager will make such repairs, renewals, and replacements in accordance with prudent utility practices and the MSA, as may be required to continue the safe and reliable operation of the T&D System.
4. New power supply resources will be available at the times and in the amounts shown in Exhibits 7 and 8 to meet the electric capacity and energy requirements of LIPA's customers, with adequate reserves for reliability.
5. LIPA's capacity and energy requirements, including the impacts of DSM, will increase as projected in Exhibits 7 and 8.
6. The Authority will retain staff, advisors, and consultants, as necessary, to carry out its responsibilities for financing, contract administration, planning, public relations, and other matters in connection with the ownership, operation, and maintenance of the LIPA Assets.
7. The Authority and the Shoreham Taxing Jurisdictions will implement the terms of the Shoreham property tax settlement as discussed in the section entitled "SHOREHAM PROPERTY TAX SETTLEMENT" in the Official Statement and as reflected in LIPA's retail rates.
8. The Authority will approve reasonable capital expenditures by GENCO, and GENCO will make repairs, renewals, and replacements in accordance with prudent utility practice and the PSA, as may be required to continue the reliable operation of GENCO's generating facilities.
9. All NMP2 co-tenants will provide operating and capital funds in a timely manner as needed to maintain the reliable, cost effective operation of NMP2 and to meet applicable regulations, including environmental and safety standards.
10. KeySpan will indemnify LIPA against all liabilities arising from all manufactured gas plant operations and LIPA will have no financial responsibility for the remediation or other correction of contamination from any manufactured gas plant site operation, nor liabilities associated with environmental contamination on, or emanating from, previous LILCO gas system properties or facilities.
11. Natural gas transportation facilities to deliver gas to and within the Service Area will be maintained, improved, and expanded to enable operation of the on-island generating facilities as

forecast by the Manager in its resource planning calculations and as provided in the PSA for the GENCO facilities, as well as for the IPPs and NYPA Flynn plant, for the Study Period.

12. LIPA will incur fuel and purchased power expenses, including escalation thereon, as set forth in Exhibit 1.

13. Third party costs, PILOTs, incentive payments, and escalation rates for labor and other costs, as applicable, associated with the MSA, PSA, and EMA will be as reflected in Exhibit 1.

14. Regulatory and other legal liabilities for which LIPA is ultimately responsible, if any, as a result of the allocation of liabilities between LIPA and KeySpan at Closing will be fully satisfied from insurance proceeds and/or the Rate Stabilization Fund and will not be funded from LIPA revenues during the Study Period.

15. LIPA's share of NMP2 decommissioning costs will increase from ABZ's estimate of 1996 costs at an average rate of no more than 3.0 percent per year and will be funded through annual deposits by LIPA of approximately $3.3 million and $1.4 million for the contaminated and non-contaminated portions, respectively, of NMP2. Annual earnings on the decommissioning funds held by or on-behalf of LIPA will average 5.0 percent.

16. LIPA will maintain the Rate Stabilization Fund at the levels shown in Exhibit 1 of this Report.

17. The Rate Stabilization Fund will be used for the purposes and in the amounts shown in Exhibit 1 of this Report for the Study Period.

18. LIPA will realize earnings on its invested funds, including the decommissioning funds, equal to the interest rates provided by the Authority's financial advisor, as reflected in Exhibit 1.

19. The Authority will adopt electric rates that provide debt service coverage levels at least equal to the minimum requirements set forth in the General Bond Resolution.

20. Consistent with the Authority's understanding of the PACB conditions, increases in the cost of electricity paid by LIPA's customers related to the Shoreham property tax settlement, the RICO Credit, and pass-through adjustments, such as the FPPCA, will not be considered in determination of LIPA's rate increases, or average rate reductions, for the purposes of compliance with certain conditions established by the PACB in its July 16, 1997 resolution, which require ten-year average rate reductions of no less than 14 percent, and require the approval of the NYPSC for rate increases during any 12-month period in excess of 2.5 percent.

21. Upon expiration or termination of the MSA and the EMA, LIPA will lease, purchase, or otherwise obtain rights to the use of the common facilities owned by KeySpan and used by the Manager and the Energy Manager to carry out their duties under the MSA and EMA, respectively, at costs which will be at or below the costs for such use reflected in the charges for the MSA and EMA.

22. The Authority will implement Phase 2 and Phase 3 of the Long Island Choice program, as described in the section "SYSTEM POWER SUPPLY RESOURCES—Long Island Choice Program" in this Report.

23. There will be no changes in applicable federal, State, or local laws that will establish new limits on the operation and maintenance of the GENCO or NYPA Flynn generating facilities during the Study Period.

24. The Authority will maintain regulations, policies, procedures, and rates and charges which will preclude the shifting of fixed costs among retail customers or rate classes as a result of individual customers or groups of customers electing to select power suppliers other than LIPA.

25. The Authority will retain the FPPCA through at least the end of the Study Period and will use it to recover variations in the average cost of fuel, purchased power, and load reduction program costs from LIPA's electric customers.

26. There will be no changes in regulations or policies of federal, State, or local agencies with jurisdiction over NMP2 that will cause new capital additions or operation and maintenance costs to exceed the estimated amounts of such costs reflected in Exhibit 1 of this Report.

27. NMP2 will operate at annual capacity factors comparable to the 1995 through 1997 period. All generic issues, including the reactor internals cracking issue, will be successfully addressed within the NMP2 plant modification budget forecast. NMP2's regulatory performance will be sufficient to make increased NRC regulation of NMP2 unnecessary.

28. Any legislation enacted by the federal government that provides for the restructuring of the electric utility industry will not preclude the use of tax-exempt debt by the Authority for the funding of the Shoreham property tax settlement, the funding of capital improvements, or for other purposes contemplated during the Study Period and will not preclude LIPA from owning or operating the LIPA Assets as contemplated in this Report.

CONCLUSIONS

On the basis of the foregoing considerations and assumptions and studies and analyses, Navigant Consulting concludes that:

1. The LIPA Assets, in combination with the common plant, the rights of LIPA under the Agreements, and the obligations of KeySpan and its affiliates, have provided and are expected to continue to provide LIPA with the facilities, labor, management, and related resources required to operate and maintain the T&D System in accordance with prudent utility practices and the requirements of the General Bond Resolution and the Subordinated Bond Resolution.

2. The reliability of the T&D System, as measured by the System Average Interruption Frequency Index, has improved dramatically during the 1993 through 1999 period as the result of programs previously undertaken by LILCO and continued by LIPA, and is equal to or better than the corresponding reliability levels of the transmission and distribution systems of the other five large electric utilities in the State of New York with predominately overhead electric transmission and distribution systems.

3. The T&D System is in good condition and, with maintenance and capital expenditures at levels reflected in Exhibit 1 of this Report, can be operated throughout the Study Period at levels of reliability consistent with those experienced by the T&D System during the 1995 through 1999 period. With continued maintenance and capital expenditures in accordance with prudent utility practice, the T&D System can reasonably be expected to achieve levels of reliability beyond 2008 that are comparable to those experienced during the Study Period.

4. Based upon NRC documents, FERC Form 1 filings, Niagara Mohawk Annual Reports to the NYPSC, and interviews with (i) NMP2 oversight staff; and (ii) the non-operating co-tenants' representatives, Navigant Consulting is not aware of regulatory compliance or operational problems with NMP2 which, after application of existing or planned corrective actions, would result in operating costs or capital expenditures materially different from those reflected in the estimated Operating Results as set forth in Exhibit 1 in this Report or which would jeopardize the operation of NMP2 through the end of its operating license.

5. LIPA's anticipated annual transfers to the NMP2 decommissioning fund, combined with the balances in such fund as of December 31, 1999, amounts accrued and to be deposited in the decommissioning fund, and interest accruals on the fund, will be sufficient to satisfy LIPA's share of the forecast of NMP2 decommissioning costs prepared during 1995 on behalf of Niagara Mohawk by ABZ Inc.

6. NMP2's non-fuel operation and maintenance costs, as reflected in Exhibit 1 of this Report, are comparable to the costs incurred at nuclear plants of similar design and vintage and can be expected to remain within the range of peer group costs throughout the Study Period. With maintenance and capital expenditures in accordance with prudent utility practices, NMP2's non-fuel operation and maintenance costs can reasonably be expected to continue within this range, adjusted for general inflation rates, beyond 2008.

7. Existing and additional power supply resources will be available to reliably meet the electric capacity and energy requirements of the T&D System for the Study Period.

8. Based on FERC Form 1 filings, historical operations and maintenance reports, interviews with power plant staff, and Navigant Consulting's observations of the GENCO generating unit sites and facilities, Navigant Consulting is not aware of regulatory compliance or operational problems with the GENCO generating units which would result in operating costs or capital expenditures materially different from those reflected in the estimated Operating Results shown in Exhibit 1 of this Report or which would jeopardize the operation of the GENCO generating units for the duration of the 15-year PSA.

9. With reasonable capital improvements and maintenance levels, as reflected in the estimated Operating Results, the GENCO facilities as a group will be able to operate near their present rated capacity and near their recent availability levels for the duration of the 15-year PSA.

10. In accordance with the provisions of the EMA, the Energy Manager has been and will continue to be able to secure sufficient natural gas and fuel oil supplies, transportation, and storage to deliver fuel to the GENCO generating units on behalf of LIPA as necessary to operate the GENCO plants at the rates of production, and at the times needed, to achieve the energy production assumed in the projected Operating Results in this Report.

11. The staff and management personnel employed by the Manager, GENCO, and the Energy Manager have, as a whole, extensive and varied experience operating and maintaining the LIPA Assets and the GENCO facilities, are highly qualified to perform the duties required of them by the Authority, and have been and are expected to continue to be able to fulfill their obligations under the Agreements, including the MSA, PSA, and EMA.

12. Through a combination of its own staff, outsourced professional services, and the Trustees' guidance, the Authority has been and is expected to continue to be able to provide appropriate policy, financial, and management control over the Manager, GENCO, and Energy Manager to operate and maintain the T&D System in accordance with prudent utility practices and to secure adequate power supply resources for LIPA's customers, all at expenditure levels consistent, on average, with those reflected in the estimated Operating Results set forth in Exhibit 1.

13. Incentives contained in the MSA provide an economic inducement for the Manager to maintain reliable service, read meters accurately and on a timely basis, answer customer calls promptly and respond effectively, and protect worker safety. When taken together, these incentives are expected to be sufficient to provide meaningful inducement to manage the T&D System and to successfully achieve the targeted levels of performance contained in the MSA.

14. The Authority can reasonably expect that there will be competition for the continuation of the types of services provided by the Manager under the MSA following its term, and that it will be able to retain a qualified manager of the T&D System at costs comparable to the fees paid the Manager under the MSA.

15. The Authority's implementation of the Long Island Choice program has not adversely impacted net revenues available during 1998 or 1999, nor is the Long Island Choice program, as described in this Report, expected to adversely impact net revenues available in the future, for the repayment of the Bonds, the Subordinated Indebtedness, the Debentures, and the NYSERDA Financing Notes.

16. Self-generation, in addition to that already in operation, is unlikely to result in a material reduction in LIPA's revenues available for debt service.

17. Conversion of existing electric end uses to natural gas is not likely to occur at levels that will materially affect the estimate of LIPA's annual capacity and energy requirements set forth in Exhibits 7 and 8.

18. Based upon information provided by KeySpan and independent review performed by and on behalf of Navigant Consulting, expected insurance proceeds and indemnification by KeySpan, together with other available moneys, provide LIPA access to funding levels consistent with prudent utility practice to remove environmental liabilities arising during the Study Period associated with the LIPA Assets which were known or suspected at the time of Closing.

19. The FPPCA provides an effective and consistent mechanism for recovering fuel, purchased power, and load reduction program cost variations from LIPA's electric customers.

20. Revenues from the sale of electricity and from other sources have been and are expected to continue to be sufficient to meet LIPA's annual revenue requirements, including debt service and debt service coverage requirements on the Bonds and the Subordinated Indebtedness during the Study Period.

21. Absent emergency conditions and extraordinary unforeseeable events, the Authority is expected to achieve average rate reductions of no less than 14 percent over a ten-year period commencing on the May 28, 1998 when measured against LILCO's base rates in effect July 16, 1997. These reductions exclude the impacts of pass-through adjustments such as those associated with the proposed Shoreham Settlement, the RICO Credit, and the FPPCA.

22. As shown in Exhibit 1, the Authority is not expected to implement an increase in average customer rates exceeding 2.5 percent over a 12-month period, within the Study Period.

23. The Authority has been and is expected to continue to be able to comply with the conditions of the July 16, 1997, PACB resolution approving the Agreements.

24. The assumptions upon which the estimated Operating Results shown in Exhibit 1 of this Report are based are reasonable for the purposes for which they have been relied on.

Exhibit 1
Long Island Power Authority
Projected Operating Results
Statement of Operations
($000)

	Historical		Estimated								
	1998 (1)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sales of Electricity (MWh) (2)	10,363,761	17,634,337	17,746,000	18,093,000	18,416,000	18,705,000	19,036,000	19,388,000	19,738,000	20,087,000	20,439,000
Revenues											
Retail Electric (3)	$1,352,326	$2,229,458	$2,242,513	$2,275,519	$2,319,406	$2,394,123	$2,486,091	$2,571,521	$2,644,141	$2,769,051	$2,849,261
Non-Product Sales (4)	21,560	38,275	9,346	9,826	10,176	8,396	8,612	8,791	8,975	9,164	9,357
Miscellaneous Revenues (5)	3,719	11,245	10,904	11,041	11,182	11,328	11,479	11,637	11,798	11,965	12,140
Total Revenues	$1,377,605	$2,278,978	$2,262,763	$2,296,386	$2,340,764	$2,413,847	$2,506,182	$2,591,949	$2,664,914	$2,790,180	$2,870,758
Expenses											
Fuel and Purchased Power Costs (6)	$408,192	$713,303	$681,701	$677,216	$698,871	$738,348	$736,443	$801,455	$778,588	$843,983	$862,766
Operations and Maintenance Expenses (7)	387,643	689,716	663,257	673,117	678,802	688,743	685,004	702,919	726,051	751,333	780,807
General and Administration Expense (8)	10,497	25,624	14,644	15,157	15,687	16,236	16,804	17,392	18,001	18,631	19,283
Operating Taxes (9)	157,561	244,767	242,935	243,456	244,631	253,805	267,440	279,934	292,368	307,548	321,360
Depreciation and Amortization (10)	122,022	210,025	225,243	230,913	235,565	239,814	244,159	248,542	252,988	257,527	262,158
Capital Recovery Amortization (11)	--	119,052	--	--	--	--	--	--	--	--	--
Customer Rebates (Recoverable) (12)	168,806	(164,006)	--	--	--	--	--	--	--	--	--
Regulatory Asset Amortization (13)	--	--	--	--	--	13,116	26,617	40,897	42,050	43,223	44,418
Total Expenses	$1,254,721	$1,838,481	$1,827,780	$1,839,859	$1,873,556	$1,950,062	$1,976,467	$2,091,139	$2,110,046	$2,222,245	$2,290,792
Operating Income	$122,884	$440,497	$434,983	$456,527	$467,208	$463,785	$529,715	$500,810	$554,868	$567,935	$579,966
Interest Income (14)	$33,471	$49,456	$44,998	$50,812	$51,457	$58,600	$61,478	$58,855	$60,411	$62,913	$64,025
Income from Continuing Operations Before Interest Charges	$156,355	$489,953	$479,981	$507,339	$518,665	$522,385	$591,193	$559,665	$615,279	$630,848	$643,991
Interest Charges (15)	232,484	338,749	$372,242	367,305	358,511	350,119	338,510	325,553	313,398	295,886	276,127
Excess of Revenues Over Expenses (16)	$(76,129)	$151,204	$107,739	$140,034	$160,154	$172,266	$252,683	$234,112	$301,881	$334,962	$367,864

Exhibit 1
Long Island Power Authority
Projected Operating Results
Debt Service Coverage
($000)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Excess of Revenues Over Expenses (17)	$107,739	$140,034	$160,154	$172,266	$252,683	$234,112	$301,881	$334,962	$367,864
Add:									
Deferred Fuel Costs (18)	$11,205	$8,274	$ --	$ --	$ --	$ --	$(51,225)	$(56,133)	$(76,298)
Deferred Fuel Cost Reconciliation (19)	--	(11,205)	(8,274)	--	--	--	--	51,225	56,133
Depreciation & Amortization (20)	225,243	230,913	235,565	239,814	244,159	248,542	252,988	257,527	262,158
Regulatory Asset Amortization (21)	--	--	--	13,116	26,617	40,897	42,050	43,223	44,418
Carrying Charge—Regulatory Asset (22)	(21,808)	(27,838)	(29,390)	(35,819)	(36,710)	(34,176)	(36,021)	(36,690)	(37,450)
Interest Charges (23)	372,242	367,305	358,511	350,119	338,510	325,553	313,398	295,886	276,127
Proceeds of the Offered Securities (24)	62,938	81,020	82,466	30,934	--	--	--	--	--
Payments in-Lieu of Taxes (25)	242,935	243,456	244,631	253,805	267,440	279,934	292,368	307,548	321,360
Less:									
Funding for NMP2 Decom (26)	$4,696	$4,696	$4,696	$4,696	$4,696	$4,696	$4,696	$4,696	$4,696
Bank & Related Fees (27)	12,090	12,090	12,090	12,090	12,090	12,090	12,090	12,090	12,090
Promissory Note Receipts (28)	(46,269)	(46,269)	(46,269)	(46,269)	(46,269)	(46,269)	(72,644)	(44,291)	(44,291)
Shoreham Settlement Credits (29)	62,938	81,020	82,466	30,934	--	--	--	--	--
Total Available for Coverage	$967,039	$980,422	$990,680	$1,022,784	$1,122,182	$1,124,345	$1,171,297	$1,225,053	$1,241,817
Senior Lien Debt Service (30)	$349,948	$337,255	$351,576	$350,061	$356,143	$350,683	$373,898	$368,933	$360,656
Coverage on Senior Lien Debt	2.8	2.9	2.8	2.9	3.2	3.2	3.1	3.3	3.4
Senior Lien and Subordinated Debt Service (31)	$433,291	$420,598	$434,919	$433,404	$439,486	$434,026	$457,241	$452,276	$443,999
Coverage on Senior Lien and Subordinated Debt Service	2.2	2.3	2.3	2.4	2.6	2.6	2.6	2.7	2.8
Total Debt Service (32)	$480,201	$466,867	$481,188	$479,673	$485,755	$480,295	$529,885	$496,567	$488,290
Coverage on Total Debt Service	2.0	2.1	2.1	2.1	2.3	2.3	2.2	2.5	2.5

Exhibit 1
Long Island Power Authority
Funds Available for Optimal Defeased/Tendered Debt, Working Capital, Capital Improvements, and Other Purposes
($000)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Funds Provided From:									
Excess of Revenues Over Expenses (33)	$107,739	$140,034	$160,154	$172,266	$252,683	$234,112	$301,881	$334,962	$367,864
Add Back:									
Deferred Fuel Costs (34)	$ 11,205	$ 8,274	$ --	$ --	$ --	$ --	$(51,225)	$(56,133)	$(76,298)
Deferred Fuel Cost Reconciliation (35)	--	(11,205)	(8,274)	--	--	--	--	51,225	56,133
Depreciation and Amortization (36)	225,243	230,913	235,565	239,814	244,159	248,542	252,988	257,527	262,158
Regulatory Asset Amortization (37)	--	--	--	13,116	26,617	40,897	42,050	43,223	44,418
Carrying Charge—Regulatory Asset (38)	(21,808)	(27,838)	(29,390)	(35,819)	(36,710)	(34,176)	(36,021)	(36,690)	(37,450)
Debt Service Interest Expense (39)	372,242	367,305	358,511	350,119	338,510	325,553	313,398	295,886	276,127
Proceeds of Additional Bonds (40)	206,342	171,291	139,348	144,216	145,886	147,147	150,354	153,572	156,800
Interest Savings Due to Optional Prepayment of Debt (41)	--	12,120	25,541	38,701	53,077	71,411	89,503	106,847	127,764
KeySpan Promissory Note Reimbursement (42)	46,269	46,269	46,269	46,269	46,269	46,269	72,644	44,291	44,291
Total Sources of Funds	$947,232	$937,163	$927,724	$968,682	$1,070,491	$1,079,755	$1,135,572	$1,194,710	$1,221,807
Funds Used For:									
Debt Service Payments (43)	$480,201	$478,987	$506,729	$518,374	$538,832	$551,706	$619,388	$603,414	$616,054
Transfer to Construction Fund (44)	206,342	171,291	139,348	144,216	145,886	147,147	150,354	153,572	156,800
Funding for NMP2 Plant Decommissioning (45)	4,696	4,696	4,696	4,696	4,696	4,696	4,696	4,696	4,696
Bank and Related Fees (46)	12,090	12,090	12,090	12,090	12,090	12,090	12,090	12,090	12,090
Total Uses of Funds	$703,329	$667,064	$662,863	$679,376	$701,504	$715,639	$786,528	$773,772	$789,640
Funds Available for Optional Defeased/Tendered Debt and Working Capital	$243,903	$270,099	$264,861	$289,306	$368,987	$364,116	$349,044	$420,938	$432,167
Rate Stabilization Fund (47)	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Total Funds Available for Optional Defeased/ Tendered Debt, Working Capital, Capital Improvements, and Other Purposes	$493,903	$520,099	$514,861	$539,306	$618,987	$614,116	$599,044	$670,938	$682,167

Note: Totals may not equal sum of components because of rounding.

Exhibit 1
Long Island Power Authority
Analysis of Revenue
Reduction From LILCO Rates

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Retail Sales of Electricity for Bundled Services (MWH)	17,587,000	17,934,000	18,257,000	18,546,000	18,877,000	19,229,000	19,579,000	19,928,000	20,280,000
Revenues									
Retail Sales Revenues—Bundled Services (Tariff Rates) ($000) (48)	$2,233,549	$2,277,618	$2,318,639	$2,369,081	$2,445,566	$2,516,081	$2,587,496	$2,659,955	$2,734,009
Average Sales Revenue in Cents per kWh	12.70	12.70	12.70	12.77	12.96	13.08	13.22	13.35	13.48
Year-to-Year Rate Increases (49)	0.00%	0.00%	0.00%	0.58%	1.00%	1.00%	1.00%	1.00%	1.00%
Percent Reduction from LILCO Rates (50)	16.6%	16.6%	16.6%	16.1%	14.9%	14.1%	13.2%	12.4%	11.5%

Note: Totals may not equal sum of components because of rounding.

Exhibit 1
Long Island Power Authority
Projected Operating Results

NOTES:

(1) Reflects results for the nine months ended December 31.
(2) Includes bundled and Long Island Choice electric sales.
(3) Includes bundled services and Long Island Choice services. RICO credits, Shoreham property tax settlement credits and surcharges, and FPPCA charges also included.
(4) Includes revenues from sales for resale and wheeling. Amounts for 1998 and 1999 reflect greater levels of sales for resale than assumed for the 2000 through 2008 period.
(5) Includes rents, pole attachment fees, postage-paid remittance envelope reimbursement, late payment charges, and other miscellaneous revenues.
(6) Includes LIPA's cost for fossil and nuclear fuel, cost of purchased capacity and energy, wheeling charges, and deferred fuel costs.
(7) Includes costs in accordance with the MSA, PSA, NMP2 operation and maintenance expenses, Clean Energy Program costs, legal and consulting fees, assessments, research and development, storm damage reserve, uncollectible accounts, customer service, economic development, postage-paid envelopes, and other miscellaneous expenses.
(8) Includes LIPA's general and administrative expenses, such as employee salaries and benefits, utilities, and rent.
(9) Includes payments in lieu of property taxes to various taxing jurisdictions for NMP2, the T&D System, and Shoreham, and gross receipts taxes.
(10) Consists of amortization of the acquisition adjustment, depreciation of plant-in-service, and payments to the NMP2 decommissioning fund.
(11) Additional amortization of the Acquisition Adjustment resulting from early retirement of acquisition-related debt.
(12) For 1998, reflects amounts expensed for rebate checks. For 1999, reflects the reversal of the 1998 expense less non-recoverable costs, and creation of the Shoreham property tax settlement regulatory asset.
(13) Amortization of the Shoreham property tax settlement regulatory asset.
(14) Interest earned on the balances in the Rate Stabilization Fund and Construction Fund at an assumed investment rate of five percent per year. Includes annual carry charge of the Shoreham property tax settlement regulatory asset.
(15) Interest expense on the Bonds, Subordinated Indebtedness, the Debentures, and NYSERDA Financing Notes. Also includes bank and letter of credit fees, debt administration costs, interest on customer deposits, and amortization of costs associated with Bond insurance and redemptions, less interest savings on optional defeased/tendered Bonds.
(16) Before gain on early extinguishment of debt of $7,721,000.
(17) From Exhibit 1, Page 1 of 5.
(18) Calculated in accordance with the FPPCA to be credited or charged to customers the following year.
(19) Recognition of deferred fuel costs as an expense in the year during which the corresponding FPPCA revenues are billed.
(20) See Note 10.
(21) See Note 13.
(22) Annual carry charge recorded on the Shoreham property tax settlement regulatory asset.
(23) See Note 15.
(24) Portion of the proceeds of the Offered Securities attributable to the Shoreham property tax settlement credits each year.
(25) From Exhibit 1, Page 1 of 5. See Note 9.
(26) Deposits to the NMP2 decommissioning fund.
(27) Bank fees, letter of credit fees, debt administration costs, and interest on customer deposits.
(28) Receipts from KeySpan Promissory Notes held by LIPA for repayment of certain assumed debt.
(29) Credits issued in accordance with the Shoreham property tax settlement.
(30) Debt service on the Bonds, less interest savings due to the optional prepayment of debt.
(31) Note 30 plus debt service on the Subordinated Indebtedness. The Subordinated Indebtedness consists of variable rate debt at an assumed interest rate of 4.2 percent per year, exclusive of letter of credit and remarketing fees.
(32) Note 31 plus debt service on the Debentures and NYSERDA Financing Notes.
(33) From Exhibit 1, Page 1 of 5.
(34) From Exhibit 1, Page 2 of 5.
(35) See Note 19.
(36) From Exhibit 1, Page 2 of 5.
(37) See Note 13.
(38) *See Note 22.*
(39) From Exhibit 1, Page 2 of 5.

Exhibit 1
Long Island Power Authority
Projected Operating Results

NOTES (continued):

(40) Proceeds of the Additional Bonds for capital projects.
(41) The anticipated debt services savings on the optional defeased/tendered debt. Assumes that all funds available for optional defeased/tendered debt and working capital are used for optional defeased/tendered debt.
(42) From Exhibit 1, Page 2 of 5.
(43) Debt service on the Bonds, Subordinated Indebtedness, the Debentures, and NYSERDA Financing Notes. Does not include debt service savings due to the optional defeased/tendered debt.
(44) Transfer of proceeds from the Additional Bonds to the Construction Fund.
(45) See Note 26.
(46) See Note 27.
(47) As defined in the General Bond Resolution and consistent with the Plan of Finance approved by the Board.
(48) Excludes impacts of RICO credit, Shoreham property tax settlement, and the FPPCA.
(49) Reflects a one percent annualized increase in June of 2003 and in January of each year thereafter.
(50) Rate reduction computed from LILCO's rates in effect July 16, 1997 (the date of the PACB's approval of the Agreements). Ten-year average reduction is 15.1 percent. Both LILCO's rates and LIPA's rates exclude the impact of pass through adjustments and RICO.

Exhibit 2

LONG ISLAND POWER AUTHORITY
HISTORICAL CUSTOMER STATISTICS (1)(2)

	1995	1996	1997	1998	1999
Number of Customers (3)					
Residential					
General	844,837	851,523	858,443	866,585	875,438
Other	70,325	69,407	68,435	67,142	65,999
Total Residential	915,162	920,930	926,878	933,727	941,437
Commercial and Industrial					
Small General	46,110	46,066	46,548	47,431	47,991
Large General	42,427	43,122	43,533	43,758	44,159
Large General and Industrial	3,825	3,947	4,075	4,180	4,277
Space Heating	4,942	4,939	4,909	4,860	4,827
Other	6,365	6,414	6,493	6,074	7,012
Total Commercial and Industrial	103,669	104,488	105,557	104,157	108,266
Public Lighting	4,419	4,465	4,563	4,715	4,755
Other Sales to Public Authorities	127	127	127	127	127
Interdepartmental	—	—	—	—	—
Total Number of Customers	1,023,377	1,030,010	1,037,126	1,042,726	1,054,585
Sales of Electricity (MWh) (4)					
Residential					
General	6,112,456	6,134,366	6,181,087	6,561,199	7,092,027
Other	1,043,774	1,068,333	1,003,218	967,355	1,011,683
Total Residential	7,156,230	7,202,699	7,184,305	7,528,554	8,103,710
Commercial and Industrial					
Small General	335,945	325,061	325,270	347,369	374,451
Large General	2,801,241	2,766,609	2,778,588	2,897,057	3,021,293
Large General and Industrial	4,698,522	4,649,189	4,702,390	4,808,204	5,154,765
Space Heating	352,507	345,327	330,469	328,965	338,076
Other	147,605	156,171	200,109	344,498	222,137
Total Commercial and Industrial	8,335,820	8,242,357	8,336,826	8,726,093	9,110,722
Public Lighting	182,812	185,204	186,183	186,009	178,762
Other Sales to Public Authorities	277,132	256,023	229,807	216,727	241,154
Interdepartmental	3,129	8,236	4,186	—	—
Total Sales of Electricity	15,955,123	15,894,519	15,941,307	16,657,383	17,634,338
Revenues from Sales of Electricity (4)(5)					
LILCO	$2,451,614	$2,430,512	$2,449,032	$ 892,686	$ —
LIPA	—	—	—	1,282,345	2,139,834
Average Revenue per kWh Sold (Dollars/kWh)					
LILCO	$0.1537	$0.1529	$0.1536	$0.1392[6]	$ —
LIPA (8)	—	—	—	0.1252[7]	0.1213

(1) Amounts prior to May 29, 1998, reflect LILCO operations.
(2) Amounts may not total due to rounding.
(3) Average numbers of customers for the year.
(4) Excludes Sales for Resale.
(5) Excludes *unbilled service and* RICO Credit. Includes FPPCA revenues.
(6) Based on January through May revenues, reflecting Winter season rates.
(7) Based on June through December revenues, which predominately reflect Summer season rates. Summer season rates are higher than those charged during the Winter season.
(8) Includes the effect of credits received by customers for the Shoreham property tax settlement and RICO.

Exhibit 3

ESTIMATED CAPITAL EXPENDITURES
($000)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Capital Improvements									
T&D System	$202,514	$166,611	$135,766	$140,455	$141,937	$142,825	$145,681	$148,595	$151,5(
NMP2 (1)	12,114	6,462	12,422	5,632	13,231	6,111	14,100	6,653	15,0
Total Capital Improvements	$214,628	$173,073	$148,188	$146,087	$155,168	$148,936	$159,781	$155,248	$166,6(

(1) Eighteen percent share of total NMP2 capital expenditures. Includes the capital cost of nuclear fuel purchased in each year. Nuclear fuel purcha are capitalized and expensed based on generation levels at NMP2.

Exhibit 4

GENCO GENERATING FACILITIES
SUMMARY DESCRIPTION

Facility	Nameplate Rating (MW)(1)	Target DMNC (MW)(2)	1999 Summer DMNC Rating (MW)(3)	Fuel	Year of Commercial Operation	County
Steam Turbine						
E.F. Barrett 1,2	350	386	390	Gas, Oil	1956, 1963	Nassau
Far Rockaway 4	100	110	108	Gas, Oil	1953	Queens
Glenwood 4,5	200	223	228	Gas	1952, 1954	Nassau
Northport 2,4	750	771	782	Gas, Oil	1968-1977	Suffolk
Northport 1,3	750	750	766	Oil	1967-1972	Suffolk
Port Jefferson 3,4	350	385	387	Gas, Oil	1958, 1960	Suffolk
Subtotal	2,500	2,625	2,661			
Combustion Turbine						
E.F. Barrett 1-12	311	282	295	Gas, Oil	1970-1971	Nassau
Wading River	242	242	243	Oil	1989	Suffolk
East Hampton 1	21	20	22	Oil	1970	Suffolk
Glenwood 1-3	126	117	119	Oil	1967-1972	Nassau
Holtsville 1-10	567	510	500	Oil	1974-1975	Suffolk
Northport G-1	16	14	14	Oil	1967	Suffolk
Port Jefferson G-1	16	15	16	Oil	1966	Suffolk
Shoreham	72	67	65	Oil	1966, 1971	Suffolk
Southampton 1	12	11	10	Oil	1963	Suffolk
Southhold 1	14	13	13	Oil	1964	Suffolk
West Babylon 4	52	47	47	Oil	1971	Suffolk
Subtotal	1,449	1,338	1,344			
Internal Combustion						
East Hampton 2-4	6	6	6	Oil	1962	Suffolk
Montauk 2-4	6	6	6	Oil	1961	Suffolk
Subtotal	12	12	12			
Total	3,961	3,973	4,017			

(1) Source: LILCO's 1996 Annual Report to the NYPSC.

(2) Average DMNC for the period 1993 through 1997, adjusted to 93°F. Numbers may not total due to rounding. Represents the combined rating for multiple unit stations. KeySpan conducted DMNC tests on most of the GENCO facilities during the summer of 1998. Although not complete, preliminary test results indicate the overall DMNC ratings of the GENCO facilities may have increased slightly from the values shown in this exhibit.

(3) Results of summer 1999 capability period tests, as reported by KeySpan, adjusted to 93°F. The higher of 1998 or 1999 test results for each generating unit have been used by KeySpan, as permitted by NYPP DMNC procedures.

Exhibit 5

ESTIMATED FINANCING REQUIREMENTS
($000)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Offered Securities (1)									
Capital Requirements	$315,000	--	--	--	--	--	--	--	--
Issuance Costs (2)	8,319	--	--	--	--	--	--	--	--
Total	$323,319	--	--	--	--	--	--	--	--
Additional Bonds (3)									
Capital Requirements (4)	$206,342	$171,291	$139,348	$144,216	$145,886	$147,147	$150,354	$153,572	$156,800
Issuance Costs (2)	4,128	3,429	2,787	2,884	2,919	2,948	3,006	3,073	3,135
Total	$210,470	$174,720	$142,135	$147,100	$148,805	$150,095	$153,360	$156,645	$159,935
Summary									
Capital Requirements (5)	$521,342	$171,291	$139,348	$144,216	$145,886	$147,147	$150,354	$153,572	$156,800
Issuance Costs (2)	12,447	3,429	2,787	2,884	2,919	2,948	3,006	3,073	3,135
Total	$533,789	$174,720	$142,135	$147,100	$148,805	$150,095	$153,360	$156,645	$159,935

(1) Bonds issued principally to finance a portion of the Shoreham property tax settlement.
(2) Includes original issue discount (if applicable), underwriter's discount, bond insurance, and/or other costs of issuance.
(3) Bonds issued principally to finance capital expenditures.
(4) Excludes capital expenditures for NMP2 nuclear fuel purchases, which are expected to be funded from net revenues.
(5) Total amounts financed during the Study Period for a portion of the Shoreham property tax settlement and capital expenditures.

Exhibit 6

HISTORICAL LOADS AND RESOURCES

	1995	1996	1997	1998	1999
Annual Peak Demand (Summer)(MW)(1)	4,077	3,610	4,140	4,208	4,590
Capacity (MW)(2)					
Generating Resources					
GENCO					
Steam	2,619	2,627	2,615	2,649	2,661
Other	1,338	1,351	1,367	1,369	1,373
Nuclear(3)	203	205	205	206	205
Total Generating Resources	4160	4,183	4,187	4,224	4,239
Purchased Capacity(4)	713	710	716	769	1,065
Total Capacity	4,873	4,893	4,903	4,993	5,304
Annual Reserve Margin					
MW	796	1,283	763	785	714
Percent	19.5%	35.5%	18.4%	18.7%	15.6%
Energy (MWh)					
Annual Energy Requirements					
Retail Requirements	17,266,798	17,179,744	17,197,532	17,892,766	18,750,955
Sales for Resale	620,021	527,360	418,584	365,495	562,982
Total Energy Requirements	17,886,819	17,707,104	17,616,116	18,258,261	19,313,937
Generating Resources					
GENCO					
Steam	9,256,730	8,606,806	9,549,059	10,057,411	11,622,214
Other	185,523	154,212	245,222	334,317	526,219
Nuclear(3)	1,301,240	1,558,397	1,588,477	1,305,869	1,571,110
Total Generating Resources	10,743,493	10,319,415	11,382,758	11,697,597	13,719,543
Purchased Energy(3)(4)	7,143,326	7,387,689	6,233,358	6,560,664	5,594,394
Total Energy Resources	17,886,819	17,707,104	17,616,116	18,258,261	19,313,937

(1) Includes firm sales for resale.
(2) Summer rating.
(3) LIPA's 18 percent share of NMP2.
(4) Includes on and off-island resources under contract at time of peak. Resources include capacity associated with IPPs, Fitzpatrick, Gilboa, and firm capacity purchased.
(5) Equal to total capacity less annual peak demand.

Exhibit 7

ESTIMATED CAPACITY REQUIREMENTS AND RESOURCES

(MW)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
SYSTEM DEMAND									
Peak Demand(1)	4,510	4,600	4,688	4,768	4,839	4,905	4,974	5,046	5,121
Less: Cogeneration and NYPA Loads(2)	(98)	(102)	(108)	(109)	(110)	(111)	(112)	(113)	(114)
Net Demand after Cogeneration and NYPA Loads	4,412	4,498	4,580	4,659	4,729	4,794	4,862	4,933	5,007
Less: DSM(3)	(42)	(53)	(35)	(55)	(64)	(69)	(77)	(88)	(102)
Less: Long Island Choice(4)	(26)	(26)	(26)	(26)	(26)	(26)	(26)	(26)	(26)
Net LIPA Load	4,344	4,419	4,519	4,578	4,639	4,699	4,759	4,819	4,879
Required Reserve Margin(5)	782	795	813	824	835	846	857	867	878
Required Minimum Capability	5,126	5,214	5,332	5,402	5,474	5,545	5,616	5,686	5,757
Planning Reserve POLR(6)	31	31	31	31	31	31	31	31	31
Total Required Capability	5,157	5,245	5,363	5,433	5,505	5,576	5,647	5,717	5,788
RESOURCES									
Generation									
GENCO Capacity(7)	4,008	3,973	3,973	3,973	3,973	3,973	3973	3973	3973
NMP2	205	205	205	205	205	205	205	205	205
Subtotal Generation	4,213	4,178	4,178	4,178	4,178	4,178	4,178	4,178	4,178
Non-Utility Generation									
Non-Dispatchable	213	213	213	213	213	213	213	213	213
Dispatchable (NYPA Flynn)	138	138	138	138	138	138	138	138	138
Subtotal Non-Utility Generation	351	351	351	351	351	351	351	351	351
Purchases									
NYPA (Fitzpatrick)	160	160	160	160	160	160	160	160	160
NYPA (Gilboa)	50	50	50	50	50	50	50	50	50
NYPA (Power for Jobs)	59	48	24	0	0	0	0	0	0
NYPA (Reserve Credits)	25	25	25	25	25	25	25	25	25
Firm Purchases (8)	100	40	40	0	0	0	0	0	0
New Generation Capacity	0	0	163	326	326	626	626	626	626
New Firm Purchases	250	440	440	400	462	250	350	400	450
Subtotal Purchases.	644	763	902	961	1,023	1,111	1,211	1,261	1,311
Total Capability	5,208	5,292	5,431	5,490	5,552	5,640	5,740	5,790	5,840
Reserve Margin (9)	19.2%	19.1%	19.5%	19.2%	19.0%	19.4%	20.0%	19.5%	19.1%

(1) Estimates for 2000 through 2008 represent weather normalized values.
(2) Includes customer cogeneration and loads served by NYPA.
(3) Reflects estimated reductions in peak arising from utilization of the peak load reduction program and various conservation initiatives.
(4) Coincident peak demand reductions associated with Long Island Choice. For resource planning purposes, these demand reductions are assumed to remain constant at 2000 levels throughout the Study Period.
(5) Equals 18 percent of Net LIPA Load. Actual requirement is expected to be less given factors currently being considered by the NYISO and its participants.
(6) LIPA is the provider of last resort ("POLR"). This adjustment reflects the impact of LIPA having to serve the Long Island Choice load as the POLR, if necessary.
(7) Value for 2000 based upon 1999 actual DMNC's, as reported to NYISO and used for determining resources for satisfying 2000 capacity requirement. For 2001through 2008, value is target level DMNC as established by the PSA (Article 2.6).
(8) Existing firm capacity purchases as of March1, 2000.
(9) Calculation of reserve margin based on Net LIPA Load plus Long Island Choice load.

Exhibit 8

ESTIMATED ENERGY REQUIREMENTS AND RESOURCES
(MWh)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
ERGY REQUIREMENTS									
stem Energy Requirements(1)	19,751,000	20,180,000	20,606,000	20,994,000	21,390,000	21,793,000	22,204,000	22,623,000	23,049,000
PA Loads(2)	(152,000)	(163,000)	(180,000)	(190,000)	(195,000)	(198,000)	(198,000)	(198,000)	(198,000)
generation Loads	(475,000)	(482,000)	(489,000)	(496,000)	(503,000)	(510,000)	(517,000)	(524,000)	(531,000)
M(3)	(25,000)	(64,000)	(118,000)	(180,000)	(209,000)	(225,000)	(253,000)	(290,000)	(332,000)
Total Energy Requirements	19,099,000	19,471,000	19,819,000	20,128,000	20,483,000	20,860,000	21,236,000	21,611,000	21,988,000
ERGY RESOURCES									
neration									
GENCO Capacity	9,438,194	9,626,522	8,997,904	9,518,980	9,305,489	8,232,998	8,159,162	8,625,802	8,627,665
NMP2	1,561,151	1,728,647	1,562,887	1,728,648	1,586,567	1,728,648	1,558,151	1,728,647	1,562,885
Subtotal Generation	10,999,345	11,355,169	10,560,791	11,247,628	10,892,056	9,961,646	9,717,313	10,354,449	10,190,550
n-Utility Generation									
Non-Dispatchable	1,725,599	1,731,710	1,728,106	1,725,899	1,731,001	1,407,213	1,384,792	1,385,071	1,392,711
Dispatchable (NYPA Flynn)	1,177,892	1,211,867	1,048,659	908,487	1,010,002	885,680	974,239	1,006,785	1,052,044
Subtotal Non-Utility Generation	2,903,491	2,943,577	2,776,765	2,634,386	2,741,003	2,292,893	2,359,031	2,391,856	2,444,755
rchases									
NYPA Purchase-Fitzpatrick	848,178	994,586	796,349	960,195	782,766	940,796	730,191	885,237	697,201
NYPA Purchase-Gilboa	74,940	51,555	91,347	83,189	77,242	74,916	65,902	61,267	65,547
NYPA Purchase-Gilboa Pumping Energy(4)	(107,727)	(73,140)	(130,457)	(118,836)	(110,239)	(107,315)	(94,531)	(87,582)	(93,732)
NYPA Upstate Surplus(5)	965,598	793,497	803,679	521,722	1,328,885	892,407	961,239	554,675	1,092,790
Net Economy (6)	3,340,068	3,278,965	4,762,985	4,470,707	4,464,896	4,375,705	4,918,084	4,915,756	4,907,925
Firm Purchases	75,107	126,791	51,410	56,409	0	319,824	319,824	319,824	319,608
New Generation Capacity	0	0	106,131	272,600	306,391	2,109,128	2,258,947	2,215,518	2,363,356
Subtotal Purchases	5,196,164	5,172,254	6,481,444	6,245,987	6,849,942	8,605,461	9,159,656	8,864,695	9,352,695
Total Resources	19,099,000	19,471,000	19,819,000	20,128,001	20,483,001	20,860,000	21,236,000	21,611,000	21,988,000

Before the effect of cogeneration and loads served by NYPA. Includes requirements of Long Island Choice customers.
Customers in the Service Area receiving energy from NYPA under existing NYPA programs.
DSM savings resulting from measures implemented during the Study Period.
Energy used for pumping water at the Gilboa Pumped Storage Facility.
Excess energy associated with the Fitzpatrick plant.
Short-term purchases net of short-term sales. Includes Gilboa Pumping Energy.

Exhibit 9

HISTORICAL GENCO GENERATION
(GWh) (1)

Generating Facility	1995	1996	1997	1998	1999
Steam Turbine					
E.F. Barrett 1,2	1,874.1	1,599.5	1,735.0	1,422.5	1,825.4
Far Rockaway 4	467.2	230.9	244.0	359.2	398.2
Glenwood 4,5	885.2	519.3	509.0	495.9	679.6
Northport 1-4	5,015.3	5,044.1	5,416.0	5,895.2	7,093.6
Port Jefferson 3,4	1,015.0	1,213.0	1,645.0	1,884.6	1,625.4
Total Steam Turbine	9,256.8	8,606.8	9,549.0	10,057.4	11,622.2
Combustion Turbine(2)					
E.F. Barrett 1-12	78.2	29.4	77.0	75.7	81.4
Wading River	43.6	79.1	86.0	106.3	169.0
East Hampton 1	4.6	2.3	6.0	11.5	12.8
Glenwood 1-3	3.0	5.7	6.0	6.0	16.4
Holtsville 1-10	49.7	32.5	63.0	112.0	199.4
Northport G-1	—	—	—	0.3	0.8
Port Jefferson GT	0.2	0.2	—	0.2	0.6
Shoreham 1-2	1.5	2.1	3.0	1.2	17.6
Southampton 1	0.3	0.2	1.0	6.2	7.4
Southhold 1	—	0.2	—	3.8	6.4
West Babylon 4	2.8	1.7	2.0	4.1	6.2
Total Combustion Turbine(2)	183.9	153.5	244.0	327.3	518.0
Internal Combustion					
East Hampton 2-4	1.1	0.4	—	4.1	4.2
Montauk 2-4	0.5	0.3	—	2.9	4.0
Total Internal Combustion	1.6	0.7	—	7.0	8.2
Total GENCO Resources	9,442.3	8,761.0	9,793.0	10,391.7	12,148.4

(1) Source: KeySpan. Amounts may not total exactly due to rounding.
(2) The output of some units is too small to include in the list, but is included in the totals.

Exhibit 10

EXISTING POWER PURCHASE AGREEMENTS(1)

Type of Resource	Contract Expiration	Summer Contract Capacity (MW)	Calendar Year Energy Purchases (MWh) 1995	1996	1997	1998	1999
Independent Power Producers							
NYPA Flynn(2)	2014	138.4(3)	1,165,289	1,095,048	1,186,047	1,200,418	1,025,718
Hempstead Resource Recovery	2009	70.0	552,796	553,968	558,741	548,854	566,244
Trigen NDEC Combined Cycle	2016	43.7	389,113	374,791	423,732	399,805	430,594
Gruman Combined Cycle	2004	38.3	302,490	301,431	352,660	357,372	352,047
Huntington Resource Recovery	2012	22.9	144,182	158,678	162,588	167,049	170,915
Babylon Resource Recovery	2008	14.7	105,261	107,647	109,677	105,831	106,582
SUNY-Stony Brook Cogeneration(4)	2015	—	109,941	142,680	109,200	119,933	111,424
Islip Resource Recovery(5)	2010	8.9	45,760	50,598	57,784	61,319	52,180
Oceanside Landfill	2006	3.0	23,355	19,942	18,040	15,035	12,663
Long Beach Resource Recovery	2008	2.5	10,958	9,533	2,657	—	—
Islip Landfill	2004	1.7	12,661	10,529	4,248	—	—
Yaphank Landfill	2008	2.7	8,138	2,572	13,325	24,007	25,207
Bethpage Landfill (Oyster Bay)	2010	1.3	5,954	5,167	4,518	3,870	2,542
Smithtown Landfill	2010	1.1	8,190	5,904	4,969	3,782	2,049
South Oaks Hospital	2005	0.2	5,144	4,354	4,235	4,318	3,487
Other(6)		0.9	4,749	1,499	1,687	1,255	1,299
Subtotal Independent Power Producers		350.3	2,893,981	2,844,341	3,014,108	3,012,848	2,862,951
Municipal Utilities							
Freeport		21.0	—	N/A(8)	N/A(8)	—	N/A(8)
Greenport		5.0	—	N/A(8)	N/A(8)	—	N/A(8)
Rockville Centre		8.0	—	N/A(8)	N/A(8)	—	N/A(8)
Subtotal Municipal Utilities		34.0	—	500	730	—	1,899
NYPA Off-Island							
Fitzpatrick & Gilboa		210.0	1,737,000	1,749,000	1,670,994	1,668,000	1,732,000
Reserve Credit (7)		25.0	—	—	—	—	—
Subtotal NYPA Off-Island		235.0	1,737,000	1,749,000	1,670,994	1,668,000	1,732,000
Total Power Purchases		619.3	4,630,981	4,593,841	4,685,832	4,680,848	4,596,850

(1) Data for 1995 through 1997 from NYPSC Annual Reports, FERC Form 1, and "1996 Load & Capacity Data Report of the Member Electric Systems of the NYPP." Data for 1998 and 1999 from KeySpan's Independent Power Management Department.
(2) Commercial generation began in 1994.
(3) Net dependable capacity was uprated from 136.4 MW based on 1996 DMNC test results.
(4) Commercial operation began in 1995.
(5) The contracts for the Islip Landfill and the Long Beach Resource Recovery were terminated in 1998.
(6) Various small contracts. Includes one contract terminated in 1998.
(7) Capacity only.
(8) Detail not available.

Exhibit 11

SUMMARY OF 20 LARGEST ELECTRIC SALES ACCOUNTS (1)
Calendar Year 1999

Rank	Classification of Business	Annual MWh	Non-Coincident KW	Revenue ($000s)	Annual Load Factor
1	Railroad	239,840	64,991	$ 21,807	42%
2	Health Services	55,329	9,357	4,656	68%
3	Government	34,781	6,510	3,117	61%
4	Miscellaneous Retail	27,986	5,605	2,624	57%
5	Electric, Gas, and Sanitary Services	26,626	3,686	2,390	83%
6	Government	25,590	6,166	2,288	47%
7	Real Estate	22,685	4,868	2,190	53%
8	Printing, Publishing, and Allied Industries	20,621	4,541	2,058	52%
9	Communications	20,561	3,120	2,069	75%
10	Real Estate	19,987	3,571	1,981	64%
11	Real Estate	18,338	3,877	1,917	54%
12	Educational Service	18,086	3,737	1,669	55%
13	Electric, Gas, and Sanitary Services	18,050	4,097	1,777	50%
14	Government	17,714	4,268	1,619	47%
15	Real Estate	16,505	3,629	1,733	52%
16	Health Services	16,190	3,174	1,505	58%
17	Amusement and Recreation Services	15,790	4,158	1,611	43%
18	Health Services	15,517	2,618	1,477	68%
19	Government	15,308	3,689	1,399	47%
20	Real Estate	13,982	4,670	1,648	34%
	Total	659,486	150,332	$ 61,535	
	1999 System Totals	17,634,337		$2,267,732	
	Percent of Total System	3.7%		2.8%	

(1) All accounts (except for the largest) are for single meters.

Long Island Power Authority and Subsidiaries

Consolidated Financial Statements
December 31, 1999 and 1998

Long Island Power Authority and Subsidiaries

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Long Island Power Authority Consolidated Financial Statements

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PRICEWATERHOUSECOOPERS

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Report of Independent Accountants

To the Board of Trustees
of Long Island Power Authority and Subsidiaries

In our opinion, the accompanying consolidated statements of financial position and of capitalization and the related consolidated statements of revenues, expenses and changes in retained earnings/ (accumulated deficit) and of cash flows present fairly, in all material respects, the financial position of Long Island Power Authority and its subsidiaries (collectively, the "Company") at December 31, 1999 and 1998, and the results of their operations and their cash flows for the twelve and nine months then ended, respectively, in conformity with accounting principles generally accepted in the United States. These consolidated financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

March 10, 2000

Consolidated Statements of Financial Position
(Thousands of Dollars)

	December 31, 1999	1998
Assets		
Utility Plant, net	$ 2,099,204	$ 2,071,482
Property and Equipment, net	1,042	822
Current Assets		
Cash and cash equivalents	165,135	517,264
Investments	364,007	-
Customer accounts receivable (less allowance for doubtful accounts of $19,480 and $20,211, respectively)	92,082	119,161
Other accounts receivable	10,830	10,096
Accrued unbilled revenues	97,623	78,414
Promissory note receivable	-	398,000
Interest Receivable	132	-
Prepayments and other current assets	53,657	28,790
Total Current Assets	783,466	1,151,725
Promissory Note Receivable	602,427	646,902
Designated Funds	1,268	194,972
Nonutility Property and Other Investments	20,149	19,410
Deferred Charges	75,744	78,507
Regulatory Asset	233,631	-
Acquisition Adjustment (net of accumulated amortization of $186,055 and $68,766, respectively)	3,790,405	4,026,956
Total Assets	$ 7,607,336	$ 8,190,776
Capitalization		
Long-term debt	$ 6,990,128	$ 7,487,018
Retained earnings/(Accumulated deficit)	58,870	(100,055)
Total Capitalization	7,048,998	7,386,963
Current Liabilities		
Current maturities of long-term debt	186,426	468,880
Due to KeySpan	46,755	75,040
Accounts payable and accrued expenses	121,340	42,623
Accrued taxes	42,135	79,021
Accrued interest	54,683	63,387
Customer deposits	23,094	23,205
Total Current Liabilities	474,433	752,156
Deferred Credits	74,638	34,059
Claims and Damages	9,267	17,598
Commitments and Contingencies		
Total Capitalization and Liabilities	$ 7,607,336	$ 8,190,776

The accompanying notes are an integral part of these financial statements.

Long Island Power Authority and Subsidiaries

Consolidated Statements of Revenues, Expenses and Changes in Retained Earnings/(Accumulated Deficit) (Thousands of Dollars)

	Twelve Months Ended December 31, 1999	Nine Months Ended December 31, 1998
Electric Revenue	$ 2,278,978	$ 1,377,605
Expenses		
Operations - fuel and purchased power	713,303	408,192
Operations and maintenance	689,716	387,643
General and administrative	25,624	10,497
Depreciation and amortization	210,025	122,022
Capital recovery amortization	119,052	-
Payments in lieu of taxes	244,767	157,561
(Rebates recoverable) and customer rebates	(164,006)	168,806
Total Operating Expenses	1,838,481	1,254,721
Excess of operating revenues over expenses	440,497	122,884
Other income and (deductions), net		
Investment income	30,431	33,720
Other	19,025	(249)
Total other income, net	49,456	33,471
Excess of revenues over expenses before interest charges and (credits) and extraordinary gain	489,953	156,355
Interest charges and (credits)		
Interest on long-term debt, net	306,966	223,852
Other interest	34,342	9,933
Allowance for borrowed funds used during construction	(2,559)	(1,301)
Total interest charges	338,749	232,484
Excess of revenues over expenses (expenses over revenues) before extraordinary gain	151,204	(76,129)
Gain on the early extinguishment of debt	7,721	-
Excess of revenues over expenses (expenses over revenues)	158,925	(76,129)
Retained earnings/(Accumulated deficit)		
Beginning	(100,055)	(23,926)
Ending	$ 58,870	$ (100,055)

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows
(Thousands of Dollars)

	Twelve Months Ended December 31, 1999	Nine Months Ended December 31, 1998
Operating Activities		
Excess of revenues over expenses (expenses over revenues)	$ 158,925	$ (76,129)
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by operating activities		
Gain on early extinguishment of debt	(7,721)	-
Depreciation and amortization	210,025	122,022
Capital recovery amortization	119,052	-
Amortization of cost of issuing and redeeming securities	9,439	1,705
Other	13,644	1,973
Changes in operating assets and liabilities		
Accounts receivable, net and accrued unbilled revenue	7,867	34,568
Accounts payable and accrued expenses	78,717	33,738
Regulatory asset	(233,631)	-
Net change in Due to KeySpan	(28,285)	(136,757)
Accrued taxes	(36,885)	56,358
Accrued interest	(8,705)	63,386
Other	(4,518)	45,573
Net cash provided by operating activities	277,924	146,437
Investing Activities		
Merger costs, net of cash transferred	-	(49,827)
Acquisition of common stock, net of $75,000 cash transferred	-	(2,422,500)
Purchases of investment securities, net of sales	(364,007)	-
Net cash used in investing activities	(364,007)	(2,472,327)
Cash Flows from Non-Capital related Financing Activities		
Proceeds from the issuance of bonds	-	163,500
(Repayment) of State of New York advances	-	(26,160)
(Repayment) of New York Power Authority advance	-	(9,000)
Net cash provided by non-capital related financing activities	-	128,340
Cash Flows from Capital and related Financing Activities		
Capital and nuclear fuel expenditures	(120,467)	(71,800)
Proceeds from notes receivable	442,475	3,000
Proceeds from the issuance of bonds	-	6,616,323
Redemption of long-term debt	(781,019)	(3,338,659)
Redemption of preferred stock	-	(221,600)
Bond issuance costs	-	(79,397)
Other	(739)	(3,991)
Net cash (used in) provided by capital and related financing activities	(459,750)	2,903,876
Net (decrease) increase in cash and cash equivalents and designated funds	(545,833)	706,326
Cash and cash equivalents and designated funds at beginning of period	712,236	5,910
Cash and cash equivalents and designated funds at end of period	$ 166,403	$ 712,236
Interest paid	$ 303,007	$ 305,993

The accompanying notes are an integral part of these financial statements.

ong Island Power Authority and Subsidiaries

onsolidated Statements of Capitalization
'housands of Dollars)

	Maturity	Interest Rate	Series	December 31, 1999	December 31, 1998
ectric System General Revenue Bonds					
erial Bonds	December 1, 1999 to 2016	4.10% to 6.00% a	1998A	$ 1,234,085	$ 1,279,965
axable Term Bonds	December 1, 1999	5.94% a	1998A	-	25,000
erm Bonds	December 1, 2018 to 2029	5.00% to 5.75% a	1998A	1,850,575	1,998,770
apital Appreciation Bonds	December 1, 2003 to 2028	4.40% to 5.30% a	1998A	157,662	150,095
erial Bonds	April 1, 2000 to 2016	4.00% to 5.25% a	1998B	1,256,655	1,256,655
erm Bonds	April 1, 2018	4.75% a	1998B	57,145	57,145
ectric System Subordinated Revenue Bonds					
	May 1, 2033	5.75% b	Series 1	250,000	250,000
	May 1, 2033	5.50% b	Series 2	250,000	250,000
	May 1, 2033	3.65% b	Series 3	250,000	250,000
	May 1, 2033	3.75% b	Series 4	250,000	250,000
	May 1, 2033	4.70% b	Series 5	250,000	250,000
	May 1, 2033	4.75% b	Series 6	250,000	250,000
	April 1, 2025	4.21% b	Series 7	250,000	250,000
	April 1, 2001 to 2008	4.00% to 5.00% a	Series 8	218,300	218,300
tal General and Subordinated Revenue Bonds				6,524,422	6,735,930
bentures					
	July 15, 1999	7.30% a		-	397,000
	January 15, 2000	7.30% a		278	278
	July 15, 2001	6.25% a		8,460	8,460
	March 15, 2003	7.05% a		5,890	5,890
	March 1, 2004	7.00% a		2,989	2,999
	June 1, 2005	7.13% a		14,307	14,307
	November 1, 2022	9.00% a		26,542	26,877
	March 15, 2023	8.20% a		270,000	270,000
tal Debentures				328,466	725,811
/SERDA Financing Notes					
llution Control Revenue Bonds	December 1, 2006	7.50% a	1976 A	-	26,375
	December 1, 2009	7.80% a	1979 B	-	19,100
	March 1, 2016	5.15% c	1985 A,B	108,020	138,120
ctric Facilities Revenue Bonds	September 1, 2019	7.15% a	1989 A,B	35,030	35,030
	June 1, 2020	7.15% a	1990 A	73,900	73,900
	December 1, 2020	7.15% a	1991 A	26,560	26,560
	February 1, 2022	7.15% a	1992 A,B	13,455	13,455
	August 1, 2022	6.90% a	1992 C,D	28,060	28,060
	November 1, 2023	5.30% c	1993 B	29,600	50,000
	October 1, 2024	5.30% c	1994 A	2,600	50,000
	August 1, 2025	5.30% c	1995 A	15,200	50,000
tal NYSERDA Financing Notes				332,425	510,600
amortized premium and deferred amortization				(8,759)	(16,443)
tal Long-Term Debt				7,176,554	7,955,898
ss Current Maturities				186,426	468,880
ng-Term Debt				6,990,128	7,487,018
~~tained Earnings/(Accumulated Deficit)~~				58,870	(100,055)
tal Capitalization				$ 7,048,998	$ 7,386,963

Fixed rate

Variable rate (rate presented is at December 31, 1999)

Fixed rate at December 31, 1999 and variable rate at December 31, 1998 (rate presented is at December 31, 1999)

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Note 1. Basis of Presentation

The Long Island Power Authority was established as a corporate municipal instrumentality of the State of New York, constituting a political subdivision of the State, created by Chapter 517 of the Laws of 1986 (the "Act"). As such, it is a component unit of the State and is included in the State's annual financial statements.

As used herein, the term "LILCO" refers to the Long Island Lighting Company, the publicly owned gas and electric utility company as it existed prior to the LIPA/LILCO Merger, as described in Note 2, and the term "LIPA" refers to that company as it exists after the LIPA/LILCO Merger, as a wholly-owned electric utility subsidiary company of the Long Island Power Authority (the "Authority"), doing business as LIPA. LIPA has 1 share of $1 par value common stock authorized, issued and outstanding, which is held by the Authority and eliminates in consolidation.

In October 1994, a not-for-profit subsidiary corporation, LIPA Resources, Inc. was formed under Section 402 of the Not-For-Profit Corporation Law. The subsidiary was formed for the purpose of marketing the Authority owned assets and providing consulting services by using the expertise developed by the Authority in decommissioning a fully licensed commercial nuclear plant. LIPA Resources, Inc. was inactive during the fiscal year ended December 31, 1999 and the nine months ended December 31, 1998 and had no assets or liabilities as of December 31, 1999 and 1998.

Subsequent to the LIPA/LILCO Merger, the Authority and its subsidiaries, LIPA and LIPA Resources, Inc. (collectively, the "Company"), changed from a March 31 year-end to a December 31 year-end. The 1998 results reflect nine months of operations and the 1999 results reflect twelve months of operations.

Note 2. Merger/Change in Control/Nature of Operations

Merger/Change in Control

On May 28, 1998, LIPA Acquisition Corp., a wholly-owned subsidiary of the Authority, was merged with and into LILCO (the "Merger") pursuant to an Agreement and Plan of Merger dated as of June 26, 1997, by and among LILCO, MarketSpan Corporation (formerly known as BL Holding Corp., and currently known as KeySpan Energy, "KeySpan"), and the Authority, (the "Merger Agreement").

Pursuant to the Merger Agreement, immediately prior to the Merger, all of the assets and liabilities of LILCO related to the conduct of its gas distribution business and its non-nuclear electric generation business, and all common assets used by LILCO in the operation and management of its electric transmission and distribution business and its gas distribution business and/or its non-nuclear electric generation business (the "Transferred Assets") were sold to KeySpan.

As a result of the Merger, the Authority became the holder of 1 share of LILCO's common stock, representing 100% of the outstanding voting securities of LILCO. In addition, KeySpan issued promissory notes to LIPA of approximately $1.048 billion. The interest rate and timing of principal and interest payments on the promissory notes from KeySpan are identical to the terms of certain LILCO indebtedness assumed by LIPA in the Merger. KeySpan is required to make principal and interest payments to LIPA thirty days prior to the corresponding payment due dates, and LIPA then transfers those amounts to debtholders in accordance with the original debt repayment schedule.

The cash consideration required for the Merger was obtained by the Authority from the proceeds of the issuance and sale of its Electric System General Revenue Bonds, Series 1998A and Electric System Subordinated Revenue Bonds, Series 1 through Series 6. The proceeds from the sale of the bonds were then transferred by the Authority to LIPA in exchange for a promissory note of approximately $4.949 billion. As a result of the Merger, there was a change in control of LILCO which effectively resulted in the creation of a new reporting entity, LIPA.

The remaining assets and liabilities of LILCO acquired by LIPA consist of: (i) LILCO's electric transmission and distribution system; (ii) its net investment in Nine Mile Point Nuclear Power Station, Unit 2 ("NMP2"); (iii) certain regulatory assets and liabilities associated with its electric business, (iv) allocated accounts receivable and other assets and liabilities; and (v) substantially all of its long-term debt.

Because of the manner in which LIPA's rates and charges are established by the Authority's Board of Trustees, the original net book value of the transmission and distribution and nuclear generation assets acquired in the Merger is considered to be the fair value of these assets. The excess of the acquisition costs over the fair value of the net assets acquired has been recorded as an intangible asset titled "acquisition adjustment" and is being amortized over a 35 year period. The acquisition adjustment arose principally through the elimination of LILCO's regulatory assets and liabilities, totaling $6.3 billion, and net deferred federal income tax liability of approximately $2.4 billion. The balance of the acquisition adjustment is approximately $3.8 million and $4.0 million at December 31, 1999 and 1998, respectively.

Effective May 29, 1998, LIPA contracted with KeySpan to provide operations and management services for LIPA's transmission and distribution system through a management services agreement ("MSA"). Therefore, LIPA pays KeySpan directly for services and KeySpan, in turn, pays the salaries of their employees. LIPA has no employees; however, LIPA is charged a management fee by the Authority to oversee LIPA's operations. LIPA contracts for capacity from the fossil fired generating plants of KeySpan through a power supply agreement ("PSA"). Energy and fuel are purchased by KeySpan on LIPA's behalf through an energy management agreement ("EMA") (collectively; the "Operating Agreements").

The electric transmission and distribution system is located in the New York Counties of Nassau and Suffolk (with certain limited exceptions) and a small portion of Queens County known as the Rockaways ("Service Area"). The Service Area covers an area of approximately 1,230 square miles and the population of the service area is approximately 2.75 million persons. LIPA receives approximately 50% of its revenues from residential sales, 47% from sales to commercial and industrial customers, and the balance from sales to other utilities and public authorities.

Nature of operations

LIPA, as owner of the transmission and distribution system and as party to the Operating Agreements, conducts the electric business in the Service Area. The Authority is responsible, however, for administering, monitoring and managing the performance by all parties to the Operating Agreements.

The Authority and LIPA are also parties to an Administrative Services Agreement which describes the terms and conditions under which the Authority provides personnel, personnel-related services and other services necessary for LIPA to provide electric service in the Service Area.

As compensation to the Authority for the services described above, the Authority charges LIPA a monthly management fee equal to the costs incurred by the Authority in order to perform its obligations under the agreements described above.

Note 3. Summary of Significant Accounting Policies

General
The Company complies with all applicable pronouncements of the Governmental Accounting Standards Board ("GASB"). In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Company also complies with all authoritative pronouncements applicable to non-governmental entities (i.e., Financial Accounting Standards Board ("FASB") statements) that do not conflict with GASB pronouncements.

Principles of Consolidation
The consolidated financial statements include the accounts of the Authority and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Accounting for the Effects of Rate Regulation
Under current New York law, the Authority's Board of Trustees is empowered to set rates for electric service in LIPA's Service Area without being required by law to obtain the approval of the Public Service Commission ("PSC") or any other State regulatory body.

The Company is subject to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." This statement recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, the Company records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively.

In order for a rate-regulated entity to continue to apply the provisions of SFAS No. 71, it must continue to meet the following three criteria: (1) the enterprise's rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers; (2) the regulated rates must be designed to recover the specific enterprise's costs of providing the regulated services; and (3) in view of the demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers.

Based upon the Company's evaluation of the three criteria discussed above in relation to its operations, and the effect of competition on its ability to recover its costs, the Company believes that SFAS No. 71 continues to apply.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process. During 1999, the Company recorded a regulatory asset totaling approximately $234 million in connection with an agreement with Suffolk County, Town of Brookhaven, Shoreham-Wading River Central School District, Wading River Fire District and Shoreham-Wading River Library District (which was succeeded by the North Shore Library District)(collectively, the "Suffolk Taxing Jurisdictions") and Nassau County, as discussed in Note 11.

If the Company had been unable to continue to apply the provisions of SFAS No. 71, at December 31, 1999, the Company estimates that approximately $4.0 billion would have been written off at such time.

Utility Plant and Property and Equipment
Utility plant was stated at fair value at the date of the Merger. Additions to and replacements of utility plant are capitalized at original cost, which includes material, labor, indirect costs associated with an addition or replacement, plus an allowance for funds used during construction. The cost of renewals and betterments relating to units of property is added to utility plant. The cost of property replaced, retired or otherwise disposed of is deducted from utility plant and, generally, together with dismantling costs less any salvage, is charged to accumulated depreciation. The cost of repairs and minor renewals is charged to maintenance expense. Mass properties (such as poles, wire and meters) are accounted for on an average unit cost basis by year of installation.

Property and equipment represents leasehold improvements, office equipment and furniture and fixtures of the Authority.

Depreciation
The provisions for depreciation for utility plant result from the application of straight-line rates by groups of depreciable properties in service. The rates are determined by age-life studies performed on depreciable properties. The depreciation rate as a percentage of average depreciable plant costs was 2.9% in 1999 and 1998.

Leasehold improvements are being amortized over the lesser of, the life of the assets or the term of the lease using the straight-line method. All other property and equipment are being depreciated over their estimated useful lives (5 years) using the straight-line method.

Allowance for Borrowed Funds Used During Construction
The allowance for funds used during construction ("AFC") is the net cost of borrowed funds used for construction purposes. AFC is not an item of current cash income. AFC is computed monthly on a portion of construction work in progress. The average AFC rate for the fiscal year ended December 31, 1999 and 1998 was 4.76% and 4.71%, respectively.

Cash and Cash Equivalents, Designated Funds and Investments
Funds are held in an investment pool that is administered in accordance with the Authority's investment guidelines pursuant to Section 2925 of the New York State Public Authorities Law. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities. Certain cash and cash equivalents have been designated by the Authority's Board of Trustees to be used for specific

purposes, including debt services capital expenditures and clean energy initiatives. Investments are reported at amortized cost which approximates fair market value.

Deferred Charges
Deferred charges consists primarily of bond issue costs related to the issuance of the Authority's Electric System General Revenue Bonds and Subordinated Revenue Bonds that are being amortized on a straight line basis over the life of the bonds.

Acquisition Adjustment
Represents the difference between the purchase price paid and the net assets acquired from LILCO. The acquisition adjustment is being amortized and recovered through rates on a straight line basis using a 35-year life.

During the year ended December 31, 1999, LIPA generated sufficient cash flow to allow it to purchase, via a tender offer, approximately $148.2 million of 1998 Series A Bonds. As these bonds were used to acquire the assets of LILCO, and thereby created the acquisition adjustment, the early retirement of such debt reflects the advance recovery of costs and as a result, LIPA recorded accelerated amortization of the acquisition adjustment in 1999 totaling approximately $119 million.

Fair Values of Financial Instruments
The Company's financial instruments approximate their fair market value at December 31, 1999 and 1998. The fair values of the Company's long-term debt are based on quoted market prices.

Revenues
Revenues are comprised of cycle billings rendered to customers, based on meter reads, and the accrual of electric revenues for services rendered to customers not billed at month-end.

Fuel and Purchased Power Cost Adjustment ("FPPCA")
LIPA's rates include the FPPCA mechanism whereby rates may be adjusted to reflect significant changes in the cost of fuel, purchased power and related costs. The FPPCA is designed to allow LIPA to recover from or return to customers any fuel costs that fall outside an established base fuel and purchased power tolerance band. The tolerance band is equal to one percent above and one percent below LIPA's base cost of fuel and purchased power costs for 1999. The tolerance band increases to two percent in 2000 and will continue to increase in one percent increments annually thereafter. Expenses for fuel and purchased power costs in excess of or below this level may be recovered from or returned to customers beginning the following year. Should fuel and purchased power costs increase in excess of five percent cumulatively over the original base cost, the FPPCA may recover, from that year forward, all costs in excess of the original base.

Under LIPA's current tariffs, the measurement of the under or over recovery of fuel costs was scheduled to begin January 1, 1999. For the year ended December 31, 1999, LIPA's fuel costs fell within the limits of the 1999 tolerance band, therefore, no FPPCA adjustment was necessary. During the period ended December 31, 1998, LIPA recovered from customers approximately $22 million more for fuel than was incurred. In order to preserve this benefit for customers, LIPA recorded a liability in 1998 for the full amount of the over recovery. This amount is included in deferred credits.

Notes to Consolidated Financial Statements

Income Taxes
The Authority is a political subdivision of the State of New York and, therefore, the Authority and its subsidiaries are exempt from Federal, state and local income taxes.

Payments-in-lieu-of-taxes
The Company is required to make payments-in-lieu-of-taxes ("PILOTS"), for all operating taxes previously paid by LILCO, including gross income, gross earnings, property, Metropolitan Transportation Authority and certain taxes related to fuels used in utility operations. PILOTS include payments to municipalities and school districts in which the defunct Shoreham power plant is located. Shoreham related PILOTS paid in the first year following the Authority's acquisition of Shoreham, which occurred on February 29, 1992, were equal to the taxes and assessments which would have been paid had Shoreham not been transferred to the Authority. In each succeeding year through 1999, Shoreham related PILOTS have been reduced by ten percent of the first year's required payment.

With the implementation of the Shoreham Settlement Agreement ("Settlement Agreement") discussed in Note 11, PILOTs for the Shoreham plant will be paid as follows:

Payment Date	Dollars	Period Covered
2/1/2000	$14,307,472	3/1/99-8/31/99
3/1/2000	12,268,000	9/1/99-2/28/00
9/1/2000	8,179,000	3/1/00-8/31/00
3/1/2001	8,179,000	9/1/00-2/28/01
9/1/2001	4,089,000	3/1/01-8/31/01
3/1/2002	4,089,000	9/1/01-2/28/02

Reserves for Claims and Damages
Losses arising from claims against LIPA, including workers' compensation claims, property damage, extraordinary storm costs and general liability claims, are partially self-insured. Reserves for these claims and damages are based on, among other things, experience and risk of loss. Extraordinary storm losses incurred by LIPA are partially insured by various commercial insurance carriers, and in certain instances, may be recoverable from the Federal Emergency Management Agency. The insurance carriers provide partial insurance coverage for individual storm losses to the transmission and distribution system between $15 million and $35 million. Storm losses which are outside of this range are self-insured by LIPA.

Use of Estimates
The accompanying financial statements were prepared in conformity with generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications
Certain prior period amounts have been reclassified in the financial statements to conform with the current period presentation.

Recent Accounting Pronouncements

Derivative Instruments
In July 1999, Financial Accounting Standards board ("FASB") issued SFAS No. 137, "Deferral of SFAS No. 133 Effective Date." This Statement deferred the effective date of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," from fiscal years beginning after June 15, 1999, to fiscal years beginning after June 15, 2000. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company will adopt SFAS No. 133 in the first quarter of fiscal year 2001. The Company does not expect any material earnings effect from adoption of that statement.

Plant Decommissioning
In February 1996, the FASB issued an exposure draft ("ED") entitled "Accounting for Certain Liabilities Related to Closure and Removal of Long-Lived Assets," which includes nuclear power plant decommissioning. Currently the FASB is revising this ED retitled "Accounting for Obligations Associated With the Retirement of the Long Lived Assets," – which is expected to be issued later this year. If the accounting standard proposed in such exposure draft were adopted, it could result in higher annual provisions for removal or decommissioning to be recognized earlier in the operating life of nuclear and other generating units and an accelerated recognition of the decommissioning obligation. The FASB is continuing to explore various issues associated with this project, including liability measurement and recognition issues. In addition, an effective date for the new exposure draft has not yet been determined. The FASB is deliberating this issue and the resulting final pronouncement could be different from that proposed in the exposure draft. The Company can make no prediction at this time as to the ultimate form of such proposed accounting standard, assuming it is adopted, nor can it make any prediction as to its ultimate effect(s) on the financial condition or results of operations of the Company.

Note 4. Rate Matters

Under current New York law, the Authority is empowered to set rates for electric service in the Service Area without being required by law to obtain the approval of the PSC or any other state regulatory body. However, the Authority has agreed, in connection with the approval of the Merger by the New York State Public Authorities Control Board (the "PACB"), that it will not impose any permanent increase, nor extend or re-establish any portion of a temporary rate increase, in average customer rates over a 12 month period in excess of 2.5% without approval of the PSC, following a full evidentiary hearing. Another of the PACB conditions requires that the Authority reduce average rates within LIPA's service area by no less than 14% over a ten year period commencing on the date when LIPA began providing electric service, when measured against LILCO's base rates in effect on July 16, 1997 (excluding the impact of proposed Shoreham tax settlement, but adjusted to reflect emergency conditions and extraordinary unforeseeable events.)

The Act requires that any bond resolution of the Authority contain a covenant that it will at all times maintain rates, fees or charges sufficient to pay the costs of operation and maintenance of facilities owned or operated by the Company; PILOTS; renewals, replacements and capital additions; the principal of and interest on any obligations issued pursuant to such resolution as the same become due and payable, and to establish or maintain any reserves or other funds or accounts required or established by or pursuant to the

terms of such resolution.

LIPA's rates include the FPPCA to adjust rates to reflect significant changes in the cost of fuel, purchased power and related costs. For further discussion regarding the FPPCA, see Note 3.

LIPA's rates are largely based on LILCO's pre-Merger rate design to avoid customer confusion and facilitate an efficient transition from LILCO billing to LIPA billing. In addition, LIPA's rates include the FPPCA, a PILOTS recovery rider, a rider providing for the Shoreham tax settlement and a rider providing for the RICO Credits (credits to the bills of customers as a result of the settlement by LILCO of a RICO action in connection with the construction and completion of nuclear generating facilities).

The Act requires LIPA to make PILOTS for certain New York State and local revenue taxes that would otherwise have been imposed on LILCO. The PILOTS recovery rider allows for LIPA's rate adjustments to accommodate the PILOTS.

For a further discussion on the Shoreham tax and Suffolk County matters see Notes 10 and 11.

Note 5. Utility Plant and Property and Equipment

Utility Plant consists of:

	(in thousands) December 31, 1999	1998
Generation - nuclear	$ 659,591	$ 662,893
Transmission and distribution	1,451,911	1,385,099
Common	2,929	3,827
Construction work in progress	78,458	52,897
Nuclear fuel in process and in reactor	17,052	17,053
	2,209,941	2,121,769
Less - Accumulated depreciation and amortization	110,737	50,287
Total Net Utility Plant	$ 2,099,204	$ 2,071,482

Notes to Consolidated Financial Statements

Property and Equipment consists of:

	(in thousands) December 31, 1999	1998
Office equipment	$ 715	$ 422
Leasehold improvements	331	276
Office furniture	354	252
	1,400	950
Less - Accumulated depreciation and amortization	358	128
Total Net Property and Equipment	$ 1,042	$ 822

Note 6. Nine Mile Point Nuclear Power Station, Unit 2 ("NMP2")

As a result of the Merger, LIPA acquired an undivided 18% interest in NMP2, located in Scriba, New York which is operated by Niagara Mohawk Power Corporation ("NMPC"). The cotenants of NMP2 and their respective percentage ownership are as follows: LIPA (18%), NMPC (41%), New York State Electric & Gas Corporation ("NYSEG") (18%), Rochester Gas Electric Corporation ("RG&E") (14%) and Central Hudson Gas & Electric Corporation ("CHG&E") (9%). LIPA's share of the rated capability is approximately 205 MW. LIPA's net utility plant investment, excluding nuclear fuel, was approximately $623 million and $650 million at December 31, 1999 and 1998, respectively. Generation from NMP2 and operating expenses incurred by NMP2 are shared in the same proportions as the cotenant's respective ownership interest. LIPA is required to provide its share of financing for any capital additions to NMP2. Nuclear fuel costs associated with NMP2 are being amortized on the basis of the quantity of heat produced for the generation of electricity.

NMPC has contracted with the United States Department of Energy ("DOE") for the disposal of spent nuclear fuel. LIPA reimburses NMPC for its 18% share of the cost under the contract at a rate of $1.00 per megawatt hour of net generation less a factor to account for transmission line losses. Such costs are included in the cost of fuel and recoverable from customers in accordance with the mechanics of the FPPCA.

On September 30, 1999, the Nuclear Regulatory Commission ("NRC") issued a Plant Performance Review on the Nine Mile Point 2 and Nine Mile Point 1 (wholly owned by NMPC) Plants. The NRC stated that it will increase its scrutiny of the operation of the Nine Mile plants over the next six months as a result of a decline in the performance of those plants due to weaknesses in areas such as plant maintenance, work planning and scheduling, and engineering support. NMPC has announced significant management changes at the Nine Mile plants, including the reassignment of several experienced employees to the site. If operating performance of NMP2 deteriorates further, significant expenditures

may be required to improve performance, the impact of which cannot be predicted; however, the Company expects rates to be set at levels sufficient to recover all such operating costs.

Nuclear Plant Decommissioning
NMPC expects to commence the decommissioning of NMP2 in 2026, shortly after the cessation of plant operations, using a method which provides for the removal of all equipment and structures and the release of the property for unrestricted use. LIPA's share of decommissioning costs, based upon a "Site-Specific" 1995 study (1995 study), is estimated to be $352 million in 2026 dollars ($158 million in 1999 dollars using a 3.0% escalation factor). LIPA's share of the estimated decommissioning costs is currently being recovered from customers in electric rates and is being charged to operations as depreciation expense over the service life of NMP2. The amount of decommissioning costs recorded as depreciation expense for the period ended December 31, 1999 and 1998 totaled $4.2 million and $3.9 million, respectively.

LIPA has acquired external trust funds established for the decommissioning of the contaminated portion of NMP2. It is currently estimated that the cost to decommission the contaminated portion of the plant will be approximately 76% of the total decommissioning costs. These funds comply with regulations issued by the NRC and the Federal Energy Regulatory Commission ("FERC") governing the funding of nuclear plant decommissioning costs. As of December 31, 1999 and 1998, the balance in these funds, including re-invested net earnings, was approximately $20 million and $19 million, respectively. These amounts are included in Non-utility Property and Other Investments. The trust fund investments consist of U.S. Treasury debt securities and cash equivalents. The carrying amounts of these investments approximate fair market value at December 31, 1999 and 1998. If the assumed return on trust accounts is not earned, then it is probable that the additional costs will be incurred. The Company believes that any such additional costs will be recoverable through rates.

Reference is made to Note 3 under the subcaption "Recent Accounting Pronouncements" for details of the proposed changes in accounting for nuclear plant decommissioning costs.

On August 27, 1997, the PSC Staff ("Staff") issued a "Notice Soliciting Comments on Nuclear Generation" requesting comments and alternative approaches by interested parties on a "Staff Report on Nuclear Generation" ("Nuclear Report"). The Nuclear Report concludes that nuclear generation, along with non-nuclear generation facilities, should be subject to the discipline of market-based pricing.

On March 20, 1998, the PSC initiated a proceeding to examine a number of issues raised by the Nuclear Report and the comments received in response to it. In reviewing the Nuclear Report and parties' comments, the PSC: (a) adopted as a rebuttable presumption the premise that nuclear power should be priced on a market basis to the same degree as power from other sources, with parties challenging that premise having to bear a substantial burden of persuasion; (b) characterized the proposals in the Staff paper as by and large consistent in concept with the PSC's goal of a competitive, market-based electricity industry; (c) questioned PSC Staff's position that would leave funding and other decommissioning responsibilities with the sellers of nuclear power interests; and, (d) indicated interest in the potential for the New York Nuclear Operating Committee ("NYNOC") to benefit customers through efficiency gains and directed pursuit of that matter in this nuclear generating proceeding or separately upon the filing of a formal NYNOC proposal. This proceeding is in abeyance pending the potential unit sale as discussed below.

NMP2 Radioactive Waste
NMPC has contracted with the U.S. Department of Energy ("DOE") for disposal of high-level radioactive waste ("spent fuel") from NMP2. Despite a court order reaffirming the DOE's obligation to accept spent nuclear fuel by January 31, 1998, the DOE has forecasted the start of operations of its high-level radioactive waste repository to be no earlier than 2010. LIPA has been advised by NMPC that NMP2 spent fuel storage pool has a capacity for spent fuel that is adequate until 2012. If additional DOE schedule slippage should occur, the storage for NMP2 spent fuel, either at the plant or some alternative location, may be required.

Nuclear Plant Insurance
NMPC procures public liability and property insurance for NMP2, and LIPA reimburses NMPC for its 18% share of those costs.

The Price-Anderson Amendments Act mandates that nuclear power secure financial protection in the event of a nuclear accident. This protection must consist of two levels. The primary level provides liability insurance coverage of $200 million (the maximum amount available) in the event of a nuclear accident. If claims exceed that amount, a second level of protection is provided through a retrospective assessment of all licensed operating reactors. Currently, this "secondary financial protection" subjects each of the 106 presently licensed nuclear reactors in the United States to a retrospective assessment of up to $88.1 million for each nuclear incident, payable at a rate not to exceed $10 million per year. LIPA's interest in NMP2 could expose it to a maximum potential loss of $15.9 million, per incident, through assessments of up to $1.8 million per year in the event of a serious nuclear accident at NMP2 or another licensed U.S. commercial nuclear reactor. These assessments are subject to periodic inflation indexing and to a 5% surcharge if funds prove insufficient to pay claims.

NMPC has also procured $500 million primary nuclear property insurance with the Nuclear Insurance Pools and approximately $2.3 billion of additional protection (including decontamination costs) in excess of the primary layer through Nuclear Electric Insurance Limited ("NEIL"). Each member of NEIL, including LIPA, is also subject to retrospective premium adjustments in the event losses exceed accumulated reserves. For its share of NMP2, LIPA could be assessed up to approximately $1.4 million per loss. This level of insurance is in excess of the NRC required minimum of $1.06 billion of coverage.

LIPA has obtained insurance coverage from NEIL for the extra expense incurred in purchasing replacement power during prolonged accidental outages. Under this program, should losses exceed the accumulated reserves of NEIL, each member, including LIPA, would be liable for its share of deficiency. LIPA's maximum liability per incident under the replacement power coverage, in the event of a deficiency, is approximately $700,000.

Recent Developments
In June 1999, two cotenants of NMP2 representing 59% of the ownership interest each entered into an agreement to sell their interest in NMP2 to a single third party who would replace NMPC as the operator of NMP2. NMPC has also entered into an agreement to sell its 100% interest in the adjacent Nine Mile Point Unit No. 1 Nuclear Plant ("Nine Mile 1 Plant") to that third party.

The cotenant owners of NMP2 have rights of first refusal under the Basic Agreement, dated September 22, 1975, creating the tenancy-in-common ownership of NMP2. Pursuant to such rights, each cotenant has the right to acquire all or a proportionate share of another cotenant's interest in NMP2 by matching the terms of the cotenant's sale of its interest to a third party.

In July 1999, the potential third party buyer and sellers petitioned the PSC, seeking consent for the transfer of such interest in NMP2 (and Nine Mile 1 Plant). In July 1999, these same parties filed for requisite approvals with FERC with respect to such transfers. In September 1999, these same parties filed jointly with the NRC for requisite approvals with respect to such transfers. In early December 1999, NYSEG petitioned the PSC for an emergency declaratory ruling as to whether RG&E may acquire additional interests in NMP2 (and Nine Mile 1 Plant). By Order issued in December 1999, the NRC suspended its proceeding pending the determination of RG&E, CHG&E and LIPA's intent to exercise their rights of first refusal with respect to the proposed transfer.

On December 21, 1999, RG&E exercised its right of first refusal under NMP2 Basic Agreement to match the third party offer to purchase the collective interests of NMPC and NYSEG in NMP2 and NMPC's interest in Nine Mile 1 Plant. RG&E publicly announced that it had entered into arrangements with a separate third party to operate NMP2.

The Authority can make no prediction as to the outcome of the proposed acquisition of interests in NMP2 or the effects such acquisition would have on LIPA. LIPA has no intention of exercising its right of first refusal or selling its ownership interest in NMP2 at this time.

Note 7. Cash and Cash Equivalents, Designated Funds and Investments

Funds of the Authority are administered in accordance with the Authority's investment guidelines pursuant to Section 2925 of the New York State Public Authorities Law. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities which authorizes investments in: (a) obligations of the U.S. Treasury and U.S. Agencies; (b) bankers' acceptance; (c) collateralized certificates of deposit; (d) collateralized repurchase agreements; (e) commercial paper rated P-1 or higher by Moody's and A-1 or higher by a Standard & Poor's; and (f) money market funds rated P-1 or higher by Moody's and A-1 or higher by Standard & Poor's. All investments of the Authority are held by designated custodians in the name of the Authority. Investments are reported at amortized cost, which approximates fair market value at December 31, 1999 and 1998. Investments with original maturities of less than 90 days are classified as cash and cash equivalents. Certain cash and cash equivalents have been designated by the Authority's Board of Trustees to be used for specific purposes such as capital additions, debt repayment and clean energy initiatives. Amounts so designated are included in the caption Designated Funds.

Governmental Accounting Standards Board, Statement No. 3 " Investments, Including Repurchase Agreements" ("GASB 3"), requires state and local governments to classify their investments in three defined categories of credit risk. Category I includes investments that are insured or registered, or securities that are held by the Company or its agent in the Company's name. Category II includes investments that are collateralized with securities which are held by the pledging financial institution's trust department or agent in the Company's name. Category III includes uncollateralized investments for which the securities are held by the broker's or dealer's trust department or agent in the Company's name.

Notes to Consolidated Financial Statements

Investments held by the Authority, with the exception of money market mutual funds, qualify as Category I investments at December 31, 1999 and 1998. Money market mutual funds qualify as Category III investments at December 31, 1999 and 1998, as they are neither collateralized nor insured. It is the Company's belief that despite a Category III classification, the money market mutual funds have a very low risk of default as institutions purchasing these items on the Company's behalf are investing in U.S. Government securities or commercial paper which meets Company's minimum investments requirements, as described above.

The bank balances of $1.2 million and $0.6 million at December 31, 1999 and 1998, respectively, were collateralized for amounts above the Federal Depositors Income Company ("FDIC") limits with securities held by the custodian banks in the Authority's name.

Investments and cash and cash equivalents of the Authority at December 31, 1999 and 1998, are detailed below:

(in thousands of dollars)

	December 31, 1999	December 31, 1998
Investments:		
U.S. Government/Agencies	$ 14,244	$ -
Commercial Paper	340,263	-
Certificates of Deposit	9,500	-
Total investments	364,007	-
Cash and cash equivalents and designated funds:		
Commercial paper	12,435	653,152
Money market mutual funds	152,760	38,392
Bank money market funds	1	73
Certificates of Deposit	-	20,000
Demand deposit	1,207	619
Total cash and cash equivalents and designated funds	166,403	712,236
Total investments, cash and cash equivalents and designated funds	$ 530,410	$ 712,236

Notes to Consolidated Financial Statements

Note 8. Debt

The Authority

The Authority financed the cost of the Merger and the refinancing of certain of the LILCO's outstanding debt by the issuance of approximately $6.73 billion aggregate principal amount of Electric System General Revenue Bonds and Electric System Subordinated Revenue Bonds (collectively the "Bonds"). In accordance with the issuance of the Bonds, LIPA and the Authority entered into a Financing Agreement, whereby LIPA transferred to the Authority all of its right, title and interest in and to the revenues generated from the operation of the transmission and distribution system, including the right to collect and receive the same. In exchange for the transfer of these rights to the Authority, LIPA received the proceeds of the Bonds evidenced by a Promissory Note.

The Bonds are secured by a Trust Estate as pledged under the Authority's Bond Resolution (the "Resolution"). The Trust Estate consists principally of the revenues generated by the operation of LIPA's transmission and distribution system and have been pledged by LIPA to the Authority.

Electric System General Revenue Bonds

1998 Series A

This Series is comprised of Current Interest and Capital Appreciation Bonds. The Current Interest Bonds include: (i) tax exempt Serial Bonds with maturities that began in December 1999 and continue each year through December 2016; and (ii) tax exempt Term Bonds with maturities beginning in December 2018 and a final maturity in December 2029. The Capital Appreciation Bonds are tax exempt bonds with maturities beginning in December 2003 continuing each year through December 2028. During the 12-month period ended December 31, 1999, the Company retired with cash from operations the 4.5% Serial Bond of approximately $45.9 million and the 5.94% Taxable Term Bond of $25 million.

In November 1999, the Authority instituted a tender offer for the Electric System General Revenue Bonds, Series 1998A maturing on December 1, 2018, 2022 and 2026. The offer expired in December 1999. The Authority purchased approximately $148.2 million par amount of the bonds as follows:

(In thousands, except price per bond)

Maturity (December 1)	Interest Rate	Par Tendered	Par Accepted	Acceptance Price	Total Paid Amount
2018	5.000%	$102,450	$ 505	$ 89.000	$ 449
2022	5.125%	237,135	28,055	89.107	24,999
2026	5.250%	278,280	119,635	90.652	108,451
		$617,865	$148,195		$133,899

As a result of this tender, the Authority realized a gain on the early extinguishment of debt totaling $7.7 million, net of the write-off of unamortized discount. This gain is shown as an extraordinary item in accordance with SFAS No. 4 "Reporting Gains and Losses from Extinguishment of Debt."

Optional Redemption
The 5.0% Serial Bonds due on December 1, 2014 ($39.4 million) and the Serial and Term Bonds maturing on or after December 1, 2015 (except the Term Bonds maturing on December 1, 2029), which total $207 million and $1.4 billion, respectively, are subject to redemption prior to maturity, at the option of the Authority, at a price of 101% of the principal amounts on any date beginning on June 1, 2008 through May 31, 2009, or at 100.5% beginning on June 1, 2009 through May 31, 2010 or at 100% beginning June 1, 2010 through maturity, in whole, or in part from time to time, and in any order of maturity selected by the Authority. Interest accrued on such principal amount redeemed is added to the redemption price.

The Term Bonds maturing on December 1, 2029 ($587.2 million) are subject to redemption prior to maturity, at the option of LIPA, on any date on and after June 1, 2003, in whole, or in part from time to time, at a redemption price of 101% of the principal amounts, together with the interest accrued on such principal amount to the redemption date.

The Serial Bonds maturing on December 1, 2000 through December 1, 2013 ($930.9 million) and the 5.25% Serial Bonds due on December 1, 2014, ($56.7 million) are not subject to redemption prior to maturity. In addition, the Capital Appreciation Bonds and the Taxable Term Bonds are not subject to redemption prior to maturity.

Sinking Fund
Certain Term Bonds are subject to redemption, in part, beginning on December 1, 2017 through December 1, 2029 at 100% of the principal amounts, plus accrued interest at the redemption date, from mandatory sinking fund installments which are required to be made in amounts sufficient to redeem such Bonds.

1998 Series B
This Series is comprised of Serial Bonds with maturities beginning in April 2000 and continuing each year through April 2016 and Term Bonds maturing in April 2018.

Optional Redemption
Securities maturing on and after April 1, 2009 ($483.5 million) are subject to redemption prior to maturity, at the option of the Authority, at a redemption price of 101% of the principal amounts on any date beginning on April 1, 2008 through May 31, 2009, or at 100.5% beginning on April 1, 2009 through May 31, 2010 or at 100% beginning April 1, 2010 through maturity, in whole, or in part from time to time, and in any order of maturity selected by the Authority. Interest accrued on such principal amount redeemed is added to the redemption price.

Sinking Fund
The Term bond that matures on April 1, 2018 is subject to redemption, in part, beginning on April 1, 2017 at 100% of the principal amount, plus accrued interest to the redemption date, from mandatory sinking fund installments which are required to be made in amounts sufficient to redeem such Bonds.

Electric System Subordinated Revenue Bonds

Series 1 through 6
These Series are variable rate bonds payable from and secured by the Trust Estate subject to and subordinated to the Authority's Electric System General Revenue Bonds. These bonds are classified into various modes that determine the frequency that the interest rate is re-determined, the interest rate applied and the optional redemption features. Series 1 and 2 are currently Weekly Mode bonds, therefore, the applicable interest rate is re-determined on a weekly basis. Series 3 and 4 are currently Commercial Paper Mode bonds, and as such, interest rates can be re-determined as often as daily, but not less frequently than 270 days, and Series 5 and 6 are currently Daily Mode bonds, and as such the interest rate is re-determined daily.

Provisions of the indenture allow for a change in interest rate modes, at the option of the Authority. In addition to the daily, weekly and commercial paper modes, the Authority also has the option to adopt a Term mode, (thereby changing the reset period e.g., from daily to monthly, semi-annually or annually) or a Fixed mode.

Series 1 through 6 Bonds are supported by letters of credit which expire on May 25, 2001 unless extended prior to the expiration date.

Series 7
This Series is comprised of variable rate bonds issued in the Daily Mode. In October 1999, these bonds changed to the Weekly Mode. Principal and interest on these bonds are secured by a financial guaranty insurance policy.

The Authority has executed a Standby Bond Purchase Agreement, to provide funds for the purchase of Series 7 Bonds tendered but not remarketed. The standby agreement expires in November 2008.

Provisions of the indenture allow for a change of interest rate modes, at the option of the Authority. In addition to the daily, weekly and commercial paper modes, the Authority also has the option to adopt a Term mode, (thereby changing the reset period e.g., from daily to monthly, semi-annually or annually) or a Fixed term mode.

Optional and Mandatory Redemption
Series 1 through 6 and Series 7 Bonds are redeemable on their respective interest rate re-determination dates at the option of the Authority. These bonds are redeemable at face value when they are in the Weekly, Daily or Commercial Paper mode. Term or Fixed rate mode bonds are redeemable at rates varying between 100% and 101% when the life of the mode is greater than four years. Term or Fixed Rate mode bonds are not redeemable if the life of the mode is less than four years.

Series 1 through 6 and Series 7 Bonds are also subject to mandatory redemptions from sinking funds such that they will be redeemed by their respective maturity dates. Sinking funds for Series 1 through 6 and Series 7 begin on December 1, 2030 and April 1, 2019, respectively.

Interest Rate Swap Agreements

The Authority has entered into interest rate swap agreements to reduce the impact of changes in interest rates on the Series 7 Bonds. The Authority had two interest rate swap agreements outstanding having a total notional amount of $150 million and $100 million, respectively at December 31, 1999 and 1998. These agreements effectively change the Authority's interest rate exposure on the Series 7 Bonds to a fixed rate of 4.2%. The interest rate swap agreements are co-terminus with the Series 7 Bonds, with optional earlier termination at the Authority's discretion. The Authority is exposed to credit loss in the event of nonperformance by the parties to the interest rate swap agreements. However, the Authority does not anticipate nonperformance by the counterparties.

Series 8 (Subseries A-H)

This Series is comprised of Current Interest Bonds issued as follows:

This Series is Comprised of Subseries	Mandatory Purchase Date (April 1)	Maturity (April 1)	Principal Outstanding $(000)	Interest Rate to Mandatory Purchase Date
8A	2001	2009	$ 27,300	4.00%
8B	2002	2009	27,300	4.00%
8C	2003	2010	27,300	4.00%
8D	2004	2010	27,300	4.50%
8E	2005	2011	27,300	4.50%
8F	2006	2011	27,300	5.00%
8G	2007	2012	27,300	5.00%
8H	2008	2012	27,200	5.00%

Each bond is due on its mandatory purchase date, however, the Authority can remarket the securities on that date, and the remarketed securities would then become due at the maturity date or such earlier date as determined by the remarketing. Additionally, the original interest rate on the debt issued will remain in effect until the mandatory purchase date, at which time the interest rate will change in accordance with market conditions at the time of remarketing if the Authority determines to remarket. Principal, interest and purchase price on the mandatory purchase date are secured by a financial guaranty insurance policy.

Each Subseries of Series 8 is not subject to optional redemption nor mandatory sinking fund redemption prior to its mandatory purchase date.

LIPA

The LILCO debt assumed by LIPA as part of the Merger, consisted of $1.186 billion of General and Refunding Bonds, ("G&R Bonds"), that were defeased by LIPA immediately upon the closing of the Merger, debentures totaling $2.27 billion, and tax exempt debt totaling approximately $915.7 million. As part of the Merger, KeySpan and LIPA executed Promissory Notes whereby KeySpan was obligated to LIPA for approximately $1.048 billion of the assumed debt (the "Promissory Notes"). KeySpan is required to pay LIPA principal and interest on the Promissory Notes 30 days in advance of the date

amounts are due to bond holders. The balance of the Promissory Notes between KeySpan and LIPA totaled $602.4 million and $1.04 billion at December 31, 1999 and 1998, respectively.

The tax exempt debt assumed by LIPA were notes issued on behalf of LILCO by the New York State Research and Development Authority ("NYSERDA") to secure tax-exempt Industrial Development Revenue Bonds, Pollution Control Revenue Bonds ("PCRBs"), and Electric Facilities Revenue Bonds ("EFRBs") issued by NYSERDA.

Bond Defeasance/Refundings
A portion of the proceeds of the Authority's Electric System General Revenue Bonds and Subordinated Bonds (which includes fixed and variable rate debt) were used in 1998 to refund all the G&R Bonds, certain Debentures and certain NYSERDA notes issued by LILCO that were assumed by LIPA as a result of the Merger. The purpose of these refundings was to achieve debt service savings.

General and Refunding Bonds
On May 29, 1998, LIPA refunded all the G&R Bonds totaling $1.186 billion by depositing $1.190 billion in an irrevocable escrow deposit account to be invested in the direct obligations of the United States of America. The maturing principal of and interest on these obligations were sufficient to pay the principal and interest on the G&R Bonds, which were redeemed on June 29, 1998.

The Authority will realize gross debt service savings from this refunding of approximately $588 million over the original life of the bonds. The refunding produced an economic gain (the present value of the debt service savings) of approximately $576 million.

Debentures
In October 1998, LIPA commenced a tender offer for its 7.30% Debentures Due 2000, 6.25% Debentures Due 2001, 7.05% Debentures Due 2003, 7.00% Debentures Due 2004, 7.125% Debentures Due 2005 and 9.00% Debentures Due 2022 (collectively, the "Debentures"). LIPA purchased an aggregate principal amount of Debentures, including accrued interest, in the amount of $1.13 billion pursuant to the tender offers. Payment for Debentures purchased pursuant to the tender offers was made from the sale of approximately $1.31 billion Electric System General Revenue Bonds, Series 1998B (the "Refinancing Bonds") of the Authority. Under the terms of the financing agreement dated as of May 1, 1998, between LIPA and the Authority, a portion of the proceeds from the sale of the Refinancing Bonds were advanced to LIPA to fund payment for the tendered Debentures.

In October 1998, LIPA sent a notice of redemption to the holders of its 7.50% Debentures Due 2007 calling for redemption in November of all such debentures at a redemption price equal to 103.54% of the $142 million aggregate principal amount outstanding. In addition, LIPA sent a notice of redemption to the holders of its 8.90% Debentures due 2019 calling for redemption in November 1998 of all such debentures at a redemption price equal to 105.94% of the $420 million aggregate principal amount outstanding.

As a result of the refundings described above, the Authority will realize gross debt service savings of approximately $547 million over the original life of the bonds. The refunding produced an economic gain (the present value of the debt service savings) of approximately $376 million.

Notes to Consolidated Financial Statements

In March 2000, the Authority deposited approximately $58 million in an irrevocable escrow deposit account to be invested in direct obligations of the United States of America. The Company has received certification from an independent verification agent that the maturing principal of and interest on the following obligations will be sufficient to pay the principal and interest on the following debentures that LIPA assumed as part of the Merger (reflected at the Company's carrying value).

Maturity	Interest Rate	(In thousands) Balance at December 31, 1999
7/15/2001	6.250%	$ 8,460
3/15/2003	7.050%	5,890
3/01/2004	7.000%	2,989
6/01/2005	7.125%	14,307
11/01/2022	9.000%	26,542

NYSERDAs
In October 1999, LIPA entered into an agreement with KeySpan, whereby KeySpan advanced approximately $47.2 million of its promissory note payable to LIPA, including interest, to be used to fund the optional redemption at par of NYSERDA Bonds, 1976 Series A and 1979 series B totaling $26.4 million and $19.1 million, respectively. The bonds were redeemed in December 1999.

During 1998, the Authority deposited $379 million in an irrevocable escrow deposit account to be invested in the direct obligations of the United States of America. The maturing principal of and interest on such securities will be sufficient to pay the principal, interest and applicable call premium on the following issues of NYSERDA Notes: approximately $11.9 million Series 1985A, approximately $50 million Series 1989A, approximately $15 million Series 1989B, approximately $26 million Series 1990A, approximately $73 million Series 1991A, $50 million Series 1992A, approximately $36.5 million Series 1992B, $50 million Series 1992C and approximately $22 million Series 1992D, (collectively, the "Refunded NYSERDA Notes").

As a result of this refunding and the deposit with the Escrow Agent, the Refunded NYSERDA Notes are deemed to have been paid, and they cease to be a liability of LIPA. Accordingly, the Refunded NYSERDA Notes (and the related deposit with the Escrow Agent) are excluded from the Balance Sheet. The Authority will realize gross debt service savings from this refunding of approximately $287 million over the life of the bonds. The refunding produced an economic gain (the present value of the debt service savings) of approximately $66 million.

In November 1998, LIPA sent a notice of redemption to the holders of its 1982 NYSERDA Notes calling for redemption in December of all such NYSERDA Notes at a redemption price equal to the $17.2 million aggregate principal amount outstanding.

The Authority will realize gross debt service savings from the refunding of approximately $14.9 million over the original life of the bonds. The refunding produced an economic gain (the present value of the debt service savings) of approximately $6.5 million.

Deferred Amortization
A debt refinancing charge of $61.9 million resulted from the transactions described above primarily because of the difference between the amounts paid for refundings, including amounts deposited with the

Escrow Agent, and the carrying amount of the G&R Bonds, Debentures and NYSERDA Notes. In accordance with the provisions of GASB No. 23, the $61.9 million has been deferred and is shown in the Statement of Financial Position as Deferred Amortization within long term debt and is being amortized, on a straight line method, over the shorter of the life of the new debt or the old debt. The unamortized balance at December 31, 1999 and 1998 totaled $48.5 million and $60.3 million, respectively.

The Company

Debt Maturity Schedule

The total long-term debt maturing in each of the next five years ending December 31 is as follows: 2000, $186.4 million; 2001, $119.8 million; 2002, $140.1 million; 2003, $147.2 million; and 2004, $163.1 million.

Fair Values of Long - Term Debt

The carrying amounts and fair values of the Company's long-term debt at December 31, 1999 and 1998 were as follows:

Fair Value	*(In thousands of dollars)* December 31, 1999	1998
Electric System General Revenue Bonds, Series 1998 A	$ 3,019,431	$ 3,565,699
Electric System General Revenue Bonds, Series 1998 B	1,276,607	1,351,923
Electric System Subordinated Revenue Bonds, Series 1 through 6	1,500,000	1,500,000
Electric System Subordinated Revenue Bonds, Series 7	250,000	250,000
Electric System Subordinated Revenue Bonds, Series 8 (subseries A-H)	215,005	224,050
Debentures	315,367	745,822
NYSERDA Notes	334,189	536,401
Total	$ 6,910,599	$ 8,173,895

Carrying Amount	December 31, 1999	1998
Electric System General Revenue Bonds, 1998 Series A	$ 3,242,322	$ 3,453,830
Electric System General Revenue Bonds, 1998 Series B	1,313,800	1,313,800
Electric System Subordinated Revenue Bonds, Series 1 through 6	1,500,000	1,500,000
Electric System Subordinated Revenue Bonds, Series 7	250,000	250,000
Electric System Subordinated Revenue Bonds, Series 8 (subseries A-H)	218,300	218,300
Debentures	328,466	725,811
NYSERDA Notes	332,425	510,600
Total	$ 7,185,313	$ 7,972,341

Debt Covenants
Certain debt agreements require the maintenance by the Company of certain financial ratios and contain other restrictive covenants.

Note 9. Retirement Plans

The Authority participates in the New York State Employees' Retirement System, which is a cost-sharing, multi-employer, public employee retirement system. The plan benefits are provided under the provisions of the New York State Retirement and Social Security Law which are guaranteed by the State Constitution and may be amended only by the State Legislation. The Authority's election to participate in the plan is irrevocable. The New York State Employees' Retirement System issues a publicly available financial report. The report may be obtained from the New York State and Local Retirement Systems, A.E. Smith State Office Building, Albany, New York 12244. The Employees' Retirement System is subdivided into the following four classes:

Tier I - members who last joined prior to July 1, 1973.

Tier II - members who last joined on or after July 1, 1973 and prior to July 27, 1976.

Tier III - members who last joined on or after July 27, 1976 and prior to September 1, 1983.

Tier IV - members who joined on or after September 1, 1983.

Tier I members are eligible for retirement at age 55. If members retire with 20 or more years of total service, the service retirement benefit is 2% of the final average salary for each year of service. If members retire with less than 20 years of total service, the service retirement benefit is 1.66% of the final average salary for each year of service. Under this plan, the pension portion of retirement allowance cannot exceed 75% of the member's final average salary, unless the member's date of membership is prior to April 1, 1970, then an alternative calculation is used.

Tier II members are eligible to retire with full benefits at age 62 or at age 55 with 30 years of service, and with reduced benefits for retirement between ages 55 and 62 with less than 30 years of service. Retirement benefits are equivalent to Tier I members. Under this plan, the pension portion of the retirement allowance cannot exceed 75% of the member's final average salary.

Tier III members with 10 or more years of credited service after July 27, 1976 are eligible to retire with full benefits between the ages of 55 and 62 with 30 years of service and with reduced benefits for retirement between ages 55 and 62 with less than 30 years of service. Benefits are integrated with Social Security beginning at age 62. If members retire at age 62 and have 25 or more years of credited service, the service retirement benefit will be 2% of final average salary for each year of service (not to exceed 30 years), plus 1.5% of the final average salary for each year of credited service beyond 30 years. If members retire at age 62 with fewer than 25 years of credited service, the service retirement benefit will be 1.66% of the final average salary for each year service.

Tier IV members with 5 or more years of credited service are eligible to retire with full benefits at age 62 or between the ages of 55 and 62 with 30 years or more of credited service. Tier IV members with less than 30 years of credited service will receive reduced benefits if they retire prior to age 62. Benefits are

equivalent to Tier III members.

Retirement benefits vest after 5 years of credited service and are payable at various rates at age 55 or greater. The Employees' Retirement System also provides death and disability benefits. Tier III and IV members are required by law to contribute 3% of their annual salary to the Employees' Retirement System and eligible Tier I and II members may make contributions under certain conditions. The Authority is required by the same statute to contribute the remaining amounts necessary to pay benefits when due.

The State of New York and the various local governmental units and agencies which participate in the Retirement System are jointly represented, and it is not possible to determine the actuarial computed value of benefits for the Authority on a separate basis.

The Authority's required contributions and payments made to the retirement plan were approximately $40,000, $27,000 and $12,000 for the periods ended December 31, 1999 and 1998 and for the nine months ended March 31, 1998, respectively.

Note 10. Commitments and Contingencies

Operating Lease

In December 1996, the Authority entered into a noncancelable office lease agreement for the period January 1, 1997 through January 31, 2003. In November 1997 and April 1998, the lease was amended to include additional premises. As a result of the amendments, the lease expiration date was changed to September 30, 2003. The future minimum payments under the lease are as follows:

Year Ended December 31,	*(In thousands)*
2000	$ 518
2001	537
2002	557
2003	417
	$ 2,029

Legal Proceedings

Shoreham Tax Matters

Through November 1992, the Suffolk Taxing Jurisdictions levied and received real estate taxes from LILCO on the Shoreham plant. When the Authority acquired the Shoreham plant in February 1992, it was obligated pursuant to the LIPA Act to make PILOTs on the Shoreham plant beginning in December 1992. As part of the agreement between LILCO and the Authority providing for the transfer of Shoreham to the Authority, LILCO agreed to fund these payments. Prior to the Merger, LILCO charged rates

sufficient to make these payments to the Authority. Both LILCO and the Authority contested the assessments on the Shoreham plant, claiming the plant was overassessed. Since 1992, the Authority has made such PILOT payments, in whole or in part, pursuant to interim PILOT agreements. Subsequent to the Merger, the Authority has been collecting the costs thereof pursuant to the PILOTs rider which is part of LIPA's rates.

On March 26, 1997, a judgment was entered in the Supreme Court, State of New York, Suffolk County, on behalf of LILCO against the Suffolk Taxing Jurisdictions ordering them to refund to LILCO property tax overpayments (resulting from over-assessments of Shoreham) in an amount exceeding $868 million, including interest as of the date of the judgment. In addition, the judgment provides for the payment of post-judgment interest (the "Shoreham Property Tax Litigation"). The Court also determined that the Shoreham plant had a value of nearly zero during the period the Authority has owned Shoreham. This judgment was unanimously affirmed by the Appellate Division of the State of New York on July 13, 1998. Certain of the Suffolk Taxing Jurisdictions sought leave from the Appellate Division to appeal this judgment to the New York State Court of Appeals. Their applications were unanimously denied by the Appellate Division. New applications for leave to appeal were made to the Court of Appeals. On January 19, 1999, the Court of Appeals denied the motions. There is no further review in the New York State court system.

On January 11, 2000, the Authority, LIPA, and the Suffolk Taxing Jurisdictions entered into a Settlement Agreement. Pursuant to the Suffolk County Settlement Agreement, an amended Judgment will be filed, reducing the amount of the Judgment and the Authority's PILOT claims to the greater of (1) $620 million, plus interest, less the principal of the Shoreham Tax Settlement Bonds paid with the surcharge or (2) the amount required to fully satisfy the Authority's remaining debt service and related obligations in connection with the Suffolk County Tax Settlement Bonds. The amended Judgment would be enforceable by the Authority or LIPA in the event, among others, that any portion of the Settlement Agreement is declared invalid or unenforceable. See note 11 for a further discussion of the Settlement Agreement.

On September 15, 1998, Suffolk County filed an action against the Authority in the Supreme Court of the State of New York, Suffolk County seeking to enjoin the Authority from recovering tax refunds based upon the over-assessment of the Shoreham nuclear plant. The action claims that the Authority does not have the right to recover property taxes previously assessed against LILCO for tax years 1984-1985 through 1991-1992. On March 19, 1999, the Court ruled that the Authority was not entitled to collect any refund of property taxes assessed against the Shoreham plant. In addition, the court stated that the Authority has a duty to discontinue and abandon all proceedings which seek the repayment of all or part of the taxes assessed against the Shoreham plant. The Authority filed a notice of appeal on April 15, 1999 and filed its brief on April 23, 1999. By Opinion & Order dated July 26, 1999, the Appellate Division unanimously held that the Authority was not prohibited by the LIPA Act from enforcing any part of the Shoreham tax certiorari judgment for real property tax refunds attributable to overassessments on the Shoreham plant after the January 15, 1987 effective date of the LIPA Act. This ruling confirms the Authority's position that it is entitled to enforce the Shoreham property tax judgment in an amount which the Authority estimates is in excess of $800 million. By motion returnable September 24, 1999, Suffolk moved in the Appellate Division for reargument or, in the alternative, for permission to appeal to the Court of Appeals. The Authority filed papers in opposition to the motion. By order dated October 14, 1999, the Appellate Division denied the motion. By motion returnable December 6, 1999, Suffolk has

moved in the Court of Appeals for permission to appeal. The Authority has opposed the motion. By order dated January 11, 2000, the Court of Appeals denied Suffolk's motion. Pursuant to the Settlement Agreement, the Suffolk Taxing Jurisdictions will discontinue this proceeding with prejudice.

On February 1, 1999, a lawsuit was filed in the Supreme Court of the State of New York, Nassau County, by the Association for a Better Long Island against the Authority and LIPA. This lawsuit seeks: (i) to require the Authority to collect the full amount of the judgment obtained by the Authority in the Shoreham Property Tax Litigation as well as certain overpaid PILOTs; and (ii) to declare that the offer of the Authority to settle the Shoreham Property Tax Litigation is void and legally unenforceable. The Authority answered the complaint in February 2000.

On March 23, 1999, the Shoreham Wading River Central School District filed an action against the Authority in the Supreme Court of the State of New York, County of Nassau seeking an order directing the Authority to pay approximately $6.4 million of PILOTs which the plaintiff alleges are due and owing and approximately $24.6 million of PILOTs which the plaintiff alleges is the cumulative deficiency as of June 1, 1998. By Stipulation dated August 19, 1999, the School District withdrew its petition. Pursuant to the Settlement Agreement, the School District will discontinue this proceeding with prejudice.

Merger Matters

LIPA has been named as a nominal defendant in a derivative suit pending in the United States District Court for the Eastern District of New York entitled Sylvester v. Catacosinos, et al. A motion to dismiss on behalf of LIPA was filed on September 23, 1998 and argued on January 28, 1999. In addition, LIPA has been named as a defendant in an action brought by the County of Suffolk that is pending in New York State Supreme Court, Suffolk County, entitled County of Suffolk v. KeySpan, et al. The response date has been postponed until such time as it is determined whether the action will be consolidated with a class action pending in New York State Supreme Court, Nassau County, entitled In re KeySpan Corporation Shareholder Litigation. Former officers and directors of LILCO also have been named as defendants in each of these actions.

The complaints in the foregoing actions allege in substance that certain former officers of LILCO received excessive compensation which totaled approximately $67 million in connection with the closing of the Brooklyn Union merger with LILCO and with the Authority's acquisition of all common stock of LILCO. The Sylvester lawsuit seeks damages of an unspecified amount. The complaint brought by the County of Suffolk seeks to make the defendants pay restitution, or damages, of $67 million. On September 8, 1999, the parties in Sylvester filed a Stipulation in the District Court dismissing the action with prejudice, subject to the approval by the District Court. The District Court signed the Stipulation on September 21, 1999. This proceeding is thus concluded.

The County of Suffolk action was voluntarily discontinued by plaintiffs without prejudice. The plaintiffs have refiled their claims related to executive compensation in a federal action entitled The County of Suffolk et al. v. Long Island Power Authority, et al.

On September 28, 1998, Suffolk County and the Towns of Huntington and Babylon (collectively, the "Plaintiffs") brought a class action on behalf of themselves and all electric utility ratepayers in Suffolk County (the "Ratepayers") against the Authority, LIPA, KeySpan and others in the United States District Court for the Eastern District of New York entitled County of Suffolk, et al. v. Long Island Power

Authority, et al. (the "Huntington Lawsuit"). The Huntington Lawsuit alleges that (i) LIPA and the Authority failed to refund alleged capital gains directly to Ratepayers as a result of the Merger, unlawfully depriving Ratepayers of their property under federal and state constitutional provisions and (ii) LIPA failed to refund to Ratepayers certain deferred tax reserves carried on LILCO's books at the time of the Merger, unjustly enriching KeySpan. An amended complaint was filed and served on or about January 5, 1999. KeySpan and the Authority filed motions to dismiss the complaint for failure to state a cause of claim. On December 3, 1999, the court declined to consider KeySpan's motion to dismiss and defendants moved for summary judgment on or about December 13, 1999. Plaintiffs are required to file opposition to the summary judgment motion on or before January 20, 2000. Pursuant to the Settlement Agreement, Suffolk will discontinue its claims against all defendants with prejudice.

In an action commenced on May 26, 1998 (*Schulz et al. V. New York State Public Authorities Control Board et al.*, United States District Court, Northern District of New York), plaintiff's complaint, in several claims for relief, sought a judgment declaring, *inter alia*, the resolution of the PACB authorizing the Authority to issue bonds to be null and void on State and federal constitutional grounds and sought a temporary restraining order or preliminary injunction prohibiting and enjoining the issuance of bonds. On May 27, 1998, the District Court denied the plaintiff's request for a temporary restraining order or preliminary injunction and dismissed the plaintiff's action on the ground that the plaintiffs lack standing to assert the claims pleaded in the complaint. On February 8, 1999, the United States Court of Appeals for the Second Circuit affirmed the District Court's dismissal of the plaintiff's action. This proceeding is thus concluded.

On May 27, 1998, the Initiative for Competitive Energy (the "ICE") filed an action in the Supreme Court of the State of New York, County of Suffolk, against the Authority seeking, inter alia, an injunction enjoining the Authority from selling bonds "whose purpose is to finance the proposed Shoreham Property Tax Settlement, the Shoreham Rebates, Credits and Suffolk Surcharge." The action further requested a judgment declaring invalid and directing the rescission of the sale of such bonds. By decision dated October 7, 1998, the Supreme Court dismissed the complaint and rules in favor of the Authority on all issues. On October 28, 1998, the ICE filed a notice of appeal. The Appellate Division, Second Department, granted ICE's second motion to enlarge its time to perfect its appeal. On or about August 1, 1999, ICE filed its brief and appendix with the Appellate Division. The Authority moved to strike ICE's appendix as incomplete. On or about September 14, 1999, the Appellate Division granted the Authority's motion and directed ICE to file a corrected appendix on or before October 1, 1999. ICE moved in the Appellate Division for reargument. The Appellate Division denied the motion and directed ICE to file a corrected appendix on or before November 9, 1999. Rather than file the corrected appendix, ICE withdrew its appeal. This proceeding is thus concluded.

In May 1995, eight participants of LILCO's Retirement Income Plan ("RIP") filed a lawsuit against LILCO, the RIP and Robert X. Kelleher, the Plan Administrator, in the United States District Court for the Eastern District of New York. In January 1996, the Court ordered that this action be maintained as a class action. This proceeding arose in connection with the plaintiff's withdrawal, approximately 25 years ago, of contributions made to the RIP, thereby resulting in a reduction of their pension benefits. On January 7, 1999, a settlement agreement was filed with the Court providing for the payment of $7.75 million to the plaintiffs. The Authority would be responsible for approximately $5.4 million. A revised proposed settlement was submitted to the Court for approval on February 22, 1999. A fairness hearing on

the proposed settlement was held on August 12, 1999, and the Court approved the settlement and entered a judgment on August 13, 1999. The case is now concluded.

In December 1997, Suffolk County brought a suit against the Authority and others in the Supreme Court of the State of New York seeking a judgment, among other things: (i) annulling and vacating the acceptance by the Authority of certain conditions contained in the July 1997 PACB resolution approving the Authority's acquisition of LILCO and related transactions; (ii) declaring that all or any actions taken by the Authority to implement or carry out the PACB conditions are null and void; and (iii) directing that the Authority take no further action to acquire the stock or assets of LILCO unless and until such acquisition has been approved by the PACB in the manner approved by law. A decision was rendered in March 1998 which held for the Authority on all substantive issues. Suffolk County filed a notice of appeal to the Appellate Division of the State of New York, Second Department, and on September 18, 1998 filed its brief with that court. The Authority's brief was filed with the Appellate Division, Second Department, on December 28, 1998. Suffolk County filed its reply brief on January 6, 1999. Oral argument has yet to be calendered. Pursuant to the Settlement Agreement, this proceeding will be discontinued with prejudice.

LIPA may from time to time become a party to various legal proceedings arising in the ordinary course of its business. In the judgment of the Authority and LIPA, these matters will not individually or in the aggregate, have a material effect on the financial position, results of operations or cash flows of LIPA.

Environmental

In connection with the Merger, KeySpan and LIPA entered into Liabilities Undertaking and Indemnification Agreements which, when taken together, provide, generally, that environmental liabilities will be divided between KeySpan and LIPA on the basis of whether they relate to assets transferred to KeySpan or retained by LIPA as part of the Merger. In addition, to clarify and supplement these agreements, KeySpan and LIPA also entered into an agreement to allocate between them certain liabilities, including environmental liabilities, arising from events occurring prior to the Merger and relating to the business and operations to be conducted by LIPA after the Merger (the "Retained Business") and to the business and operations to be conducted by KeySpan after the Merger (the "Transferred Business").

KeySpan is responsible for all liabilities arising from all manufactured gas plant operations ("MGP Sites"), including those currently or formerly operated by KeySpan or any of its predecessors, whether or not such MGP Sites related to the Transferred Business or the Retained Business. In addition, KeySpan is liable for all environmental liabilities traceable to the Transferred Business and certain scheduled environmental liabilities. Environmental liabilities that arise from the non-nuclear generating business may be recoverable by KeySpan as part of the capacity charge under the PSA. LIPA is responsible for all environmental liabilities traceable to the Retained Business and certain scheduled environmental liabilities.

Environmental liabilities that exist as of the date of the Merger that are untraceable, including untraceable liabilities that arise out of common and/or shared services have been allocated 53.6% to LIPA and 46.4% to KeySpan.

Environmental Matters Retained by LIPA

Long Island Sound Transmission Cables. The Connecticut Department of Environmental Protection ("DEP") and the New York State Department of Environmental Conservation ("DEC") separately have issued Administrative Consent Orders ("ACOs") in connection with releases of insulating fluid from an electric transmission cable system located under the Long Island Sound. The ACOs require the submission of a series of reports and studies describing cable system condition, operation and repair practices, alternatives for cable improvements or replacement, and environmental impacts associated with prior leaks of fluid into the Long Island Sound. Compliance activities associated with the ACOs are ongoing.

Simazine. Simazine is a commercially available herbicide manufactured by Novartis that was used by LILCO as a defoliant until 1993 under the direction of a New York State Certified Pesticide Applicator. Simazine contamination was found in groundwater at one of the LIPA substations in 1997. LIPA is working cooperatively with the Suffolk County Department of Health, the DEC and Novartis to conduct studies and monitoring activities in connection with the presence of this herbicide. The liability, if any, resulting from the use of this herbicide cannot yet be determined. However, LIPA does not believe that it will have a material adverse effect on its financial position, cash flows, or results of operations.

Superfund Sites

Under Section 107(a) of the federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA", also commonly referred to as the "Superfund Legislation"), parties who generated or arranged for disposal of hazardous substances are liable for costs incurred by the Environmental Protection Agency ("EPA") in responding to a release or threat of release of the hazardous substances.

Metal Bank. In December 1997, the EPA issued its Record of Decision ("ROD"), in connection with the remediation of a licensed disposal site located in Philadelphia, Pennsylvania, and operated by Metal Bank of America. In the ROD, the EPA estimated that the present worth cost of the selected remedy for the site is $17.3 million. In June 1998, the EPA issued a unilateral administrative order to 13 PRPs, including LIPA, for the remedial design and for remedial action at the site. LIPA can not predict with reasonable certainty the actual cost of the selected remedy, who will implement the remedy, or the cost, if any, to LIPA. Under a PRP participation agreement, LIPA is responsible for 7.95% of the costs associated with implementing the remedy. LIPA has recorded a liability of $1.6 million representing its estimated share of the additional cost to remediate this site.

PCB Treatment Inc. LILCO has also been named a PRP for disposal sites in Kansas City, Kansas and Kansas City, Missouri. The two sites were used by a company named PCB Treatment, Inc. from 1982 until 1987 for the storage, processing, and treatment of electric equipment, oils and other materials containing PCBs. According to the EPA, the buildings and certain soil areas outside the buildings are contaminated with PCBs. Certain of the PRPs, including LILCO and several other utilities, formed a group, signed a consent order, and have developed a work plan for investigating environmental conditions at the site. The EPA provided LILCO with documents indicating that LILCO was responsible for less than 1% of the materials that were shipped to this site. LIPA is currently unable to determine its share of the cost to remediate these sites.

Environmental Matters Which May Be Recoverable From LIPA By KeySpan Through The PSA
Asharoken. In March 1996, the Village of Asharoken (the "Village") filed a lawsuit against LILCO in the New York Supreme Court, Suffolk County (*Incorporated Village of Asharoken, New York, et al.* v. *Long Island Lighting Company*). The Village is seeking monetary damages and injunctive relief based upon theories of negligence, gross negligence and nuisance in connection with the LILCO design and construction of the Northport Power Plant which the Village alleges upset the littoral drift, thereby causing beach erosion. In November 1996, the court decided LILCO's motion to dismiss the lawsuit, dismissing two of the three causes of action. The court limited monetary damages on the surviving continuous nuisance claim to three years prior to the commencement of the action. The liability, if any, resulting from this proceeding cannot yet be determined. However, LIPA does not believe that this proceeding will have a material adverse effect on its financial position, cash flows or results of operations.

Environmental Matters Which Are Currently Untraceable For Which LIPA Could Have Responsibility
Other Superfund Sites. In connection with a lawsuit filed against LILCO and nine other PRPs by the Town of Oyster Bay for indemnification for remediation and investigation costs for a federal Superfund site in Syosset, New York, a settlement agreement has been reached and is subject to court approval. If approved, the settlement would not have a material adverse effect on LIPA's financial position, cash flows or results of operations. In addition, LILCO was notified by the Attorney General of the State of New York that it may be responsible for the disposal of wastes and/or for the generation of hazardous substances that may have been disposed of at the Blydenburgh Superfund site. LILCO conducted a search of its corporate records and did not locate any documents concerning waste disposal practices associated with this landfill.

The DEC has notified LILCO, pursuant to the New York State superfund program, that LIPA may be responsible for the disposal of hazardous substances at the Huntington/East Northport Site, a municipal landfill property. The DEC investigation is in its preliminary stages, and LIPA is currently unable to determine its share, if any, of the costs to investigate and remediate this site.

Other Matters
As a result of the Merger, LIPA has assumed contracts with numerous Independent Power Producers ("IPPs") and the New York Power Authority ("NYPA") for electric generating capacity. Under the terms of the agreement with NYPA, which will expire in May 2014, LIPA may purchase up to 100% of the electric energy produced at the NYPA facility located within LIPA's service territory at Holtsville, New York. LIPA is required to reimburse NYPA for the minimum debt service payments and to make fixed non-energy payments associated with operating and maintaining the plant.

With respect to contracts entered into with the IPPs, LIPA is obligated to purchase all the energy they make available to LIPA at prices that often exceed current market prices. However, LIPA has no obligation to the IPPs it they fail to deliver energy. For purposes of the table below, LIPA has assumed full performance by the IPPs, as no event has occurred to suggest anything less than full performance by these parties. The contracts with the IPPs expire on various dates through 2022.

LIPA had also assumed a contract with NYPA for firm transmission ("wheeling") capacity in connection with a transmission cable that was constructed, in part, for the benefit of LIPA. With the inception of the New York Independent System Operator ("ISO") on November 18, 1999, this contract was provided with "grandfathered rights" status. Grandfathered rights allow the contract parties to continue business as

usual under the ISO. That is, the concept of firm physical transmission service continues. LIPA was provided with the opportunity to convert its grandfathered rights for this existing transmission agreement ("ETA") into Transmission Congestion Contracts ("TCCs"). TCCs provide an alternative to physical transmission reservations, which were required to move energy from point A to point B prior to the ISO. Under the rules of the ISO, energy can be moved from point A to point B without a transmission reservation however, the entity moving such energy is required to pay a tolling fee to the owner of the TCC. This tolling fee is called transmission congestion and is set by the ISO.

Although LIPA has elected to convert its ETAs into TCCs, LIPA will continue to pay all transmission charges per the ETA, which expires in 2020. In return, LIPA has the potential to receive added revenues from congestion charges. All such charges and revenue associated with the TCCs are considered components of or reductions to fuel costs, and as such are included in the FPPCA calculation.

The following table represents LIPA's commitments under purchased power contracts:

(In millions of doll

	NYPA Holtsville					
	Debt Service	Other Fixed Charges	Energy*	Firm Transmission	IPPs*	Tota Busine
For the years ended						
2000	$ 21.791	$ 12.865	$ 8.554	$ 12.250	$ 135.1	$ 190.:
2001	21.873	15.085	9.406	19.250	137.9	203.:
2002	21.960	15.386	9.465	19.250	141.4	207.·
2003	22.050	15.738	9.575	19.250	145.0	211.·
2004	22.146	16.099	9.648	19.250	127.7	194.:
Subsequent thereto	193.743	169.012	97.721	420.750	878.8	1,760.·
Total	303.563	244.185	144.369	510.000	1,565.9	2,768.
Less: Imputed Interest	127.519	110.057	64.222	317.336	611.2	1,230.
	$ 176.044	$ 134.128	$ 80.147	$ 192.664	$ 954.700	$ 1,537.

* Assumes full performance by the IPPs and NYPA.

Note 11. Regulatory Asset

Settlement Agreement

As discussed in Note 10, in January 2000, the Authority reached an agreement with the Suffolk Taxing Jurisdictions and Nassau County regarding the over assessment of the Shoreham Nuclear Power Station. Under the terms of the agreement, the Authority is to issue $457.5 million of rebates and credits to customers over a five-year period which began May 29, 1998. In addition, non Suffolk County customers

will receive additional rebates totaling approximately $25 million. In order to fund such rebates and credits, the Authority issued $142.5 million Electric System General Revenue Bonds, Series 1998A in May 1998 and is to issue approximately $323 million Electric System General Revenue Bonds, Series 2000A in 2000. Beginning in May 2003, LIPA's Suffolk County customers' bills will include a surcharge (the Suffolk Surcharge) to be collected over the succeeding 25 year period to repay the Authority for the principal on the bonds plus interest, and administrative fees associated with the issuance of the credits, rebates and related financing.

As future rates will be established at a level sufficient to recover all such costs identified above, LIPA has, at December 31, 1999, recorded a regulatory asset totaling approximately $234 million in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation". This $234 million is comprised of costs recorded in 1998 which includes rebates and credits to customers and costs of administering the program totaling approximately $169 million and interest incurred between the dates that the rebates were issued and December 31, 1998 totaling approximately $1 million. The remainder of the regulatory asset is comprised of costs incurred during 1999 and includes approximately $58 million of credits and rebates and approximately $1 million for the proportionate share of the unamortized costs of issuing the $142.5 million 1998 Series A Bonds, and interest charges incurred plus carrying charges totaling approximately $10 million, offset by the $5 million LIPA contribution to the settlement which will not be collected through the Suffolk Surcharge.

As indicated above, the costs incurred during 1998, which were charged to customer rebates, have been recorded as a regulatory asset in 1999, with a corresponding offset in the Statement of Revenues, Expenses, and Changes in Retained Earnings/(Accumulated Deficit) entitled rebates recoverable. In accordance with Emerging Issues Task Force Issue No. 93-4 "Accounting for Regulatory Assets" (EITF 93-4), costs incurred that did not previously qualify as a regulatory asset can be capitalized as a regulatory asset in a subsequent period (i.e. 1999), when the capitalization criteria are met. As the requirements of SFAS No. 71 were met upon completing the Settlement Agreement, which took place subsequent to year-end but prior to the issuance of the financial statements, the Company has reflected the effects of the *Settlement* in its 1999 financial statements as a Type I subsequent event as defined in Statement on Auditing Standards No. 1.

Costs incurred during 1999 were capitalized as a regulatory asset during the period.

In addition to the items described above, other costs related to the Settlement were incurred, but as future rates will not be established at levels to recover such costs, they fail to meet the capitalization criteria of SFAS No. 71. These costs include $25 million to be contributed to Nassau County to fund the Clean Energy initiative.

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APPENDIX C

GLOSSARY OF DEFINED TERMS

The following terms, as generally used in Part 1, Part 2 and Appendices D and E of this Official Statement, have the respective meanings provided below. These summary definitions do not purport to be complete or definitive and are qualified in their entirety by reference to the Resolution, the Financing Agreement, the MSA, the PSA and the EMA, copies of which are on file with the Trustee.

"**Account**" means one of the special accounts created and established pursuant to the Resolution.

"**Acquisition Debt**" means (A) all Bonds and Subordinated Indebtedness issued for the purposes of providing funds to (i) complete the LIPA/LILCO Merger, (ii) refinance and/or retire any Retained Debt of LIPA, and (iii) pay fees and expenses incurred in conjunction with the foregoing, and (B) all other Outstanding LIPA Unsecured Debt.

"**Act**" means the Long Island Power Authority Act, being Title One-A of Article 5 (§ 1020 *et seq.*) of the Public Authorities Law of the State, as amended.

"**Administrative Services Agreement**" means the Administrative Services Agreement, dated as of May 1, 1998, between the Authority and LIPA, as the same may be amended and supplemented.

"**Affiliate**" means any person, corporation or other entity directly or indirectly controlling or controlled by another person, corporation or other entity or under direct or indirect common control with such person, corporation or other entity.

"**Ancillary Services**" means the ancillary services required by ISO from time to time to enable the ISO to operate the transmission system in New York State in a secure and reliable manner.

"**Annual Report**" means the report of certain financial and operating data prepared annually by the Authority as required by and described in the Disclosure Certificate.

"**Annual T&D Budget**" means such budget as defined in the MSA (and as summarized in Appendix E under the caption "Summary of Certain Provisions of the Management Services Agreement—Summary of Certain Provisions of the Management Services Agreement—Annual T&D Budget and Five Year Planning Process").

"**Applicable Law**" means any law, rule, regulation, condition, requirement, guideline, ruling, ordinance or order of or any Legal Entitlement issued by, any Governmental Body and applicable from time to time to the performance of the obligations of the parties to an Agreement.

"**Authority Budget**" means the annual budget of the Authority, as amended or supplemented, adopted or in effect for a particular Fiscal Year, included as part of the System Budget as provided in the Resolution.

"**Authority Obligations**" means, collectively, all Bonds and other bonds, notes or other evidences of indebtedness for money borrowed by the Authority, Parity Reimbursement Obligations, Parity Contract Obligations and Subordinated Indebtedness, but shall not include debt of the Authority not secured by the Trust Estate.

"**Authorized Representative**" means in the case of both the Authority and LIPA, their respective Chairman, Chief Executive Officer, Executive Director, Chief Financial Officer, Controller or Chief Operating Officer, or such other person or persons so designated by resolution of the Authority or LIPA, as the case may be.

"**Beneficial Owner**" shall have the meaning assigned thereto in Appendix G to this Official Statement.

"**Billing Period**" means each calendar month in each Contract Year, except that the last Billing Period shall end on the last day of the term of the Agreement. Any computation made on the basis of a Billing Period shall be adjusted on a pro rata basis to take into account any Billing Period of less than the actual number of days in the month to which such Billing Period relates.

"**Bond Counsel**" means (i) Hawkins, Delafield & Wood, New York, New York or (ii) any attorney or firm of attorneys of nationally recognized standing in the field of law relating to revenue bonds of municipalities and public agencies, selected by the Authority and reasonably satisfactory to the Trustee.

"**Bond Payment Date**" means each date on which interest or both a Principal Installment and interest shall be due and payable on any of the Outstanding Bonds or Parity Reimbursement Obligations according to their terms.

"**Bondholder**", "**Owner**" or "**Holder**" means, when used with reference to a Bond, the person in whose name the Bond is registered on the registry books kept by the Trustee pursuant to the Resolution.

"**Bonds**" means all bonds, notes or other evidence of indebtedness of the Authority issued pursuant to the Resolution that are on a parity, senior lien basis as to security and source of payment.

"**Business Day**" means any day other than a Saturday, Sunday or Legal Holiday.

"**Capital Lease**" means any capital lease or other obligation (other than Bonds, Subordinated Indebtedness, Outstanding LIPA Unsecured Debt, Parity Contract Obligations, Subordinated Contract Obligations, Parity Reimbursement Obligations, Subordinated Reimbursement Obligations, or certain obligations issued for Separately Financed Projects), treated as debt under the accounting principles pursuant to which the books of account of the Authority or LIPA, as the case may be, are kept and audited.

"**Capitalized Interest**" means that portion of the proceeds of any Bonds, and interest earnings thereon, used to pay interest on any Bonds.

"**Certificate**" means (i) a signed document attesting to or acknowledging the matters therein stated or setting forth matters to be determined pursuant to the Resolution or otherwise, (ii) the report of an Accountant as to an audit or compliance called for by the Resolution, or (iii) any report of the Consulting Engineer or Rate Consultant as to any matter called for by the Resolution or the Financing Agreement.

"**Change of Control**" means (i) the acquisition of beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the " 1934 Act")) of 35% or more of the outstanding shares of securities the holders of which are generally entitled to vote for the election of directors of the Manager, the Energy Manager or the Guarantor, as the case may be (including securities convertible into, or exchangeable for, such securities or rights to acquire such securities or securities convertible into, or exchangeable for such securities, "Voting Stock"), on a fully diluted basis, by any Person or group of Persons (within the meaning of Section 13 or 14 of the 1934 Act); (ii) any sale, transfer or other disposition of beneficial ownership of 35% or more of the outstanding shares of the Voting Stock, on a fully diluted basis, of the Manager, the Energy Manager or the Guarantor, as the case may be; (iii) any merger, consolidation, combination or similar transaction of the Manager, the Energy Manager or the Guarantor, as the case may be, with or into any other Person, whether or not the Manager, the Energy Manager or the Guarantor, as the case may be, is the surviving entity in any such transaction; (iv) any sale, lease, assignment, transfer or other disposition of the beneficial ownership in 35% or more of the property, business or assets of the Manager, the Energy Manager or the Guarantor, as the case may be; (v) a Person other than the current shareholders of the Manager, the Energy Manager or the Guarantor, as the case may be, obtains, directly or indirectly, the power to direct or cause the direction of the management or policies of the Manager, the Energy Manager or the Guarantor, as the case may be, whether through the ownership of capital stock, by contract or otherwise; (vi) during any period of 12 consecutive calendar months, when individuals who were directors of the Manager, the Energy Manager or the Guarantor, as the case may be, on the first day of such period cease to constitute a majority of the board of directors of the Manager, the Energy Manager or the Guarantor, as the case may be; or (vii) any liquidation, dissolution or winding up of the Energy Manager or the Guarantor, as the case may be..

"**Code**" means the Internal Revenue Code of 1986, as amended, or any successor thereto, as the same may be in effect from time to time.

"**Common Facilities**" has the meaning attributed to that term in the FERC Uniform System of Accounts.

"**Construction Fund**" means the fund by that name established pursuant to the Resolution.

"**Construction Work**" means the services to be provided and materials to be supplied by the Manager, relating to the design, procurement, construction, start-up and testing of the Major Capital Improvements and Public Works Improvements.

"**Consulting Engineer**" means, (i) when such term is used in the Resolution and the Financing Agreement, any independent engineer or firm of engineers of recognized standing selected by the Authority and may

include an independent engineer or firm of engineers of recognized standing selected by the Authority or LIPA in one or more other capacities (the Independent Consultant presently serves as the Consulting Engineer) and (ii) when such term is used in the Operating Agreements, a nationally recognized consulting engineer or firm of consulting engineers, having experience with respect to the design, construction, testing, operation and maintenance of electricity transmission and distribution systems, which is designated as the Consulting Engineer for the purposes of the subject Agreement from time to time in writing by LIPA.

"Contract Standards" means the terms, conditions, requirements, methods, techniques, standards and practices of (1) Applicable Law, (2) the System Policies and Procedures, (3) the substantive requirements and standards and guidelines established by the PSC that apply as of the LIPA/LILCO Merger Closing Date to the operation and maintenance of the T&D System, except to the extent otherwise directed by LIPA, (4) Prudent Utility Practice, (5) the Performance Guarantees, (6) the Operation and Maintenance Manual, (7) applicable equipment manufacturer's specifications and reasonable recommendations, (8) applicable Insurance Requirements, and (9) any other term, condition or requirement specifically provided in this Agreement to be observed by the Manager.

"Contract Year", except as LIPA shall otherwise propose subject to the approval of the Manager, or the Energy Manager, as the case may be, which approval shall not be unreasonably withheld, means the calendar year commencing on January 1 in any year and ending on December 31 of that year; provided, however, that the first Contract Year shall commence on the LIPA/LILCO Merger Closing Date and shall end on December 31 of that year, and the last Contract Year shall commence on January 1 prior to the date the Agreement expires or is terminated, whichever is appropriate, and shall end on the last day of the term of the Agreement or the effective date of any termination, whichever is appropriate. Any computation made on the basis of a Contract Year shall be adjusted on a pro rata basis to take into account any Contract Year of less than 365/366 days.

"Cost Incentive Fee" means such fee as defined in the MSA (and as summarized in Appendix E under the caption "Summary of Certain Provisions of the Management Services Agreement—Compensation and Budgets—Management Fee, Cost Incentive Fee and Non-cost Performance Incentives and Disincentives").

"Costs" means costs of any System Improvements or any other purpose related to the System for which bonds, notes or other obligations of the Authority may be issued under the Act or under other applicable State statutory provisions (whether or not also classifiable as an Operating Expense), including but not limited to direct costs, incidental costs (including but not limited to legal, administrative, engineering, consulting and technical services, insurance and financing costs), working capital and reserves deemed necessary or desirable by LIPA and approved by the Authority, and other costs properly attributable thereto including but not limited to the payment of principal, interest, and redemption, tender or purchase price of any (i) obligations issued by the Authority for the payment of any of such costs, (ii) Outstanding LIPA Unsecured Debt, (iii) obligations issued to pay Capitalized Interest or (iv) obligations issued to refund any obligations referred to in clauses (i) or (iii) or Outstanding LIPA Unsecured Debt referred to in clause (ii); all items of expense directly or indirectly payable or reimbursable and related to the authorization, sale and issuance of Bonds, including but not limited to printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of the Bonds and any other cost, charge or fee in connection with the original issuance of Bonds; termination payments under the PSA or other agreement of the Authority or LIPA for power supply purposes; and termination payments under Financial Contracts.

"Credit Facility" means a letter of credit, revolving credit agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution which provides for payment of all or a portion of the Principal Installments or interest due on any Bonds including through a reserve or similar fund.

"Debentures" means the unsecured debentures of LILCO retained by LIPA. The Debentures constitute a portion of the Retained Debt.

"Debt Service" for any Fiscal Year or part thereof means, as of any date of calculation, the sum of (i) with respect to any Outstanding Bonds, an amount equal to the sum of (a) interest payable during such Fiscal Year or part thereof on such Bonds, except to the extent that such interest is to be paid from amounts representing Capitalized

Interest and (b) the Principal Installments of such Bonds payable during such Fiscal Year or part thereof and (ii) with respect to a Parity Reimbursement Obligation, an amount equal to the sum of (a) interest payable during such Fiscal Year or part thereof on such Parity Reimbursement Obligation and (b) the Principal Installments of such Parity Reimbursement Obligation payable during such Fiscal Year or part thereof. Such interest and Principal Installments shall be calculated on the assumption that (x) no such Bonds, or Parity Reimbursement Obligations Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment thereof upon stated maturity or upon mandatory redemption by application of Sinking Fund Installments and (y) variable rate Bonds will bear interest at the greater of (A) the rate or rates which were assumed by LIPA in the Authority Budget for such Fiscal Year to be borne by variable rate Bonds during such Fiscal Year or (B) the average rate or rates borne on variable rate Bonds Outstanding during the twelve calendar months preceding the date of calculation, but at a rate not less than the rate or rates borne thereon as of such date of calculation; provided, however, that if LIPA has in connection with any variable rate Bonds entered into a Financial Contract which provides that the Authority is to pay to the Qualified Counterparty an amount determined based upon a fixed rate of interest on the Outstanding principal amount of such variable rate Bonds or that the Qualified Counterparty is to pay to the Authority an amount determined based upon the amount by which the rate at which such variable rate Bonds bear interest exceeds a stated rate of interest on all or any portion of such variable rate Bonds, it will be assumed that such variable rate Bond bears interest at the fixed rate of interest to be paid by the Authority or the rate in excess of which the Qualified Counterparty is to make payment to the Authority in accordance with such agreement.

"**Debt Service Component,**" when used with reference to Supply Contracts with any entity, means that portion of any rates, fees, charges, surcharges or payments for the specific purpose of meeting principal and/or interest on that entity's obligations directly associated with that contract and payable to such entity regardless of delivery, and the principal and/or interest component of any Capital Lease.

"**Debt Service Fund**" means the fund by that name established pursuant to the Resolution.

"**DEC**" means the New York State Department of Environmental Conservation.

"**Defeasance Obligations**" means obligations of the type described in clause (ii), (iii) or (ix) of the definition of Investment Securities, which are not subject to redemption prior to maturity except at the option of the holder.

"**Depositary**" means any bank or trust company selected by LIPA or the Authority, as the case may be, as a depositary of moneys to be held under the provisions of the Financing Agreement or the Resolution and may include the Trustee.

"**Direct Cost Budget**" means such budget as defined in the MSA (and as summarized in Appendix E under the caption "Summary of Certain Provisions of the Management Services Agreement—Annual T&D Budget and Five Year Planning Budget Process—Annual T&D Budget Preparation").

"**Direct Costs**" means such costs as defined in the MSA (and as summarized in Appendix E under the caption "Summary of Certain Provisions of the Management Services Agreement—Annual T&D Budget and Five Year Planning Budget Process—Annual T&D Budget Preparation").

"**Direct DTC Participants**" or "**Direct Participants**" shall have the meaning assigned thereto in Appendix G to this Part 2.

"**Disbursement Request**" means the written request signed by an Authorized Representative of LIPA and required to be delivered to the Authority pursuant to the Financing Agreement to effect disbursements from the Construction Fund.

"**Disclosure Certificate**" means the Form of Continuing Disclosure Certificate attached to this Official Statement as an Appendix.

"**Electricity**" means the electrical energy (real and reactive) and capacity available from the System Power Supply.

"**Electricity Customers**" means the retail and wholesale customers of LIPA located in the Service Area.

"EMA" or **"Energy Management Agreement"** means the Energy Management Agreement, dated as of June 26, 1997, between the Energy Manager and LIPA, as amended and supplemented, pursuant to which the Energy Manager, among other things, procures and manages fuel supplies for the GENCO Generating Facilities.

"Encumbrances" means any lien, lease, mortgage, security interest, charge, judgment, judicial award or encumbrance with respect to the T&D System (other than those associated with any retainage holdback on construction materials, supplies and equipment).

"Energy Manager" means the KeySpan Sub that is party to the EMA and that is responsible for providing to LIPA the energy management functions and services required by the EMA.

"Event of Default" means, (i) when such term is used in the Resolution and the Financing Agreement, any event specified in the Resolution as an "Event of Default" (and as summarized in Appendix D under the caption "Event of Default; Remedies Upon Default") and (ii) when such term is used in the Operating Agreements, such events as defined in the EMA, the MSA or the PSA (and as summarized, with respect to the EMA, in Appendix E, under the caption "Summary of Certain Provisions of the Energy Management Agreement – Term: Events of Default," and as summarized, with respect to the MSA, in Appendix E, under the caption "Summary of Certain Provisions of the Management Services Agreement – Default, Termination for Cause and Dispute Resolution," and as summarized, with respect to the PSA, in Appendix E, under the caption "Summary of Certain Provisions of the Power Supply Agreement – Term and Termination").

"FERC" means the Federal Energy Regulatory Commission.

"Fiduciary" means the Trustee, any Paying Agent, any Depositary, or any Authenticating Agent.

"Financial Contract" means, to the extent from time to time permitted by law, any financial arrangement entered into by the Authority with respect to Bonds or Subordinated Indebtedness, and any financial arrangement entered into by the Authority or LIPA with respect to Outstanding LIPA Unsecured Debt, for the purpose of moderating interest rate fluctuations or any other purpose, (i) which is entered into with an entity that is a Qualified Counterparty at the time the arrangement is entered into, and (ii) which is any of the following, or any combination thereof, or any option with respect thereto: a cap, floor or collar; forward rate; future rate; swap (such swap may be based on an amount equal either to the principal amount of such Bonds or Subordinated Indebtedness, or of such Outstanding LIPA Unsecured Debt, as the case may be, as may be designated or a notional principal amount relating to all or a portion of the principal amount of such Bonds or Subordinated Indebtedness, or such Outstanding LIPA Unsecured Debt, as the case may be); asset, index, price or market-linked transaction or agreement; other exchange or rate protection transaction agreement; or other similar transaction (however designated).

"Financing Agreement" means the Financing Agreement, dated as of May 1, 1998, by and between the Authority and LIPA to provide for their respective duties and obligations relating to the financing and operation of the retail electric business in the Service Area, as the same may be amended or supplemented.

"Firm Gas Supply" means a type of natural gas supply delivered or transported to a City Gate which may not be interrupted except for "force majeure" events. Such gas may be interrupted on the gas distribution system serving LILCO's existing gas service area whenever its continued delivery would adversely affect the reliability of the gas distribution system serving LILCO's existing gas service area.

"Fiscal Year" means the twelve-month period commencing on January 1 of each year; provided, however, that the Authority and LIPA may, from time to time, mutually agree on a different twelve-month period as the Fiscal Year, in which case January 1, when with reference to Fiscal Year, shall be construed to mean the first day of the first calendar month of such different Fiscal Year.

"Fitch" means Fitch IBCA, Inc., formerly known as Fitch Investors Services, L.P. and its successors and their assigns.

"Five-Year Planning Budget" means such budget as defined in the MSA (and as summarized in Appendix E under the caption "Summary of Certain Provisions of the Management Services Agreement—Annual T&D Budget and Five Year Planning Budget Process—Annual T&D Budget Preparation").

"Fixed Direct Fee" means such fee as defined in the MSA (and as summarized in Appendix E under the caption "Summary of Certain Provisions of the Management Services Agreement—Service Fee—Formula").

"Fuel" means the natural gas, oil, kerosene or other fossil fuel used for operating the GENCO Generating Facilities.

"Fuel Management Fee" means such fee as defined in the EMA (and as summarized in Appendix E under the caption "Summary of Certain Provisions of the Energy Management Agreement—Fuel Management—Fuel Management Fee").

"Fuel Purchase Performance Incentive/Disincentive" means the incentive payment to or disincentive payment from the Energy Manager calculated in accordance with an appendix to the EMA.

"Fuel Services" means those services required to be furnished and done for and relating to the delivery of Fuel to the GENCO Generating Facilities by the Energy Manager pursuant to the EMA subsequent to the LIPA/LILCO Merger Closing Date. A reference to "Fuel Services" shall mean "any part and all of the Fuel Services" unless the context otherwise requires.

"GENCO" means the KeySpan Sub that is the owner of the generating assets used to supply power and energy under the PSA and that is the party to the PSA responsible to LIPA for furnishing such power and energy.

"GENCO Generating Facilities" or **"Generating Facilities"** means the electric generating facilities owned by GENCO and under contract at any time with LIPA under the Power Supply Agreement.

"Generation Purchase Option" means the right of LIPA to acquire the GENCO Generating Facilities at fair market value during the 12-month period beginning in May 2002 that is granted to LIPA by GENCO under the Generation Purchase Right Agreement.

"Generation Purchase Right Agreement" means the Generation Purchase Right Agreement, dated as of June 26, 1997, by and between GENCO, as seller, and LIPA, as buyer (if the Generation Purchase Option is exercised), and their respective successors and assigns.

"Governmental Body" means any federal, State or local legislative, executive, judicial or other governmental board, agency, authority, commission, administration, court or other body, or any official thereof having jurisdiction with respect to any matter which is a subject of the Agreement other than LIPA.

"Guarantor" means KeySpan and its successors and assigns permitted under the Guaranty Agreement.

"Guaranty Agreement" or "Guaranty" means the Guaranty Agreement entered into at the time of completion of the LIPA/LILCO Merger pursuant to which KeySpan has guaranteed to the Authority payment when due of all amounts payable by the KeySpan Subs under the Operating Agreements and the performance of the covenants and agreements of the KeySpan Subs under the Operating Agreements.

"Incremental Internal Costs" means such costs as defined in the MSA (and as summarized in Appendix E under the caption "Summary of Certain Provisions of the Management Services Agreement—Annual T&D Budget and Five Year Planning Budget Process—Other Costs").

"Independent Consultant" or "Navigant" means Navigant Consulting, Incorporated, an independent consultant to the Authority and author of the Independent Consultant's Report.

"Independent Consultant's Report" means the Independent Consultant's Report contained in Appendix A to this Part 2.

"Insurance Requirement" means any rule, regulation, code, or requirement issued by any fire insurance rating bureau or any body having similar functions or by any insurance company which has issued a policy of construction work insurance or operation period insurance under the Agreement, as in effect during the term thereof.

"Investment Securities" means and includes any of the following securities, if and to the extent the same are at the time legal investments by the Authority of the funds to be invested therein and conform to the policies set forth in any investment guidelines adopted by the Authority and in effect at the time of the making of such investment: (i) direct obligations of, or obligations guaranteed as to principal and interest by, any state or direct obligations of any agency, public authority or political subdivision thereof, provided such obligations are rated, at the time of purchase, in one of the three highest Rating Categories by a Rating Agency; (ii) (a) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are guaranteed by the United States

of America, including obligations of any agency thereof or corporation which has been or may be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America or (b) any other receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in subclause (a) of this clause (ii); (iii) obligations of any agency, subdivision, department, division or instrumentality of the United States of America, or obligations fully guaranteed as to interest and principal by any agency, subdivision, department, division or instrumentality of the United States of America; (iv) banker's acceptances or certificates of deposit issued by a commercial bank with its principal place of business within the State and having capital and surplus of more than $100 million; (v) corporate securities, including commercial paper and fixed income obligations, which are, at the time of purchase, rated by a Rating Agency in one of its three highest Rating Categories for comparable types of obligations; (vi) repurchase agreements or other investment agreements collateralized by securities described in clause (ii) above with any registered broker/dealer or with any domestic commercial bank whose long-term debt obligations are rated "investment grade" by each Rating Agency, provided that (a) a specific written repurchase agreement governs the transaction, (b) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is either a direct member of the Federal Reserve Bank or a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (c) the repurchase agreement has a term of thirty days or less, or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five business days of such valuation, and (d) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%; (vii) investment agreements or guaranteed investment contracts with any financial institution whose senior long term debt obligations, or whose obligations under such an investment agreement or guaranteed investment contract, are guaranteed by a financial institution whose senior long term debt obligations, have a rating (at the time such agreement or contract is entered into) in one of the three highest Rating Categories for comparable types of obligations by a Rating Agency; (viii) money market funds rated in one of the three highest Rating Categories for comparable types of obligations by a Rating Agency; (ix) municipal obligations, the payment of principal and redemption price, if any, and interest on which is irrevocably secured by obligations of the type referred to in clauses (i), (ii) or (iii) above and which obligations have been deposited in an escrow arrangement which is irrevocably pledged to the payment of such municipal obligations and which municipal obligations are rated in the highest Rating Category by a Rating Agency, or any other municipal obligation rated in the highest Rating Category by a Rating Agency; (x) obligations of any person or entity which shall be rated at the time of the investment in one of the three highest Rating Categories by a Rating Agency; and (xi) any other investment in which the Authority is permitted to invest under applicable law, notwithstanding any limitations set forth in clauses (i) through (x) above. Obligations of any Fiduciary or an affiliate thereof may be Investment Securities, provided that they otherwise qualify.

"**IRS**" means the United States Internal Revenue Service.

"**ISO**" means the New York not-for-profit corporation formed by NYPA and the Participants which is intended to provide non-discriminatory open-access usage of the electric transmission lines in the State of the Participants and which will schedule the use of said transmission lines.

"**KeySpan**" means KeySpan Corporation, doing business as KeySpan Energy, and its successors and assigns.

"**KeySpan Sub**" means any particular subsidiary company of KeySpan that is a party to an Operating Agreement or another agreement with LIPA or the Authority.

"**Lien**" means any and every lien against the T&D System, the T&D System Site, the Construction Work, the Operation and Maintenance Services or against any monies due or to become due from the Subsidiary to the Manager under the Agreement, for or on account of the Construction Work or the Operation and Maintenance Services.

"**LILCO**" means the Long Island Lighting Company, the publicly-owned gas and electric utility company as it existed prior to the LIPA/LILCO Merger.

"**LIPA**" means the Long Island Lighting Company as it exists after the LIPA/LILCO Merger as a wholly-owned electric utility subsidiary company of the Authority, and which is conducting its business under the name "LIPA," and any successor thereto.

"**LIPA Assets**" means the assets of LILCO retained by LIPA on the LIPA/LILCO Merger Closing Date.

"**LIPA Budget**" means the annual budget of LIPA, as amended or supplemented, adopted or in effect for a particular Fiscal Year as provided in the Financing Agreement.

"**LIPA Expenses**" means all Operating Expenses incurred by LIPA.

"**LIPA General Fund**" means the special fund by that name established by LIPA and held by a bank, trust company or banking association designated by LIPA to act as a depository for the general funds of LIPA.

"**LIPA Note**" means the promissory note or notes of LIPA delivered to the Authority in accordance with the Financing Agreement evidencing the obligation of LIPA to pay to the Authority all amounts necessary to pay Authority Obligations.

"**LIPA Unsecured Debt Fund**" means the fund established in accordance with the Resolution for payment of the principal of and interest on Outstanding LIPA Unsecured Debt, subject to the provisions of the Resolution.

"**LIPA/LILCO Merger**" means (i) the merger which took place on May 28, 1998 and which resulted in LILCO (doing business as LIPA) becoming the wholly-owned electric utility subsidiary of the Authority and (ii) all transactions which were contemporaneously completed as part of or as a condition to said LIPA/LILCO Merger.

"**LIPA/LILCO Merger Agreement**" means the Agreement and Plan of LIPA/LILCO Merger, dated as of June 26, 1997.

"**LIPA/LILCO Merger Closing Date**" means May 28, 1998.

"**LIPA/LILCO Merger Closing**" means the consummation of the LIPA/LILCO Merger.

"**Loss-and-Expense**" means any and all losses, liabilities, obligations, damages, delays, fines, penalties, judgments, deposits, costs, claims, demands, charges, assessments, taxes, or expenses, including all Fees-And-Costs.

"**Major Capital Improvement**" means any repair, replacement, improvement, alteration or addition to the T&D System or any part thereof (other than any repair, replacement, improvement, alteration or addition constituting routine maintenance of the T&D System) contained in the Major Capital Plan and Budget and that has a useful life at least equal to three years.

"**Major Capital Improvement Cost**" means the cost of any Major Capital Improvement which the Manager reasonably incurs and substantiates under the Agreement including, without limitation, expenditures for *material, equipment*, incremental labor, and services supplied by architects, engineers and Subcontractors, and expenses related to managing and administering the Major Capital Improvement. "Major Capital Improvement Cost" shall not include amounts for an allowance for overhead, profit, or contingency.

"**Major Capital Plan and Budget**" means such plan and budget as defined in the MSA (and as summarized in Appendix E under the caption "Summary of Certain Provisions of the Management Services Agreement—Major Capital Improvements—Major Capital Plan and Budget").

"**Management Fee**" means such fee as defined in the MSA (and as summarized in Appendix E under the caption "Summary of Certain Provisions of the Management Services Agreement—Compensation and Budgets—Annual T&D Budget and Five Year Planning Budget Process—Direct Cost Budget").

"**Manager**" means the KeySpan Sub that is party to the MSA and that, under the MSA, operates and maintains the T&D System for LIPA.

"**Manager Fault**" means any breach, failure of compliance, or nonperformance by the Manager with its obligations under the MSA or any negligence or willful misconduct by the Manager under the MSA.

"**Manager Indemnified Parties**" means the Manager and its Affiliates and their respective officers, directors, Subcontractors and employees.

"Monthly Fuel Payment" means such payment as defined in the EMA (and as summarized in this Appendix E, under the caption "Summary Certain Provisions of the Energy Management Agreement—Fuel Management—Monthly Fuel Payment").

"Monthly System Power Supply Management Fee" means such fee as defined in the EMA (and as summarized in Appendix E under the caption "Summary Certain Provisions of the Energy Management Agreement—System Power Supply Management—System Power Supply Management Fee").

"Moody's" means Moody's Investors Service and its successors and their assigns.

"MSA" or "Management Services Agreement" means the Management Services Agreement, dated as of June 26, 1997, between the Manager and LIPA, as amended and supplemented, pursuant to which the Manager operates and maintains the T&D System.

"New York Facilities Agreement" means the New York Facilities Agreement, dated as of January 1, 1994, by and among Consolidated Edison Company of New York, The Brooklyn Union Gas Company and LILCO relating to certain natural gas transmission facilities.

"New York Power Pool" means the member system formerly comprised of Consolidated Edison Company of New York, Inc., Central Hudson Gas and Electric Company, Long Island Lighting Company, Orange and Rockland Utilities, Rochester Gas and Electric Company, New York State Electric and Gas Corporation, Niagara Mohawk Power Corporation, and the Power Authority of the State of New York, as such organization or membership may change from time to time. Such system has been restructured into the ISO.

"Nine Mile Point" means the two-unit nuclear power station located on Lake Ontario near the Town of Scriba, New York.

"NMP2" means Unit 2 of Nine Mile Point.

"NYPA" means the Power Authority of the State of New York.

"NYSERDA" means New York State Energy Research and Development Authority, a public benefit corporation of the State, which issued bonds to finance for LILCO certain pollution control facilities and facilities for the local furnishing of electricity and to which LILCO issued its NYSERDA Financing Notes to evidence its obligation to repay such bonds.

"NYSERDA Financing Notes" means the notes of LILCO supporting the bonds issued on behalf of LILCO by NYSERDA retained by LIPA. Such NYSERDA Financing Notes constitute a portion of the Retained Debt.

"OASIS" means an electronic "Open Access Same-time Information System," which is a system to share transmission-related information (including information about available capacity) on a real-time basis.

"OATT" means an "Open Access Transmission Tariff" under which one party may use another party's transmission facilities upon payment of the charges and tariffs provided for by the OATT.

"Off-System Sales" means the sale of electric capacity and/or energy to wholesale or retail customers located outside the Service Area.

"Operating Agreements" means, collectively, the EMA, the MSA and the PSA.

"Operating Assets" means the T&D System and all of the assets of the Manager used in the operation and maintenance of the T&D System and the performance of the Manager's obligations under the MSA.

"Operating Expense Fund" means the fund by that name established pursuant to the Resolution.

"Operating Expenses" means any and all current expenses of maintaining, repairing, operating and managing the System, including but not limited to the costs of supplies, fuel, fuel assemblies and components required for the operation of the System (including but not limited to any payments made under Supply Contracts other than the Debt Service Component thereof); payments relating to fuel or electricity hedging instruments; all payments under any System Agreements; all salaries, administrative, general, commercial, architectural, engineering, advertising, public notices, auditing, billing, collection and enforcement and legal expenses; insurance

and surety bond premiums; consultants' fees and charges; payments to pension, retirement, health and hospitalization funds; any taxes which may lawfully be imposed on the System or the income or operation thereof or of LIPA; costs of public hearings; ordinary and current rentals of equipment or other property; lease payments for real property or interests therein; expenses of maintenance and repair (including replacements); expenses, liabilities and compensation of the Trustee or any other Fiduciary or Depositary; to the extent provided by by-law, agreement or other instrument of the Authority or LIPA, indemnification of Fiduciaries, Trustees, officers and employees of the Authority, directors, officers and employees of LIPA, and others and premiums for insurance related thereto; reasonable reserves for operation, maintenance and repair and for self-insurance; and all other expenses necessary, incidental or convenient for the efficient operation of the System; all costs and expenses associated with or arising out of the research, development (including feasibility and other studies, including but not limited to resource planning and studies and reports relating to demand side management) and/or implementation of any project, facility, system, task or measure related to the System including but not limited to demand side management programs, deemed desirable or necessary by the Authority or LIPA; all other costs and expenses arising out of or in connection with the conduct of LIPA's business or necessary, incidental or convenient for the efficient operation of LIPA; and all expenses necessary, incidental or convenient for the efficient operation of the Authority and the performance of the obligations of the Authority under the Administrative Services Agreement. Notwithstanding the foregoing, Operating Expenses shall not include (i) any costs and expenses attributable to a Separately Financed Project, (ii) any costs or expenses for new construction or for reconstruction other than restoration of any part of the System to the condition of serviceability thereof when new, (iii) the Debt Service Component of any Supply Contract, (iv) to the extent so specified by the Authority, any incentive payments payable by LIPA under any System Agreement, (v) any payments payable by LIPA under any other agreement the terms of which specify that the same shall not constitute an Operating Expense under the Resolution, (vi) any allowance for depreciation, (vii) payment under any Capital Leases, or (viii) any PILOTs.

"Operation and Maintenance Services" means the services to be provided and materials to be supplied by the Manager pursuant to the MSA during the Operation Period, except Construction Work. Operation and Maintenance Services shall include, without limitation, the employment and furnishing of all labor, materials, equipment, supplies, tools, storage, transfer, transportation, insurance, delivery and other items and services necessary in order for the Manager to perform its routine operation and maintenance obligations under the MSA, as well as all related administrative, accounting, record-keeping, notification and similar services relating to such obligations.

"Operation Period" means the period commencing on the LIPA/LILCO Merger Closing Date and ending on the date the MSA expires in accordance with its terms, or if earlier, on the MSA's Termination Date.

"Option Securities" means bonds, notes or other evidences of indebtedness which by their terms may be tendered by and at the option of the Holder thereof for purchase or payment by or on behalf of the Authority prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Holder thereof.

"Other Costs" means such costs as defined in the MSA (and as summarized in this Appendix E, under the caption "Summary of Certain Provisions of the Management Services Agreement—Compensation and Budgets—Annual T&D Budget and Five Year Planning Budget Process—Other Costs").

"Outstanding" when used with reference to Parity Reimbursement Obligations, shall have the meaning given to such term in the agreement creating such Parity Reimbursement Obligations, and, when used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Resolution except: (a) any Bonds canceled by the Trustee at or prior to such date; (b) any Bonds the principal and Redemption Price, if any, of and interest on which have been paid in accordance with the terms thereof; (c) any Bonds in lieu of or in substitution for which other Bonds have been authenticated and delivered pursuant to the Resolution; and (d) any Bonds deemed to have been paid as provided in the Resolution.

"Outstanding LIPA Unsecured Debt" means (i) any indebtedness of LIPA outstanding as of the LIPA/LILCO Merger, as described therein, consisting of (a) "Bonds" as defined in the Indenture, dated as of November 1, 1986, between LILCO and State Street Bank and Trust Company, as successor trustee, or as defined in the Indenture, dated as of November 1, 1992, between LILCO and Chemical Bank, as trustee, in each case as amended and supplemented, and (b) the NYSERDA Financing Notes, and (ii) Financial Contracts related to

Outstanding LIPA Unsecured Debt and (iii) any reimbursement obligation relating to any letter of credit or other credit support for any indebtedness referred to in (i)(a) or (b) above.

"**Parent**" means KeySpan, and its successors and assigns.

"**Parity Contract Obligation**" means the obligation of the Authority or LIPA to pay the Debt Service Component of Supply Contracts from Revenues and secured by a pledge of and lien on the Trust Estate on a parity with the Bonds.

"**Parity Contract Obligations Fund**" means the fund by that name established pursuant to the Resolution from which amounts shall be applied for the payment of Parity Contract Obligations in accordance with the Resolution.

"**Parity Obligations**" means, collectively, all Parity Contract Obligations and Parity Reimbursement Obligations.

"**Parity Reimbursement Obligation**" shall have the meaning assigned thereto under the heading "Special Provisions Relating to Option Securities, Financial Contracts, Subordinated Credit Facilities, Parity Obligations and Subordinated Indebtedness" in Appendix D.

"**Paying Agent**" means any paying agent for any Bonds, and its successor or successors and any other person which may at any time be substituted in its place pursuant to the Resolution.

"**Performance Guarantees**" means the minimum reliability standard, the minimum worker safety standard and the minimum customer service standard, all as established pursuant to appendices to the MSA.

"**PILOTs**" means any payment in lieu of taxes due and owing by the Authority or LIPA in accordance with the Act or other applicable law.

"**PILOTs Fund**" means the fund by that name established by the Resolution, and used to make payments to the State or any municipality or other political subdivision of the State, which shall be entitled to receive PILOTs under the Act, subject to the provisions of the Resolution.

"**Power and Energy**" means the electrical energy and capacity available from the System Power Supply.

"**Prime Rate**" means the rate announced by Citibank, N.A. from time to time at its principal office as its prime lending rate for domestic commercial loans, the Prime Rate to change when and as such prime lending rate changes.

"**Principal Installment**" means, as of any date of calculation and with respect to any Outstanding Bonds, (i) the principal amount of such Bonds (including (x) any amount designated in, or determined pursuant to, the applicable Supplemental Resolution, as the "principal amount" with respect to any Bonds which do not pay full current interest for all or any part of their term and (y) the principal amount of any Parity Reimbursement Obligation) due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for such Bonds, or (iii) if such future dates coincide as to different Bonds, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date.

"**Projected Operating Results**" means the projected operating results of the Authority and LIPA during the Study Period prepared by the Independent Consultant and contained in the Independent Consultant's Report attached to Part 2 of this Official Statement as Appendix A.

"**Promissory Note Obligor**" means KeySpan and one or more of its subsidiaries that are obligated to make payments to LIPA under the Promissory Notes.

"**Promissory Notes**" means the promissory notes evidencing the obligation of the Promissory Note Obligor to pay to LIPA amounts equal to the principal and interest when due on certain Debentures and certain NYSERDA Financing Notes.

"**Property Tax Settlement**", as used in the Resolution, means the Authority's program of rebates and credits to System customers in respect of the amounts otherwise payable by the Suffolk Taxing Jurisdictions as refunds of taxes and payments in lieu of taxes relating to Shoreham.

"Prudent Utility Practice" at a particular time means any of the practices, methods, and acts (including but not limited to the practices, methods and acts engaged in or approved by a significant portion of the electrical utility industry prior thereto), which, in the exercise of reasonable judgment in light of the facts and the characteristics of the T&D System, the Service Area, System Power Supply (and, insofar as the delivery of Fuel Service may require, the gas distribution and transmission system serving gas service area formerly served by Long Island Lighting Company and prevailing regulations or regulatory policies applicable to such gas distribution and transmission system), known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition and good customer relations. Prudent Utility Practice is not intended to be limited to the optimum practice, method or act, to the exclusion of all others, but rather to be a spectrum of possible practices, methods or acts.

"PSA" or "Power Supply Agreement" means the Power Supply Agreement, dated as of June 26, 1997, between GENCO and LIPA, as amended and supplemented, pursuant to which LIPA purchases all the capacity from the GENCO Generating Facilities and, to the extent requested by LIPA, the associated energy.

"PSC" means the New York State Public Service Commission.

"Public Works Improvement Costs" means the cost of any Public Works Improvement which the Manager reasonably incurs and substantiates under the Agreement including, without limitation, expenditures for material, equipment, incremental labor and services supplied by architects, engineers and Subcontractors, and expenses related to managing and administering the Public Works Improvements. "Public Works Improvement Costs" shall not include amounts for an allowance for overhead, profit or contingency.

"Public Works Improvements" means Major Capital Improvements performed as a result of requirements or requests of a Governmental Body.

"Qualified Counterparty" means an entity (i) whose senior long term debt obligations, other senior unsecured long term obligations, financial program rating, counterparty rating or claims paying ability are rated (at the time the subject Financial Contract is entered into) in any of the three highest Rating Categories from a nationally recognized statistical rating organization, (ii) whose payment obligations under a Financial Contract are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations, financial program rating, counterparty rating or claims paying ability, are rated (at the time the subject Financial Contract is entered into) in any of the three highest Rating Categories from a nationally recognized statistical rating organization, or (iii) whose obligation, if any, to make payment to the Authority upon the termination of the subject Financial Contract is fully collateralized by Investment Securities of the type described in clause (ii) of the definition of Investment Securities; provided, however, that such obligation shall be deemed to be fully collateralized if the Investment Securities shall have a market value, determined periodically in accordance with the Financial Contract, that is not less than 102% of any termination payment.

"Rate Consultant" means the independent accountant or firm of independent accountants, or a management consultant or firm of management consultants, or independent engineer or firm of independent engineers which, in any case, shall be of recognized standing in the field of electric transmission and distribution system consulting selected by the Authority. The Independent Consultant presently serves as the Rate Consultant.

"Rate Covenant" means the covenants by the Authority in the Resolution to establish and maintain System fees, rates, rents, charges and surcharges.

"Rate Stabilization Fund" means the fund by that name established by the Resolution, and used for any lawful purpose of the Authority or LIPA, including but not limited to making any deposits required by the Resolution to any Fund or Account, in accordance with the Resolution.

"Rating Agency" means each of Fitch, Moody's, and S&P, and their respective successors and assigns, in each case and at any time only if the same is then maintaining a rating on any Bonds at the request of the Authority.

"Rating Category" means a general rating category of an applicable Rating Agency or nationally recognized statistical rating organization without regard to any refinement or gradation of such rating by a numerical modifier or otherwise.

"Redemption Price" means, when used with respect to a Bond or portion thereof, the principal amount thereof plus the applicable premium, if any, payable upon either optional or mandatory redemption thereof pursuant to the Resolution.

"Refunding Bond" means any Bond authenticated and delivered on original issuance pursuant to the Resolution for the purpose of refunding any Outstanding Bonds, or thereafter authenticated and delivered pursuant to the Resolution in lieu of or substitution for such Bond.

"Reimbursement Obligation" shall have the meaning provided under the heading "Special Provisions Relating to Option Securities, Financial Contracts, Subordinated Credit Facilities, Parity Obligations and Subordinated Indebtedness" in Appendix D.

"Reliability Council" means the separate not-for-profit corporation which will establish safety and reliability standards for all entities, including the ISO, engaging in electric power transactions on the ISO's transmission system.

"Required Deposits" means the amount, if any, payable into the Operating Expense Fund, the Debt Service Fund, the Parity Contract Obligations Fund, the Subordinated Indebtedness Fund, LIPA Unsecured Debt Fund and the PILOTs Fund, but in each case only to the extent such payments are required to be made from Revenues.

"Resolution" means the Electric System General Revenue Bond Resolution, of the Authority, as the same may be amended or supplemented by a Supplemental Resolution or Resolutions.

"Retained Assets" has the same meaning as "LIPA Assets."

"Retained Debt" means the indebtedness of LILCO retained by LIPA after the completion of the LIPA/LILCO Merger which continues to be outstanding on the date hereof consisting of the outstanding Debentures and the outstanding NYSERDA Financing Notes.

"Revenue Bonds" means any bonds, notes or other obligations issued or secured under the Resolution, the Subordinated Resolution or any other bond resolutions to be adopted by the Authority.

"Revenue Fund" means the fund into which Revenues are deposited by the Authority or by LIPA, unless required by the Resolution to be deposited to any other Fund or Account, in accordance with the Resolution or the Financing Agreement.

"Revenues" means all revenues, rates, fees, charges, surcharges, rents, proceeds from the sale of LIPA Assets, proceeds of insurance, and other income and receipts, as derived in cash, directly or indirectly from any of LIPA's operations, by or for the account of the Authority or LIPA, including but not limited to (i) all payments received by the Authority or LIPA with respect to the Promissory Notes, (ii) any guaranty of performance under any System Agreement and (iii) all dividends received by the Authority as a result of ownership of any stock or other evidences of an equity interest in LIPA; provided, however, that Revenues shall not include (a) any Transition Charge, (b) any of the foregoing attributable directly or indirectly to the ownership or operation of any Separately Financed Project, or (c) any federal or State grant moneys the receipt of which is conditioned upon their expenditure for a particular purpose unless the Authority determines that such grant moneys shall constitute Revenues. Notwithstanding the foregoing, Revenues also shall not include any amounts, or amounts from any sources, as may be specified from time to time by a Supplemental Resolution; provided, however that at the time such Supplemental Resolution becomes effective the tests set forth in paragraph (e)(B) under the heading "Conditions Precedent to Delivery of Bonds" shall be satisfied without regard to either (i) such amounts or (ii) paragraph (e)(D) under the same heading.

"RI/FS" means a Remedial Investigation and Feasibility Study provided for under CERCLA.

"RICO" means the federal Racketeer Influenced and Corrupt Organization Act.

"RICO Credits" means the credits on the bills of the Authority's customers funded by certain payments made to the Authority by KeySpan as a result of the settlement by LILCO of a RICO action brought against it in connection with Shoreham.

"**S&P**" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors and their assigns.

"**Separately Financed Project**" means any such project financed by revenues or other income derived solely from the ownership or operation of such project or from other funds withdrawn from the Revenue Fund in accordance with the Resolution.

"**Service Area**" or "**LIPA Service Area**" means the Counties of Suffolk and Nassau and that portion of the County of Queens known as the Rockaways constituting LILCO's electric franchise area as of the effective date of the Act. "Service Area" does not include the Nassau County Villages of Freeport and Rockville Centre, and the Suffolk County Village of Greenport.

"**Service Fee**" means such fee as defined in the MSA (and as summarized in this Appendix E, under the caption "Summary of Certain Provisions of the Management Services Agreement—Compensation and Budgets—Service Fee").

"**Shoreham**" means the Shoreham Nuclear Power Station located at Shoreham, Long Island.

"**Shoreham Credits**" means credits to the bills of System ratepayers arising from the settlement of the Shoreham Property Tax Litigation, in each of the five years of 1998-2003 in Nassau County and the Rockaways in the aggregate amount of $50 million per year and in Suffolk County in the aggregate amount of $30 million per year.

"**Shoreham Property Tax Litigation**" shall have the meaning assigned thereto in Part 2 of this Official Statement under the caption "Shoreham Property Tax Settlement — Shoreham Property Tax Litigation."

"**Shoreham Rebates**" means shall have the meaning assigned thereto in Part 2 of this Official Statement under the caption "Shoreham Property Tax Settlement — Shoreham Porperty Tax Settlement Agreement.".

"**Shoreham Rebates and Credits**" means, collectively, the Shoreham Rebates and the Shoreham Credits.

"**Shoreham Regulatory Asset**" means the asset recorded on the financial statements of LILCO at the time of completion of the LIPA/LILCO Merger, approximately equal to LILCO's unrecovered costs of Shoreham, less an allowance for imprudent investment, plus the costs funded by LILCO for PILOTs, decommissioning costs and other expenses. At the time of completion of the LIPA/LILCO Merger, the Shoreham Regulatory Asset not yet recovered by LILCO in its rates was approximately $4.7 million.

"**Sinking Fund Installment**" means, as of any particular date of calculation, the amount required, as of such date of calculation, to be paid by the Authority on a future date for the retirement of Outstanding Bonds which are stated to mature subsequent to such future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond.

"***State***" *means the* State of New York.

"**Subcontract**" means an agreement between the Manager or the Energy Manager and a Subcontractor, or between two Subcontractors, as applicable.

"**Subcontractor**" means every person (other than employees of the Manager or the Energy Manager) employed or engaged by the Manager or the Energy Manager or any person directly or indirectly in privity with the Manager or the Energy Manager (including every sub-subcontractor of whatever tier) for any portion of the services or the materials, supplies, or equipment to be provided by the Manager or the Energy Manager under the MSA or the EMA.

"**Subordinated Contract Obligation**" shall mean the Debt Service Component of a Supply Contract that does not constitute a Parity Contract Obligation.

"**Subordinated Credit Facility**" or "**Subordinated Reimbursement Obligation**" means a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution which (i) provides for payment of all or a portion of the principal of or interest on any Subordinated Indebtedness, (ii) provides funds for

the purchase of any Bonds or Subordinated Indebtedness, or any portion of any thereof, or (iii) secures the payment by the Authority of its obligations under a Financial Contract relating to Bonds or Subordinated Indebtedness.

"Subordinated Indebtedness" means any bond, note or other evidence of indebtedness issued by LIPA in furtherance of its corporate purposes under the Act and secured by a pledge of the Trust Estate subordinate to the pledge thereof made by the Resolution in favor of the Bonds and Parity Obligations and otherwise as provided by the Resolution. Subordinated Indebtedness shall include, but shall not be limited to, Option Securities, Reimbursement Obligations other than Parity Reimbursement Obligations, and Financial Contracts to the extent provided by the Resolution.

"Subordinated Indebtedness Fund" means the fund established in accordance with the Resolution for payment of the principal and redemption price of and interest on Subordinated Indebtedness, subject to the provisions of the Resolution.

"Subordinated Resolution" means the Authority's Electric System General Subordinated Revenue Bond Resolution, as amended and supplemented.

"Subsidiary Fault" means any breach, failure of compliance, or nonperformance by the Subsidiary with its obligations under an Agreement or any negligence or willful misconduct by the Subsidiary under an Agreement (whether or not attributable to any officer, trustee, member, agent, employee, representative, contractor, subcontractor of any tier, or independent contractor of the Subsidiary other than the Manager or Energy Manager and its Subcontractors) that materially and adversely affects the Manager's or Energy Manager's performance or the Manager's or Energy Manager's rights or obligations under the Agreement.

"Suffolk Taxing Jurisdictions" means, collectively, Suffolk County, the Town of Brookhaven, the Shoreham-Wading River Central School District, the Wading River Fire District, and the Shoreham-Wading River Library District.

"Supplemental Resolution" means a resolution of the Authority authorizing the issuance of a Series of Bonds or otherwise amending or supplementing the Resolution, adopted in accordance with the Resolution.

"Supply Contract" means any contract of the Authority or LIPA with another entity for fuel, energy or power.

"System" means the Retained Assets and any System Improvements, but shall not include any Separately Financed Projects.

"System Agreements" means any agreements relating to the operation or maintenance of the System, the supply of power and energy to the System, and the provision of transmission and distribution services and capacity for the System, including, but not limited to, the MSA, EMA and PSA.

"System Budget" means the combined Authority Budget and LIPA Budget, as amended or supplemented, adopted or in effect for a particular Fiscal Year, as provided in the Resolution and in the Financing Agreement.

"System Improvement" means any project, facility, system, equipment, or material related to or necessary or desirable in connection with the generation, production, transportation, transmission, distribution, delivery, storage, conservation, purchase or use of energy or fuel, whether owned jointly or singly by LIPA, including any capacity or output in which LIPA has an interest, heretofore or hereafter authorized by the Act or by other applicable State statutory provisions, including but not limited to demand side management programs; provided, however, that the term "System Improvement" shall not include any Separately Financed Project.

"System Manager" shall mean, collectively, the Manager and the Energy Manager.

"System Policies and Procedures" means the policies and procedures adopted from time to time by the Subsidiary with respect to the T&D System and the System Power Supply in accordance with Applicable Law and Prudent Utility Practice.

"System Power Supply" means the electrical capacity and energy from all power supply sources owned by or under contract to LIPA, including, but not limited to, the Existing Power Supply Agreements, the Power Supply Agreement, LIPA's rights and interests with respect to the NMP2 power plant, LIPA's interest in any future

generating facilities, spot market capacity and energy purchases made by the Energy Manager on behalf of LIPA, and any load control programs or energy efficiency measure adopted by LIPA.

"System Power Supply Management Fee" means such fee as defined in the EMA (and as summarized in Appendix E under the caption "Summary of Certain Provisions of the Energy Management Agreement—System Power Supply Management—System Power Supply Management Compensation—System Power Supply Management Fee").

"System Power Supply Performance Incentive/Disincentive" means such fee as defined in the EMA (and as summarized in Appendix E under the caption "Summary of Certain Provisions of the Energy Management Agreement—System Power Supply Management—System Power Supply Management Compensation—System Power Supply Performance Incentive/Disincentive").

"System Power Supply Services" means any or all of the services required to be furnished and done for and relating to the administration and management of System Power Supply pursuant to the Power Supply Agreement.

"T&D System" means the electric transmission and distribution system located in the Service Area which provides the means for transmitting and distributing electricity.

"T&D System Site" means the real property and interests therein upon which the components of the T&D System are and will be located.

"Termination Date", as appropriate, means such date as defined in the EMA, the MSA or the PSA (and as summarized, with respect to the EMA, in Appendix E under the caption "Summary of Certain Provisions of the Energy Management Agreement—Term; Events of Default—Procedure for Termination by Cause," and as summarized, with respect to the MSA, in Appendix E under the caption "Summary of Certain Provisions of the Management Services Agreement—Default, Termination for Cause and Dispute Resolution—Termination for Cause," and as summarized, with respect to the PSA, in Appendix E under the caption "Summary of Certain Provisions of the Power Supply Agreement—Term and Termination—Procedure for Termination for Cause").

"Third Party Cost Budget" has the meaning set forth in the MSA (see "Summary of Certain Provisions of the Management Services Agreement—Annual T&D Budget and Five Year Planning Budget Process—Annual T&D Budget Preparation").

"Third Party Costs" has the meaning set forth in the MSA (see "Summary of Certain Provisions of the Management Services Agreement—Annual T&D Budget and Five Year Planning Budget Process—Annual T&D Budget Preparation").

"Total Cost" means the sum of the actual Direct Costs and the actual Third Party Costs.

"Transferee Subsidiaries" means the various subsidiaries of KeySpan to which the Transferred Assets were transferred.

"Transferred Assets" means the gas transmission, distribution and supply assets and operations, non-nuclear generating assets, certain real estate and common plant owned by LILCO prior to the completion of the LIPA/LILCO Merger.

"Transition Charge" means any rates, fees, charges or surcharges relating to the System or the customers thereof established by irrevocable rate order or other action or instrument, and applicable to or by the Authority or LIPA, in conjunction with the issuance of debt or other securities under a separate resolution, indenture or similar instrument (other than the Resolution) to the extent such rates, fees, charges or surcharges are pledged or otherwise encumbered or conveyed as security for such debt or other securities.

"Trust Estate" means collectively: (i) all payments received by the Authority from LIPA under the Financing Agreement, and all rights to collect and receive the same; (ii) all Revenues and all right, title and interest of the Authority in and to the Revenues, including all rights of the Authority to collect and receive the same, including but not limited to (a) all payments received by the Authority with respect to the Promissory Notes and all right, title and interest of the Authority in and to the Promissory Notes, including all rights of the Authority to collect and receive amounts payable thereunder and (b) any dividends received by the Authority as a result of

ownership of any common or preferred stock or other evidences or an equity interest of the Authority in LIPA, and all rights to receive the same; (iii) the proceeds of sale of Bonds until expended for the purposes authorized by the Resolution; (iv) all Funds, Accounts and subaccounts established by the Resolution, including securities credited thereto and investment earnings thereon; and (v) all funds, moneys and securities and any and all other rights and interests in property, whether tangible or intangible, from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Resolution for the Bonds by the Authority, or by anyone on its behalf, or with its written consent, to the Trustee, which is authorized by the Resolution to receive any and all such property at any and all times, and to hold and apply the same subject to the terms of the Resolution.

"Trustee" means, (i) when such term is used in the Resolution and the Financing Agreement, United States Trust Company of New York, New York, New York, and its successor or successors and any other person which may at any time be substituted in its place pursuant to the Resolution and (ii) when such term is used in the Operating Agreements, the trustee acting under the Resolution, the Subordinated Resolution or any other bond resolutions to be adopted by the Authority for the benefit of the holders of the Revenue Bonds.

"Uncontrollable Circumstance" means any act, event or condition, whether affecting the T&D System, the System Power Supply, LIPA, the Manager, or any of LIPA's subcontractors or the Manager's Subcontractors to the extent that it materially and adversely affects the ability of either party to perform any obligation under the Agreement (except for payment obligations), if such act, event or condition is beyond the reasonable control and is not also the result of the misconduct or negligent action or omission or failure to exercise reasonable diligence on the part of the party relying thereon as justification for not performing an obligation or complying with any condition required of such party under the Agreement; provided, however, that the contesting in good faith or the failure in good faith to contest such action or inaction shall not be construed as willful or negligent action or a lack of reasonable diligence of either party. None of the following acts or conditions shall constitute Uncontrollable Circumstances:

(a) general economic conditions, interest or inflation rates, or currency fluctuations or exchange rates,

(b) the financial condition of LIPA, the Manager, the Guarantor, any of their Affiliates or any Subcontractor;

(c) the consequences of error, neglect or omissions by the Manager, the Guarantor, any Subcontractor, any of their Affiliates or any other person in the performance of any work under the Agreement;

(d) any increase for any reason in premiums charged by the Manager's insurers or the insurance markets generally for the construction work insurance or operating period insurance, each as required by the Agreement;

(e) the failure of the Manager to secure patents or licenses in connection with the technology necessary to perform its obligations under the Agreement;

(f) equipment malfunction or failure;

(g) union work rules, requirements or demands which have the effect of increasing the number of employees employed at the T&D System, reducing the operating flexibility of the Manager or otherwise increase the cost to the Manager of operating and maintaining the T&D System;

(h) any impact of prevailing wage laws on the Manager's operation and maintenance costs with respect to wages and benefits;

(i) the failure of any Subcontractor or supplier to furnish labor, materials, services or equipment for any reason;

(j) strikes, work stoppages or other labor disputes or disturbances; or

(k) any act, event or circumstance occurring outside of the United States.

"Underwriters" means the underwriters listed on the cover page of this Official Statement.

"Variable Payment" has the meaning set forth in the MSA (see "Summary of Certain Provisions of the Management Services Agreement—Compensation and Budgets—Service Fee—Variable Payment").

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a brief summary of certain provisions of the Resolution. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Resolution, a copy of which is on file with the Trustee.

Resolution to Constitute Contract

In consideration of the purchase and acceptance of the Bonds by those who hold the same from time to time, the provisions of the Resolution constitute a contract between the Authority, the Trustee and the Holders from time to time of the Bonds; and the pledge made in the Resolution and the provisions, covenants and agreements therein set forth to be performed by or on behalf of the Authority are for the equal benefit, protection and security of the Holders of any and all the Bonds, each of which, regardless of the time or times of its issue or maturity, are of equal rank without preference, priority or distinction over any other thereof except as expressly provided in the Resolution.

Obligation of Bonds

The Bonds are special obligations of the Authority payable solely from the Trust Estate, and no other revenues or assets of the Authority shall be, or shall be deemed to be, pledged to the payment of the Bonds; provided, however, that nothing contained in the Resolution shall prevent the pledge of any Credit Facility relating to any particular Bonds, or the proceeds of such Credit Facility, to the payment of Bonds. The bonds, notes and other obligations of the Authority (including but not limited to the Bonds) shall not be a debt of the State or of any municipality, and neither the State nor any municipality shall be liable thereon. Neither the credit, the revenues nor the taxing power of the State or of any municipality shall be, or shall be deemed to be, pledged to the payment of any bonds, notes or other obligations of the Authority (including but not limited to the Bonds).

Conditions Precedent to Delivery of Bonds

Bonds may be issued pursuant to a Supplemental Resolution in such principal amount or amounts for each such Series as may be specified in such Supplemental Resolution. A Supplemental Resolution shall specify, among other things, the purpose or purposes for which such Bonds are being issued, the authorized principal amount and Series designation of such Bonds, the maturity date or dates and interest rate or rates of the Bonds and the forms of the Bonds which shall specify terms with respect to tender or redemption, if any. Such Bonds shall be delivered by the Authority under the Resolution upon the delivery of, among other things, a Supplemental Resolution authorizing such Bonds, an opinion of Bond Counsel with respect to the validity of the Bonds and a certificate of an Authorized Representative of the Authority to the effect that, upon delivery of the Bonds, the Authority will not be in default in the performance of the terms and provisions of the Resolution or of any of the Bonds, and a certificate of an Authorized Representative of LIPA to the effect that LIPA is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Financing Agreement.

Except in the case of Refunding Bonds issued pursuant to the Resolution, the Trustee shall also receive the Certificate referred to in either paragraph (a) or (b) below, unless not required pursuant to subparagraph (d), as follows:

(a) A Certificate of an Authorized Representative of the Authority setting forth (i) the Revenues for any 12 consecutive calendar months out of the 18 calendar months immediately preceding the month in which such Bonds are to be issued, (ii) the Debt Service, and the amount payable under all Parity Contract Obligations, during such 12 month period for which Revenues are set forth pursuant to clause (i), excluding in each case any amount thereof paid from sources other than Revenues, and (iii) the sum of the Required Deposits for such 12 month period (excluding Required Deposits for the payment of Outstanding Bonds and Parity Obligations), and showing that the amount set forth in clause (i) is at least equal to the sum of (x) 120% of the amount set forth in clause (ii) and (y) 100% of the amount set forth in (iii).

(b) A Certificate of a Rate Consultant setting forth (i) the estimated Revenues for each of the full Fiscal Years in the period beginning with the Fiscal Year in which such Bonds are authenticated and

delivered and ending with the fifth full Fiscal Year after such date of authentication and delivery, (ii) the estimated Debt Service, and estimated amounts payable under all Parity Contract Obligations, during each Fiscal Year for which Revenues are estimated, (iii) the projected Debt Service, and projected amounts payable under Parity Contract Obligations, projected to be issued for any purpose during each Fiscal Year for which Revenues are estimated, and (iv) the sum of the estimated and projected Required Deposits for each such Fiscal Year (excluding Required Deposits for the payment of Outstanding Bonds and Parity Obligations), and showing that for each such Fiscal Year the amount set forth in clause (i) is at least equal to the sum of (x) 120% of the sum of the amounts set forth in clauses (ii) and (iii), and (y) 100% of the amount set forth in clause (iv). The Rate Consultant may base its estimates and projections upon such factors as it shall consider reasonable, a statement to which effect shall be included in such Certificate.

(c) For purposes of this section, (i) Revenues shall include any amounts withdrawn in any Fiscal Year from the Rate Stabilization Fund which were either (1) on deposit therein prior to such Fiscal Year or (2) proceeds of Bonds or Subordinated Indebtedness issued to fund the Shoreham Credits, (ii) Revenues shall not include any proceeds from the sale of LIPA assets or proceeds of insurance, and (iii) any Debt Service, Parity Contract Obligations and Required Deposits shall not include any amounts thereof expected by the Authority to be paid from any funds, other than Revenues, reasonably expected by the Authority to be available therefor (including without limitation the anticipated receipt of proceeds of sale of Bonds or Subordinated Indebtedness, or moneys not a part of the Trust Estate, expected by the Authority to be used to pay the principal of Bonds, Parity Obligations, Outstanding LIPA Unsecured Debt or Subordinated Indebtedness), which expectations, if included in a resolution of the Authority or Certificate of an Authorized Representative of the Authority filed with the Trustee, shall be conclusive.

(d) The provisions of this section shall not apply (i) to any Bonds constituting Acquisition Debt, (ii) to any Bonds, issued for any of the purposes described in the next succeeding sentence, and (iii) at any time after the Authority first shall have retired, other than from proceeds of Bonds or Subordinated Indebtedness, an amount equal to 25% of the Acquisition Debt net of the then outstanding balance of the Promissory Notes. The purposes referenced in clause (ii) of the preceding sentence include the refinancing of the Debentures and the NYSERDA Financing Notes, certain capital expenditures and other initial costs, and costs of issuance relating to the additional debt issued for such purposes.

Any Supplemental Resolution may provide that (i) so long as a Credit Facility providing security (but not liquidity) is in full force and effect, and payment on the Credit Facility is not in default and the issuer of the Credit Facility is qualified to do business, the issuer of the Credit Facility shall be deemed to be the sole Owner of the Outstanding Bonds the payment of which such Credit Facility secures when the approval, consent or action of the Owners of such Bonds is required or may be exercised under the Resolution, or, in the alternative, that the approval, consent or action of the issuer of the Credit Facility shall be required in addition to the approval, consent or action of the applicable percentage of the Owners of Outstanding Bonds and including, without limitation, the Resolution and *following an Event of Default*, and (ii) in the event that the principal, Sinking Fund Installments, if any, and Redemption Price, if applicable, and interest due on any Outstanding Bonds shall be paid under the provisions of a Credit Facility, all covenants, agreements and other obligations of the Authority to the Owners of such Bonds shall continue to exist and such issuer of the Credit Facility shall be subrogated to the rights of such Owners in accordance with the terms of such Credit Facility.

Any Supplemental Resolution authorizing Bonds may delegate to any officers or employees of the Authority the determination of any details of such Bonds, within limitations which shall be set forth in such Supplemental Resolution. Any such determination shall be in writing, and each such written determination shall be deemed to be part of the Supplemental Resolution providing for the same.

Conditions Precedent to Delivery of Refunding Bonds

All Refunding Bonds shall be executed by the Authority for issuance and delivered to the Trustee, and thereupon shall be authenticated by the Trustee and delivered to the Authority or upon its order, but only upon the receipt by the Trustee of: (i) the documents required under the heading entitled "Conditions Precedent to Delivery of Bonds" and (ii) such documents, instructions, moneys and securities as are required by the provisions of the Resolution or any Supplemental Resolution adopted pursuant to the Resolution to cause the Bonds or portions

thereof to be refunded to be paid or deemed to have been paid within the meaning and with the effect expressed in the Resolution.

Special Provisions Relating to Option Securities, Financial Contracts, Subordinated Credit Facilities, Parity Obligations and Subordinated Indebtedness

The Resolution provides that all Option Securities will be issued as Subordinated Indebtedness.

Payments to Qualified Counterparties under Financial Contracts shall constitute Subordinated Indebtedness, except that such payments under Financial Contracts relating to Outstanding LIPA Unsecured Debt shall constitute Outstanding LIPA Unsecured Debt.

In connection with any Bonds, the Authority may obtain or cause to be obtained one or more Credit Facilities and agree with the issuer of a Credit Facility to reimburse such issuer directly for amounts paid under the terms of such Credit Facility, together with interest thereon; provided, however, that no obligation to reimburse an issuer of a Credit Facility shall be created, for purposes of the Resolution, until amounts are paid under such Credit Facility. Such payments to reimburse the issuer of a Credit Facility are referred to as "Reimbursement Obligations." Any Reimbursement Obligation (a "Parity Reimbursement Obligation") may be secured by a pledge of and a lien on the Trust Estate on a parity with the lien created thereon by the Resolution. Any such Parity Reimbursement Obligation shall be deemed to be a part of the Series to which the Credit Facility which gave rise to such Parity Reimbursement Obligation relates.

Payments to reimburse the issuer of a Subordinated Credit Facility (a "Subordinated Reimbursement Obligation") shall constitute Subordinated Indebtedness.

With respect to any contract of the Authority or LIPA with another entity for fuel, energy or power (a "Supply Contract"), the obligation of the Authority or LIPA, as the case may be, to pay that portion of any rates, fees, charges, surcharges or payments for the specific purpose of meeting principal or interest or both on that entity's obligations directly associated with such contract and payable to such entity regardless of whether fuel or energy is delivered or made available for delivery and the principal and/or interest component of any Capital Lease, (such portion or component, the "Debt Service Component") shall be (i) payable from Revenues and secured by a pledge of, and lien on, the Trust Estate on a parity with the lien created by the Resolution to secure the Bonds (a "Parity Contract Obligation") only if, when such Supply Contract or Capital Lease is entered into, the Authority shall have satisfied the test set forth above in either paragraph (a) or (b) under the heading "Conditions Precedent to Delivery of Bonds", subject to paragraph (d) under the same heading, with respect to such Debt Service Component or (ii) payable from funds withdrawn from the Revenue Fund as permitted by the Resolution, in all other events.

Separately Financed Project

Nothing in the Resolution shall prevent the Authority from authorizing and issuing bonds, notes, or other obligations or evidencing of indebtedness other than Bonds, for any purpose of the Authority authorized by the Act or by other applicable State statutory provisions, or from financing any such purpose from other available funds (such purpose being referred to in the Resolution as a "Separately Financed Project"), if the debt service on such bonds, notes, or other obligations or evidences of indebtedness, if any, and the Authority's share of any operating expenses related to such Separately Financed Project, are payable solely from the revenues or other income derived from the ownership or operation of such Separately Financed Project or from other funds withdrawn from the Revenue Fund as permitted by the Resolution, and may be secured by the Authority's or LIPA's ownership interest therein.

Pledge of Funds and Revenues

The Trust Estate is pledged for the payment of the Bonds and Parity Obligations in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution, the Act and the Financing Agreement permitting the application thereof. As further security for the payment of the Bonds and Parity Obligations, the Authority assigns, transfers and pledges to the Trustee all of its rights and interests under and pursuant to the Financing Agreement (excluding rights to notice and other procedural rights, its rights to indemnification and rights and interests not material to Bondholders).

The Resolution establishes the following funds:

(1) Construction Fund, to be held by the Authority;

(2) Revenue Fund, to be held by the Authority;

(3) Operating Expense Fund, to be held by the Authority;

(4) Debt Service Fund, to be held by the Trustee;

(5) Parity Contract Obligations Fund, to be held by the Authority;

(6) Subordinated Indebtedness Fund, to be held by the Authority, except as may otherwise be permitted by the Resolution; and

(7) LIPA Unsecured Debt Fund, to be held by the Authority;

(8) PILOTs Fund, to be held by the Authority; and

(9) Rate Stabilization Fund, to be held by the Authority.

The Trustee shall, at the request of the Authority, establish within any Fund held by the Trustee such Accounts or sub-accounts. The Authority may do likewise with respect to any Fund held by it.

Construction Fund

The Resolution provides that the Authority shall deposit into the Construction Fund any amount required to be deposited therein pursuant to the Resolution or the Financing Agreement, and any other amounts received by the Authority for or in connection with the System and determined by the Authority to be deposited therein, which are not otherwise required to be applied in accordance with the Resolution. The Authority shall also deposit in the Construction Fund, the proceeds of insurance, if any, maintained by the Authority or LIPA against physical loss of or damage to the System, or of contractors' performance bonds with respect thereto, pertaining to the period of acquisition or construction of System Improvements, to the extent not deposited to the Revenue Fund. Except as otherwise provided in the Resolution, amounts in the Construction Fund shall be expended only to pay Costs of System Improvements in the amounts, at the times, in the manner, and on other terms and conditions as determined by the Authority from time to time. To the extent that other moneys are not available therefor in any of the other Funds and Accounts established under the Resolution, amounts in the Construction Fund shall be applied to the payment of the Principal Installments of and interest on Bonds.

Revenue Fund

The Resolution provides that the Authority shall, as promptly as practicable after receipt thereof by the Authority, deposit all Revenues in the Revenue Fund, unless required by the Resolution to be deposited to any other Fund or Account. There shall also be deposited in the Revenue Fund all other amounts required by the Resolution or the Financing Agreement to be so deposited.

Payments Into Certain Funds

The Resolution provides that amounts on deposit from time to time in the Revenue Fund shall be withdrawn and deposited as follows and, as of any time, in the following order of priority:

FIRST: to the Operating Expense Fund, the amount determined by the Authority from time to time to be deposited thereto to pay, or to be set aside therein as a reserve for the payment of, Operating Expenses; and

SECOND: (A) to the Debt Service Fund, the amounts required to pay or provide for the payment of the Principal Installments and Redemption Price of and interest on Bonds and Parity Reimbursement Obligations; provided, however, that no such amount shall be required to be deposited therein in advance of one business day prior to the due date of any such payment;

(B) to the Parity Contract Obligations Fund, the amount determined by the Authority to be required to be deposited therein to pay or provide for the payment of Parity Contract Obligations provided, however, that no such

amount shall be required to be deposited therein in advance of one business day prior to the due date of any such payment;

provided, however, that if the balance remaining to make all such deposits is less than sufficient to do so in full, deposits shall be made pro rata between the Debt Service Fund and the Parity Contract Obligations Fund in the same ratio that the amount required to be deposited thereto bears to the sum of the amount required to be deposited to each *such* Fund;

THIRD: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST or SECOND above, to the Subordinated Indebtedness Fund, the amount determined by the Authority to be required to be deposited therein to pay or provide for the payment of principal and redemption price of and interest on Subordinated Indebtedness in accordance with the Resolution; provided, however, that no such amount shall be required to be deposited therein in advance of one business day prior to the due date of any such payment;

FOURTH: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST, SECOND or THIRD above, to the LIPA Unsecured Debt Fund, the amount determined by the Authority to be required to be deposited therein to pay or provide for the payment of Outstanding LIPA Unsecured Debt in accordance with the Resolution;

FIFTH: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST, SECOND, THIRD or FOURTH above, to the PILOTs Fund, the amount determined by the Authority to be required to be deposited in such Fund to pay or provide for the payment of PILOTs in accordance with the Resolution in accordance with the System Budget or the entire balance if less than sufficient; and

SIXTH: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST, SECOND, THIRD, FOURTH or FIFTH above, to the Rate Stabilization Fund, the amount determined by the Authority to be deposited therein to provide for any payments or deposits from Revenues thereafter.

Any moneys remaining in the Revenue Fund at any time and not deposited as set forth above may be retained in the Revenue Fund or may be withdrawn and used for any lawful purpose of the Authority or LIPA as determined by the Authority, including but not limited to the purchase or redemption of any bonds, notes or other obligations of the Authority or LIPA and, to the extent specified by the Authority, the payment of any incentive payments payable by LIPA under any System Agreements which are not payable as an Operating Expense; provided, however, that prior to any such withdrawal, the Authority shall have determined, taking into account, among other considerations, anticipated future receipts of Revenues and other moneys constituting part of the Trust Estate, that the moneys to be withdrawn are not needed for any other purpose provided in paragraphs FIRST through SIXTH set forth above. Amounts paid out or withdrawn pursuant to this paragraph shall be free and clear of the lien and pledge created by the Resolution unless deposited into any Fund or Account; provided, however, that to the extent amounts are paid out or withdrawn for the purpose of paying any expense of LIPA, such amounts shall remain subject to the lien and pledge of the Resolution until such amounts are actually applied by the Authority or LIPA to the payment of such expense.

Purchases of Bonds or Subordinated Indebtedness from amounts in the Revenue Fund shall be made at the direction of the Authority, with or without advertisement and with or without notice to other Holders of Bonds or Subordinated Indebtedness. Such purchases shall be made at such price or prices as determined by the Authority. If Sinking Fund Installments have been established for the maturities of Bonds purchased by the Authority, then the Authority shall direct the Trustee to credit the principal amount purchased against the applicable Sinking Fund Installments in such order and amounts as are determined by the Authority.

Operating Expense Fund

Amounts credited to the Operating Expense Fund shall be applied from time to time solely to the payment of Operating Expenses at the times, in the manner, and on the other terms and conditions as determined by the Authority from time to time. If and to the extent provided in a Supplemental Resolution authorizing Bonds, amounts from the proceeds of such Bonds may be credited to the Operating Expense Fund and set aside therein as specified in the Supplemental Resolution for any purpose of such Fund.

Debt Service Fund

The Trustee shall for all Outstanding Bonds and Parity Reimbursement Obligations, pay (i) on each Bond Payment Date, (1) from the moneys on deposit in the Debt Service Fund the amounts required for the payment of the Principal Installments, if any, due on such Bond Payment Date and (2) from the moneys on deposit in the Debt Service Fund, including the moneys credited to the sub-account, if any, established for such Series in the Capitalized Interest Account, the interest due on such Bond Payment Date, and (ii) on any redemption date or date of purchase, the amounts required for the payment of accrued interest on Bonds to be redeemed or purchased on such date unless the payment of such accrued interest shall be otherwise provided.

As soon as practicable after the forty-fifth day preceding the due date of any Sinking Fund Installment, the Trustee shall proceed to call for redemption, pursuant to the Resolution, Bonds of the Series and maturity for which such Sinking Fund Installment was established in such amount as shall be necessary to complete the retirement of the principal amount specified for such Sinking Fund Installment of the Bonds of such Series and maturity. The Trustee shall so call such Bonds for redemption whether or not it then has moneys in the Debt Service Fund sufficient to pay the applicable Redemption Price thereof on the redemption date. The Trustee shall apply to the redemption of the Bonds on each such redemption date the amount required for the redemption of such Bonds.

Parity Contract Obligations Fund

The Resolution provides that amounts credited to the Parity Contract Obligations Fund shall be applied from time to time solely to pay or provide for the payment of Parity Contract Obligations at the times, in the manner, and on the other terms and conditions as determined by the Authority from time to time, subject to the Resolution which provides that if at any time any amount remains on deposit in the Parity Contract Obligations Fund which the Authority determines is not required thereafter for purposes thereof, such amount shall be transferred to the Revenue Fund.

Subordinated Indebtedness Fund

Amounts on deposit in the Subordinated Indebtedness Fund shall be applied by the Authority solely to pay or provide for the payment of the principal and redemption price of and interest on Subordinated Indebtedness, or as otherwise provided by the resolution of the Authority authorizing each issue of Subordinated Indebtedness, subject to the provisions set forth below under this heading.

If at any time the amounts in the Operating Expense Fund, Debt Service Fund or Parity Contract Obligations Fund shall be less than the current requirements thereof, the Authority shall withdraw from the Subordinated Indebtedness Fund and deposit in such other Funds the amounts necessary (or all the moneys in the Subordinated Indebtedness Fund, if less than the amounts necessary, applying available amounts in the order of priority and otherwise as specified in the Resolution), to make up such deficiency.

If at any time any amount remains on deposit in the Subordinated Indebtedness Fund which the Authority determines is not required thereafter for purposes thereof, such amount shall be transferred to the Revenue Fund.

LIPA Unsecured Debt Fund

Amounts on deposit in the LIPA Unsecured Debt Fund shall be applied by the Authority solely to the payment of the principal of and interest on Outstanding LIPA Unsecured Debt, subject to the provisions below.

If at any time the amounts in the Operating Expense Fund, Debt Service Fund, Parity Contract Obligations Fund or Subordinated Indebtedness Fund shall be less than the current requirements thereof, LIPA shall withdraw from the LIPA Unsecured Debt Fund and deposit in such other Funds the amounts necessary (or all the moneys in said Fund, if less than the amounts necessary, applying available amounts in the order of priority and otherwise as specified in the Resolution), to make up such deficiency.

If at any time any amount remains on deposit in the LIPA Unsecured Debt Fund which the Authority determines is not required thereafter for purposes thereof, such amount shall be transferred to the Revenue Fund.

PILOTs Fund

Amounts on deposit in the PILOTs Fund shall be applied by the Authority, or paid to LIPA for application by LIPA, solely to make payments to the State, or any municipality or other political subdivision of the State, which shall be entitled to receive PILOTs under the Act, at such times and in such amounts as the Authority shall determine to be required to make such payments, subject to the provisions below.

If at any time the amounts in the Operating Expense Fund, Debt Service Fund, Parity Contract Obligations Fund, Subordinated Indebtedness Fund or LIPA Unsecured Debt Fund shall be less than the current requirements thereof, the Authority shall withdraw from the PILOTs Fund and deposit in such other Funds the amounts necessary (or all the moneys in the PILOTs Fund, if less than the amounts necessary, applying available amounts in the order of priority and otherwise as specified in the Resolution), to make up such deficiency.

Amounts on deposit in the PILOTs Fund which the Authority may determine to be in excess of the amount required to be maintained therein for the purposes of such Fund shall be transferred to the Revenue Fund.

Rate Stabilization Fund

Amounts on deposit in the Rate Stabilization Fund may be used for any lawful purpose of the Authority or LIPA, including but not limited to making any deposits required by the Resolution to any Fund or Account, as determined by the Authority; provided, however, that no such deposit to any such Fund or Account shall be required except as specified by the provisions below.

If at any time the amounts in the Operating Expense Fund, Debt Service Fund, Parity Contract Obligations Fund, Subordinated Indebtedness Fund, LIPA Unsecured Debt Fund or PILOTs Fund shall be less than the current requirements thereof, the Authority shall withdraw from the Rate Stabilization Fund and deposit in such other Funds the amounts necessary (or all the moneys in the Rate Stabilization Fund, if less than the amounts necessary, applying available amounts in the order of priority and otherwise as specified in the Resolution), to make up such deficiency.

Amounts on deposit in the Rate Stabilization Fund which the Authority may determine to be in excess of the amount required to be maintained therein for the purposes of such Fund shall be transferred to the Revenue Fund.

Investment of Certain Funds

Moneys held in all Funds and Accounts shall be invested and reinvested by the Authority or the Trustee, as the case may be, to the fullest extent practicable in Investment Securities which mature not later than at such times as shall be necessary to provide moneys when needed for payment to be made from such Funds and Accounts, subject, in the case of the Subordinated Indebtedness Fund and LIPA Unsecured Debt Fund, to the terms of any resolutions, indentures, or other instruments securing any issue of Subordinated Indebtedness or Outstanding LIPA Unsecured Debt, as the case may be. The Trustee shall make all such investments of moneys held by it in accordance with written instructions from any Authorized Representative of the Authority. In making any investment in any Investment Securities with moneys in any Fund or Account established under the Resolution, the Authority may, and may instruct the Trustee to, combine such moneys with moneys in any other Fund or Account, but solely for purposes of making such investment in such Investment Securities.

Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the Funds and Accounts, other than the Construction Fund and Capitalized Interest Account, shall be paid into the Revenue Fund as and when received. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the Construction Fund and Capitalized Interest Account shall remain in such Fund or Account, respectively, unless the Authority elects to pay the same into the Revenue Fund.

Rate Covenants; Related Obligations

The Authority shall establish and maintain System fees, rates, rents, charges and surcharges sufficient in each Fiscal Year so that Revenues reasonably expected to be produced in such Fiscal Year will be at least equal to the sum of (i) 120% (except, after the Authority shall have retired, other than from proceeds of Bonds or

Subordinated Indebtedness, an amount equal to 25% of the Acquisition Debt net of the then outstanding balance of the Promissory Notes, 100%) of Debt Service, and amounts under all Parity Contract Obligations, payable by the Authority in such Fiscal Year, (ii) 100% of the Operating Expenses payable in such Fiscal Year, (iii) 100% of the amount necessary to pay all PILOTs payable in such Fiscal Year, and (iv) 100% of the amount necessary to pay other Required Deposits, all other payments required pursuant to the Resolution and the Financing Agreement, and all other payments required for the System, for such Fiscal Year; provided, however, that if at any time such fees, rates, rents, charges and surcharges are or will be insufficient to meet the requirements of the Resolution, it shall not constitute a violation of the Resolution if and to the extent the Authority promptly takes action reasonably expected by the Authority to cure or avoid any such deficiency or to cause the same to be cured or avoided, or if the Authority complies with the provisions of the last paragraph set forth under this heading. Revenues shall include (i) any amount withdrawn or expected to be withdrawn thereafter in any Fiscal Year from the Rate Stabilization Fund which were either (a) on deposit therein prior to such Fiscal Year or (b) proceeds of Bonds or Subordinated Indebtedness issued to fund the Shoreham Credits, (ii) Revenues shall not include any proceeds from the sale of LIPA assets or proceeds of insurance and (iii) Debt Service, Parity Contract Obligations, PILOTs and other Required Deposits shall not include any amounts thereof expected by the Authority to be paid from any funds, other than Revenues, reasonably expected by the Authority to be available therefor (including without limitation the anticipated receipt of proceeds of sale of Bonds or Subordinated Indebtedness, or moneys not a part of the Trust Estate, expected by the Authority to be used to pay the principal of Bonds, Parity Contract Obligations, Outstanding LIPA Unsecured Debt or Subordinated Indebtedness other than proceeds of Bonds or Subordinated Indebtedness issued to fund the Shoreham Credits), which expectations, if included in a resolution of the Authority or Certificate of an Authorized Representative, shall be conclusive.

The Authority shall review, or cause LIPA to review, the adequacy of System fees, rates, rents, charges and surcharges at least annually. If such annual or more frequent review, or the report of the Rate Consultant pursuant to the Resolution, indicates that the rates, fees, rents, charges and surcharges are, or will be, insufficient to meet the requirements of the provisions stated in the preceding paragraph, the Authority shall promptly take, or cause LIPA to take, the necessary action to cure or avoid any such deficiency, except as otherwise may be provided by the last paragraph under this heading.

Except to the extent required by law, the Authority will not permit LIPA to furnish or supply or cause to be furnished or supplied any product, use or service of the System free of charge (or at a nominal charge) to any person, firm or corporation, public or private, unless and to the extent the Authority shall have determined that other adequate consideration has been or is expected to be received by LIPA in connection therewith, and the Authority will cause LIPA to enforce or cause to be enforced the payment of any and all amounts owing to LIPA for use of the System in accordance with the Financing Agreement.

The failure in any Fiscal Year to comply with the covenant in clauses (i) (but only to the extent of the excess, if any, over 100% of Debt Service and amounts under all Parity Contract Obligations), (iii) and (iv) of the first sentence of the first paragraph above (the "non-debt service and operating expense rate covenant") shall not constitute an Event of Default if the Authority shall comply with the provisions contained in this paragraph. If the Authority shall fail in any Fiscal Year to comply with the non-debt service and operating expense rate covenant, the Authority shall retain a Rate Consultant and a Consulting Engineer for the purpose of reviewing System fees, rates, rents, charges and surcharges and reviewing the System Budget in the manner described in the Resolution. If the Rate Consultant (relying upon the certificate of the Consulting Engineer) shall be of the opinion, as shown by a certificate filed with the Trustee pursuant to the Resolution, that a schedule of fees, rates, rents, charges and surcharges for the System which would provide funds to meet the requirements specified in the non-debt service and operating expense rate covenant is impracticable at that time and the Authority therefore cannot comply with the non-debt service and operating expense rate covenant, then the Authority shall fix and establish such schedule of System fees, rates, rents, charges and surcharges as is recommended in such certificate by the Rate Consultant to comply as nearly as practicable with the non-debt service and operating expense rate covenant and in such event the failure of the Authority to comply with the non-debt service and operating expense rate covenant, shall not constitute an Event of Default. The Rate Consultant's certificate shall be accompanied by a certificate of the Consulting Engineer setting forth estimates of amounts required as provided by the Resolution for the then-current and the ensuing two Fiscal Years.

Tax Covenant

In the Supplemental Resolution authorizing the Offered Securities, the Authority has covenanted not to take or omit to take any action which would cause interest on any Offered Security to be included in the gross income of any Owner thereof for Federal income tax purposes by reason of subsection (b) of Section 103 of the Internal Revenue Code of 1986 (Title 26 of the United States Code) as in effect on the date of original issuance of the Offered Securities (for purposes of this paragraph, the "Code") and, without limiting the generality of the foregoing, that no part of the proceeds of any Bonds or any other funds of the Authority shall be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Offered Security to be an "arbitrage bond" as defined in section 148 of the Code and to be subject to treatment under subsection (b)(2) of Section 103 of the Code as an obligation not described in subsection (a) of said section. Notwithstanding any other provision of the Resolution to the contrary, upon the Authority's failure to observe, or refusal to comply with, this covenant, remedies are limited to specific performance and the Owners and Trustee shall not be entitled to any other rights and remedies provided under the Resolution.

Consulting Engineer and Rate Consultant

Subject to the Resolution, the Authority shall employ or cause LIPA to employ a Consulting Engineer and a Rate Consultant whose duties, respectively, shall be to make any certificates and perform any other acts required or permitted of the Consulting Engineer and the Rate Consultant under the Resolution or under the Financing Agreement.

Commencing with Fiscal Year 1999 and no less frequently than every other Fiscal Year thereafter, the Consulting Engineer and the Rate Consultant shall make an examination of, and shall report on, the properties and operations of the System. Such report shall be submitted to the Authority, LIPA, and the Trustee no later than eight months after the close of the Fiscal Year to which such examination relates and shall set forth the following: (i) the Consulting Engineer's advice and recommendation as to the proper operation, maintenance and repair of the System during the ensuing two Fiscal Years, and an estimate of the amounts of money necessary for such purposes; (ii) the Consulting Engineer's advice and recommendations as to improvements which should be made during the ensuing two Fiscal Years, and an estimate of the amounts of money necessary for such purposes, showing the amount projected to be expended during such Fiscal Years from the proceeds of Bonds or Subordinated Indebtedness issued under or pursuant to the Resolution; (iii) the Rate Consultant's recommendation as to any necessary or advisable revisions of rates, fees, rents, charges and surcharges and such other advice and recommendation as it may deem desirable; and (iv) the Consulting Engineer's findings as to whether the System has been maintained in good repair and sound operating condition, and its estimate of the amount, if any, required to be expended to place such properties in such condition and the details of such expenditures and the approximate time required therefor.

The Authority covenants that if any such report shall set forth that the properties of the System have not been maintained in good repair and sound operating condition, it will cause LIPA to promptly restore the properties to good repair and sound operating condition with all expedition practicable.

At any time after the expiration of the term of the initial Management Services Agreement the Authority may perform any duty or obligation of the Consulting Engineer or Rate Consultant for certain purposes as provided in the Resolution.

Further Assurance

At any and all times the Authority shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for better assuring, conveying, granting, pledging, assigning and confirming all and singular, the rights, assets, revenues and other moneys, securities, funds and property pledged or assigned by the Resolution, or intended so to be, or which the Authority may become bound to pledge or assign.

Indebtedness and Liens

The Resolution provides that the Authority shall not, and shall not permit or allow LIPA to, issue any bonds, notes or other evidences of indebtedness or otherwise incur any indebtedness or contract obligations, other than Bonds or Parity Obligations, secured by a pledge of or other lien or charge on the Trust Estate which is prior to

or of equal rank or priority with the pledge made by the Resolution. The Authority shall not create or cause to be created, and shall not permit or allow LIPA to create or cause to be created, any lien or charge on the Trust Estate which is prior to or of equal rank or priority with the pledge made by the Resolution.

The Authority may issue either (i) Subordinated Indebtedness payable from the Subordinated Indebtedness Fund, secured by a pledge of and lien or charge on the Trust Estate, and further secured by an assignment of rights and interests under and pursuant to the Financing Agreement to the extent provided by the Resolution, in each case subject and subordinate in all respects to the pledge thereof and lien and charge thereon, or assignment thereof, as the case may be, created by the Resolution in favor of Bonds and Parity Obligations, or (ii) other bonds, notes or other evidences of indebtedness for borrowed money payable from funds withdrawn from the Revenue Fund as permitted by the Resolution.

Agreement of the State

The Resolution provides that, in accordance with Section 1020-o of the Act, the Authority, as agent for the State, agrees with the holders of obligations issued under the Resolution that the State will not limit or alter the rights vested in the Authority by the Act until such obligations together with the interest thereon are fully met and discharged, provided that nothing contained in the Resolution shall preclude such limitation or alteration if and when adequate provision shall be made by law for the protection of the Holders of such obligations of the Authority.

Annual System Budget

Prior to the beginning of each Fiscal Year commencing with Fiscal Year 1999, the Authority shall file with LIPA and the Trustee an annual System Budget for the ensuing Fiscal Year which shall set forth in reasonable detail the estimated Revenues and Operating Expenses for the System for such year. Such annual System Budget shall include the LIPA Budget (as such term is defined in the Financing Agreement) and the Authority Budget and also may set forth such additional material as the Authority may determine. At the end of each quarter, the Authority shall review its estimates for such Fiscal Year, and in the event such estimates do not substantially correspond with actual Revenues or Operating Expenses, or if there are at any time during any such Fiscal Year extraordinary receipts or payments of unusual costs, the Authority shall prepare an amended annual System Budget for the remainder of the then current Fiscal Year. The Authority also may at any time adopt an amended annual System Budget for the remainder of the then-current Fiscal Year.

If for any reason the Authority shall not have adopted the System Budget by the time required by the Resolution, the System Budget for the then-current Fiscal Year shall be deemed to be the System Budget for the ensuing Fiscal Year until a new System Budget is adopted.

Deposits to Funds

The Resolution provides that the Authority will take such action as may be required to cause all Revenues to be deposited in the Revenue Fund (or, if so required by the Resolution, any other Fund or Account).

Enforcement and Amendment of Financing Agreement

The Authority shall enforce or cause to be enforced the provisions of the Financing Agreement and duly perform its covenants and agreements under the Financing Agreement. The Authority will not consent or agree to or permit any rescission of or amendment to or otherwise take any action under or in connection with the Financing Agreement except in accordance with the Resolution.

Amendments to Financing Agreement

Except as otherwise provided in the Resolution, the Financing Agreement may not be amended, changed, modified or terminated, nor may any provision thereof be waived, without the consent of the Holders of Outstanding Bonds as provided in the Resolution, if such amendment, change, modification, termination or waiver adversely affects the interest of the Holders of Outstanding Bonds in any material respect.

No such amendment, change, modification, termination or waiver shall take effect unless the prior written consent of (a) the Holders of at least a majority in principal amount of the Bonds then Outstanding, or (b) in case less than all Bonds then Outstanding are affected by the amendment, change, modification, termination or waiver,

the Holders of not less than a majority in principal amount of the Bonds so affected and then Outstanding; provided, however, that if such amendment, change, modification, termination or waiver will, by its terms, not take effect so long as any specified Bonds remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any such calculation of Outstanding Bonds.

For purposes of this section, any purchasers of the Bonds, whether purchasing as underwriters, for resale or otherwise, upon such purchase, may consent to an amendment, change, modification, termination or waiver permitted by this section with the same effect as a consent given by the Holders of such Bonds.

For the foregoing purposes, a Bond shall be deemed to be adversely affected by an amendment, change, modification, termination or waiver of the Financing Agreement if the same adversely affects or diminishes the rights of the Holder of such Bond in any material respect. The Trustee may in its discretion determine whether or not, in accordance with the foregoing provisions, any particular Bond would be adversely affected in any material respect by any amendment, change, modification, termination or waiver, and any such determination shall be binding and conclusive on the Authority and all Holders of Bonds.

For the foregoing purposes, the Trustee shall be entitled to rely upon an opinion of counsel, which counsel shall be satisfactory to the Trustee, with respect to whether any amendment, change, modification, termination or waiver adversely affects the interests of any Holders of Bonds then Outstanding in any material respect.

No Competitive Facilities

The Authority shall not construct, acquire or operate any plants, structures, facilities or properties which will provide electric transmission or distribution service in the Service Area (as defined in the Act) in competition with and not as part of the System unless such construction, acquisition or operation, in the judgment of the Authority, does not materially impair the ability of the Authority to comply with the rate covenant in the Resolution.

Disposition of Assets

The Authority shall not sell or otherwise dispose of, or encumber or grant a security interest in, any common or preferred stock or other evidence of the Authority's equity interest in LIPA, unless the Authority or any subsidiary thereof shall thereupon own or effectively control the operation of the System. Except as provided by the Financing Agreement, the Authority shall not dispose of, or cause the disposition of, or permit to be disposed of, any real or personal properties of the System unless such disposal, in the judgment of the Authority, (i) is desirable in the conduct of the business of the System and (ii) does not materially impair the ability of the Authority to comply with the rate covenant in the Resolution.

Supplemental Resolutions; Amendments

The Authority may adopt (without the consent of any Holder) supplemental resolutions to, among others, authorize additional Bonds; to add to the restrictions contained in the Resolution upon the issuance of additional indebtedness; to add to covenants of the Authority contained in, or surrender any rights reserved to or conferred upon it by, the Resolution; to confirm any pledge under the Resolution or subject other property to the pledge; to permit qualification of the Resolution under, or add provisions permitted by, the Trust Indenture Act of 1939 or any similar Federal statute, and permit the qualification of the Bonds for sale under the securities laws of any state in the United States; to comply with such regulations and procedures as are from time to time in effect relating to establishing and maintaining a book-entry-only system; to comply with the requirements of any Rating Agency in order to maintain or improve a rating on the Bonds by such Rating Agency; to implement the last sentence of the definition of Revenues in the Resolution; to modify any provision of the Resolution, provided that such modification is effective upon or prior to the issuance of any Bonds affected or is effective only after all Bonds theretofore Outstanding cease to be Outstanding; to cure any ambiguity, supply any omission or to correct any defect or inconsistent provision in the Resolution; or to modify any provision provided that such modification shall not adversely affect the interests of the Bondholders in any material respect (and also provided that the Trustee consents thereto).

Any of the provisions of the Resolution may be amended by the Authority upon the written consent of the Holders of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given, and in case less than all Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least a

majority in principal amount of such Outstanding Bonds that are or may be so affected; except that if such modification or amendment will, by its terms, not take effect so long as any particular Bonds remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Resolution. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purposes of this paragraph, a Bond shall be deemed to be affected by a modification or amendment of the Resolution if the same materially and adversely affects or diminishes the rights of the Holder of such Bond.

Events of Default; Remedies Upon Default

Pursuant to the Resolution, any of the following events set forth in clauses (1) through (6) constitutes an "Event of Default" if: (1) the Authority defaults on the payment of Principal or the Redemption Price of any Bond; or (2) the Authority defaults on the payment of any installment of interest on any Bond, and such default shall continue for a period of five (5) days; or (3) the Authority defaults in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution, any Supplemental Resolution or in the Bonds contained, and such default shall continue for a period of sixty (60) days after written notice thereof (and stating that it is a "Notice of Default") to the Authority by the Trustee, or to both by the Holders of not less than sixty-six and two-thirds percent (66 2/3%) of the principal amount of Bonds Outstanding, provided that if such default shall be such that it cannot be corrected within such sixty day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected; or (4) LIPA defaults under the Financing Agreement and such default continues for a period of sixty (60) days after written notice thereof (and stating that it is a "Notice of Default") to the Authority by the Trustee, or to both by the Holders of not less than sixty-six and two-thirds percent (66 2/3%) of the principal amount of Bonds Outstanding, provided that if such default shall be such that it cannot be corrected within such sixty day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected; or (5) if the Authority or LIPA (a) files a petition seeking a composition of its indebtedness under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State; (b) consents to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of the Authority or LIPA or any substantial portion of either of their property; (c) makes any assignment for the benefit of creditors; or (d) admits in writing its inability generally to pay its debts generally as they become due; or (6) if (a) a decree or order for relief is entered by a court having jurisdiction of the Authority or LIPA adjudging the Authority or LIPA a bankrupt or insolvent or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition in respect of the Authority or LIPA in an involuntary case under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State; (b) a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of the Authority or LIPA or of any substantial portion of either of their property is appointed; or (c) the winding up or liquidation of its affairs is ordered and the continuance of any such decree or order unstayed and in effect for a period of sixty (60) consecutive days.

Upon an Event of Default, the Trustee may and, upon the written request of the Holders of not less than sixty-six and two-thirds percent (66 2/3%) of the principal amount of the Bonds Outstanding the Trustee shall declare the principal of all the Bonds then Outstanding to be due and payable immediately. Such declaration may be annulled or rescinded as described in the Resolution.

Under the Resolution the Authority covenants that upon an Event of Default, the books of record and account of the Authority shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys, and the Authority will, upon demand of the Trustee, account for all Revenues and other moneys, securities and funds pledged or held under the Resolution for such period as shall be stated in such demand. Upon a default, the Trustee may proceed to protect and enforce its rights and the rights of the Holders of the Bonds under the Resolution by a suit in equity or at law, whether for the specific performance of any covenant contained in the Resolution, in aid of the execution of any power granted therein, or for an accounting against the Authority as if the

Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee. No Holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless the Trustee has been requested by not less than sixty-six and two-thirds percent (66 2/3%) in principal amount of the Bonds then Outstanding, and such Holders shall have offered the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee has failed to commence such suit in the manner provided in the Resolution.

Defeasance

Bonds or any portion thereof for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit by the Authority of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning of the Resolution and shall cease to be entitled to any lien, benefit or security under the Resolution either (A) as provided in the Supplemental Resolution authorizing their issuance or (B) if the following conditions are met: (i) in case any Bonds to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee instructions accepted in writing by the Trustee to mail as provided in the Resolution notice of redemption of such Bonds (other than Bonds which have been purchased by the Trustee at the direction of the Authority as provided prior to the mailing of such notice of redemption) on said date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Obligations the principal installments of and/or the interest on which when due, without reinvestment, will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the Principal Installments or Redemption Price, if applicable, and interest due and to become due on said Bonds or portion thereof on or prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not to be redeemed within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, a notice to the Holders of such Bonds that the deposit required by clause (ii) above has been made with the Trustee and that said Bonds or portion thereof (as the same thereafter may change) are deemed to have been paid in accordance with the Resolution and stating such maturity or redemption date (as the same thereafter may change) upon which moneys are to be available for the payment of the Principal Installments or Redemption Price, if applicable, on said Bonds or portion thereof (other than Bonds which have been purchased by the Trustee at the direction of the Authority as provided prior to the publication of the notice of redemption referred to above). The Trustee shall, as and to the extent necessary, apply moneys held by it pursuant to the Resolution to the retirement of said Bonds (or portions thereof) in amounts equal to the unsatisfied balances of any Sinking Fund Installments with respect to such Bonds (or portions thereof), all in the manner provided in the Resolution.

Unclaimed Moneys

Any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed for two years after the date when such principal or interest, respectively, has become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for two years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such principal or interest, as the case may be, becomes due and payable, shall, at the written request of the Authority, be repaid by the Fiduciary to the Authority, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the Authority for the payment of such principal or interest, as the case may be. Notwithstanding the foregoing, any moneys held by a Fiduciary in trust for the payment and discharge of the principal of or interest on any Bonds which remain unclaimed after such moneys were to be applied to the payment of such principal or interest, as the case may be, in accordance with the Resolution may be applied in accordance with the provisions of the Abandoned Property Law of the State, being Chapter 1 of the Consolidated Laws of the State, or any successor provision thereto, and upon such application, the Fiduciary shall thereupon be released and discharged with respect thereto and the Holders of Bonds shall look only to the Authority or the Comptroller of the State for the payment of such principal or interest, as the case may be. Before being required to make any such payment to the Authority or to apply such moneys in accordance with the Abandoned Property Law (or its successor) of the State, the Fiduciary shall, at the expense of the Authority, cause to be mailed to the Bondholders entitled to receive such moneys a notice that said

moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing, the balance of such moneys then unclaimed will be returned to the Authority or applied in accordance with the Abandoned Property Law (or its successor) of the State, as the case may be.

SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENT

The following is a brief summary of certain provisions of the Financing Agreement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Financing Agreement, a copy of which is on file with the Trustee.

Agreement to Finance Acquisition of System and Cost of System Improvements

The Authority agreed in the Financing Agreement to finance (i) the Property Tax Settlement, (ii) the retirement of certain outstanding debt of LILCO, and (iii) all or a part of the Cost of System Improvements, by the issuance of Authority Obligations from time to time in accordance with the Resolution, in each case unless and to the extent funded from other sources. The Authority and LIPA agree that the issuance of Authority Obligations, including the issuance of Authority Obligations for the purpose of refunding Authority Obligations or Outstanding LIPA Unsecured Debt in accordance with the Financing Agreement and the Resolution, shall be deemed to constitute a loan to LIPA. The obligation of LIPA to repay such loan and to make payments in accordance with the Financing Agreement shall be evidenced by the delivery of the LIPA Note.

Obligation to Make Payments to the Authority; Grant of Revenues and Certain Other Security to the Authority

On or before one business day prior to each due date for the payment of the principal of and redemption price, if any, or interest on, or other payments required under, Authority Obligations, until the same shall have been paid in full or provision for the payment thereof in full shall have been made in accordance with the Resolution or the provisions thereof, LIPA shall make or cause to be made payments on the LIPA Note to the Authority in an amount which, when added to any moneys then on deposit under the Resolution and available therefor, including any dividends theretofore paid to the Authority and held thereunder, shall be equal to the amount payable on such due date with respect to the Authority Obligations, as provided in the Resolution, including amounts due for the payment of the principal of and sinking fund installments and premium, if any, and interest on the Bonds. The principal amount from time to time due and owing under the LIPA Note and the scheduled amortization thereof and related interest rates (or the method of determining the same) shall be evidenced by the periodic delivery to LIPA of a certificate of an Authorized Representative of the Authority setting forth the same.

Outstanding LIPA Unsecured Debt shall be paid pursuant to and in accordance with the Resolution and the respective resolutions, indentures or similar instruments authorizing and providing for the issuance thereof.

LIPA has granted and transferred to the Authority all of its right, title and interest in and to the Revenues and the Promissory Notes, including all of its rights to collect and receive the same, subject only to the provisions of the Financing Agreement and the Resolution permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Financing Agreement and the Resolution.

LIPA has further pledged and assigned to the Authority, and granted to the Authority a security interest in, the System Agreements, subject however to the right and obligation of LIPA to exercise its rights and to carry out its obligations and duties thereunder, and further subject to the terms of the Financing Agreement and the Resolution, the right and obligation to enforce or realize upon its rights and interests in the System Agreements.

Powers as to Grant, Conveyance and Transfer and as to Revenues of the System

LIPA warrants and agrees that the Revenues, the System Agreements and other moneys, securities and funds and the rights under contracts so granted, conveyed, pledged and transferred are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, of equal rank with, the pledge created or authorized by the Resolution, and all corporate action on the part of LIPA to that end has been duly and validly taken. LIPA shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues, the System Agreements and other moneys, securities and funds and the rights under the contracts pledged

under the Financing Agreement and the Resolution and all the rights of the Authority and the Bondholders under the Financing Agreement and the Resolution against all claims and demands of all persons whomsoever.

Subject to the provisions of the Financing Agreement, upon consummation of the LIPA/LILCO Merger, LIPA became, and agrees that so long as any Authority Obligations remain outstanding it will at all times continue to be, the owner of the System.

LIPA shall, so long as any Authority Obligations remain outstanding, perform all acts and duties required to be performed by it with respect to the System Agreements, and shall not permit any rescission or termination or amendment thereof, or otherwise take any action under or in connection with either, not expressly provided for by the terms thereof, which will in any manner impair or adversely affect the rights of LIPA thereunder, or the rights or security of the holders of or parties to Authority Obligations under the provisions thereof or of the Resolution, and any action by LIPA in violation of this covenant shall be null and void as to LIPA.

Powers as to System and Collection of Revenues

The Financing Agreement provides that so long as any Authority Obligations remain outstanding, LIPA will have or will use its best efforts to obtain good right and lawful authority to maintain, operate and improve the System; to impose and collect such fees, rates, rents and charges for the use or services of the System as are established from time to time by the Authority in accordance with the Resolution and the Act; and to demand and collect all Revenues becoming due to it for the use or services of the System.

State not Liable with Respect to LIPA Note

The LIPA Note and other obligations of LIPA under the Financing Agreement shall not be a debt of the State or of any municipality, and neither the State nor any municipality shall be liable thereon. Neither the credit, the revenues nor the taxing power of the State or of any municipality shall be, or shall be deemed to be, pledged to the payment of the LIPA Note or other obligations of LIPA.

Payment From Construction Fund

The Costs incurred by LIPA with respect to System Improvements shall be evidenced to the Authority by a certificate signed by an Authorized Representative of LIPA. Each such certificate shall contain the information required to be set forth in a Disbursement Request. Upon receipt of such certificate the Authority shall pay or cause to be paid to the person entitled thereto amounts sufficient to pay all such certified Costs. Neither the Authority nor the Trustee shall be required to provide funds to pay the Costs of System Improvements from any source other than the Construction Fund and no such funds shall be required to be paid to LIPA by the Authority or the Trustee in excess of the amounts set aside therefor in the Construction Fund.

Revenue Fund

The Financing Agreement provides that all Revenues, as promptly as practicable after receipt thereof by or on behalf of LIPA, shall be deposited by LIPA or by the System Manager into the Revenue Fund. LIPA shall take such actions as it shall determine necessary and appropriate to assure that the System Manager complies with the applicable provisions of the Management Services Agreement and that the Energy Manager complies with the applicable provisions of the Energy Management Agreement relating to the application of moneys of LIPA.

LIPA General Fund

There shall be deposited in the LIPA General Fund all amounts received by LIPA from the Authority or the Trustee pursuant to the Resolution for the purpose of paying LIPA Expenses and any necessary and proper renewals, replacements and extensions of the System or, as provided in the Financing Agreement, PILOTs. All amounts in the LIPA General Fund shall be held in trust by LIPA and applied only as provided in the Financing Agreement, in the Act or in the Resolution. Amounts on deposit in LIPA General Fund shall be applied by LIPA solely for the payment of LIPA Expenses or any such renewals, replacements, extensions, or PILOTs.

Application of Revenues After Event of Default

LIPA covenants that if an "Event of Default", as defined in the Resolution, shall occur, LIPA, upon demand of the Trustee, shall pay over or cause to be paid over to the Trustee all moneys and securities then held by LIPA or by any System Manager in the LIPA General Fund, and thereafter, as promptly as practical, the Revenues, for application in accordance with Section 1003 of the Resolution.

Rate Covenant

LIPA and the Authority have covenanted and agreed that fees, rates, rents, charges and surcharges for the use of, or services furnished, rendered or made available by, the System shall be established by the Authority in accordance with the Resolution and the Act such that such fees, rates, rents, charges and surcharges shall be adequate, together with any other available funds, to provide for, among other things, (i) the timely payment of the Principal Installments of and interest on all Bonds, the principal of and interest on any other Authority Obligations payable from Revenues, and the principal of and interest on the Outstanding LIPA Unsecured Debt, (ii) the proper operation and maintenance of the System, (iii) all other payments required for the System not otherwise provided for and (iv) all other payments required pursuant to the Financing Agreement and any System Agreements.

If the periodic review of System fees, rates, rents, charges and surcharges conducted by the Authority in accordance with the Resolution, or the report prepared pursuant to the Resolution, indicates that such rates, fees, rents, charges and surcharges are, or will be, insufficient to meet the requirements of Section 701 of the Resolution, LIPA, in accordance with the directions, if any, of the Authority, shall promptly take and diligently pursue all necessary actions within its reasonable control to cure or avoid any such deficiency.

Except to the extent required by law, LIPA will not furnish or supply or cause to be furnished or supplied any product, use or service of the System free of charge (or at a nominal charge) to any person, firm or corporation, public or private unless and to the extent the Authority shall have determined that other adequate consideration has been or is expected to be received by LIPA in connection therewith, and LIPA will use reasonable efforts to enforce or cause to be enforced the payment of any and all amounts owing to LIPA for use of the System in accordance with the Financing Agreement.

Nothing contained in the Financing Agreement shall be deemed to limit or restrict the right or obligation of the Authority or LIPA to comply with any covenant relating to rates to be charged for the use of, or services provided by, the System which may be made with the holders of or parties to Authority Obligations in accordance with the Act.

Compliance with Report as to System Condition

LIPA covenants that if any report prepared in accordance with the Resolution shall set forth that the properties of the System have not been maintained in good repair and sound operating condition, it will restore the properties or cause the properties to be restored to good repair and sound operating condition as promptly as practicable.

Operation and Maintenance

LIPA has covenanted that it shall, at all times:

(a) In accordance with the advice and recommendations set forth in the reports prepared from time to time in accordance with the Resolution, operate the System properly and in a sound and economical manner and shall maintain, preserve, and keep the same preserved and kept with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or cause to be made, all necessary and proper repairs, replacements, renewals and extensions so that at all times the operation of the System may be properly and advantageously conducted; provided, however, that nothing contained in the Financing Agreement shall require LIPA to operate, maintain, preserve, repair, replace, renew or reconstruct any part of the System if, in the case of any part of the System having a market value of greater than $1 million, there shall be filed with LIPA, the Authority and the Trustee a certificate of an Authorized Representative of LIPA stating that, in the opinion of LIPA, abandonment of operation of such part of the System will not adversely affect the operation of the System

or impair the ability of LIPA and the Authority to comply with the provisions of the Financing Agreement and the Rate Covenant set forth in the Resolution;

(b) enforce the rules and regulations governing the operations, use and services of the System established from time to time by LIPA or the Authority; and

(c) observe and perform all of the terms and conditions contained in the Act, and comply with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body having competent jurisdiction of LIPA or the System; provided, however, that the failure of LIPA to comply with the covenant contained in this paragraph (c) for any period shall not constitute a default on its part so long as LIPA (i) is taking reasonable and timely steps to permit compliance and (ii) LIPA shall have delivered to the Trustee and to the Authority a Certificate of an Authorized Representative of LIPA which (1) sets forth in reasonable detail the facts and circumstances attendant to such non-compliance, (2) sets forth the steps being taken by LIPA to permit compliance, (3) sets forth the estimated date on which LIPA will be in compliance and (4) states that in the opinion of such Authorized Representative such non-compliance during the period described will not adversely affect the operation of the System or the amount of Revenues to be derived therefrom.

Annual LIPA Budget

Not less than thirty (30) days prior to the beginning of each Fiscal Year, LIPA shall file with the Authority and the Trustee a LIPA Budget for the ensuing Fiscal Year which shall set forth in reasonable detail the estimated Revenues, LIPA Expenses and renewals, replacements and extensions for the System for such year. At the end of each quarter, LIPA shall review its estimates for such Fiscal Year, and in the event such estimates do not substantially correspond with actual Revenues or LIPA Expenses, or if there are at any time during any such Fiscal Year extraordinary receipts or payments of unusual costs, LIPA shall prepare an amended LIPA Budget for the remainder of the then current Fiscal Year. LIPA also may at any time adopt an amended LIPA Budget for the remainder of the then current Fiscal Year.

Compliance with Agreements; Tax Exemption

LIPA has covenanted with the Authority that it will take all such actions or refrain from taking all such actions, as the case may be, so as to comply with the terms and provisions of the Financing Agreement and the Resolution. The Authority has covenanted with LIPA that it will take all such actions or refrain from taking any such actions, as the case may be, so as to comply with the terms and provisions of the Resolution and the Financing Agreement.

LIPA has covenanted with the Authority, so long as any Bonds or other Authority Obligations, issued with the intent that the interest thereon not be included in gross income for Federal income tax purposes, shall be outstanding, that it will not take any action, or fail to take any action, which, if taken or not taken, as the case may be, would adversely affect the tax-exempt status of the interest payable on any such Bonds or other Authority Obligations.

Compliance with Resolution

LIPA shall take all such actions and refrain from taking all such actions, as the case may be, and otherwise shall operate the System as shall ensure their compliance, and the compliance of the Authority, with the terms and provisions of the Resolution, or any other agreement entered into by the Authority in connection with the financing or operation of the System and which shall, by its terms, directly or indirectly apply to LIPA.

Enforcement of Rules and Regulations

LIPA shall enforce or cause any System Manager of the System to enforce the rules and regulations providing for discontinuance of or disconnection from the provision of electric service, for non-payment of fees, rates, rents or other charges imposed by the Authority and LIPA, provided that such discontinuance or disconnection shall not be carried out except in the manner and upon notice consistent with the Act.

Books, Records and Accounts

Each of the Authority and LIPA shall keep or cause to be kept, proper books of record and account in which complete and correct entries shall be made of all transactions relating to their corporate purposes under the Act and the Financing Agreement.

Liens

Until all Authority Obligations have been paid in full or provision has been made therefor in accordance with the Resolution, LIPA shall not create, and, except to the extent permitted by the Financing Agreement and to the extent it has the power to do so, shall not permit to be created, any lien upon or pledge of the System, any real or personal properties comprising any part of the System, or the Trust Estate including but not limited to the Revenues, except the lien and pledge thereon created by the Financing Agreement, the Resolution, and the Act.

Compliance with Law

The Authority and LIPA have covenanted and agreed each for itself that it will observe and perform all of the terms and conditions contained in the Act, and comply with all valid laws, acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body having competent jurisdiction over its property or affairs.

Insurance

LIPA shall maintain or cause the System Manager to maintain with responsible insurers all insurance required and reasonably obtainable in the amounts and of the types customarily maintained by electric utilities consistent with prudent utility practice, to indemnify for loss of or damage to the System, and against public and other liabilities relating to the operations of LIPA and the System. LIPA shall also maintain or cause to be maintained any additional or other insurance which is required by the System Agreements. LIPA may insure itself against any risk at the recommendation of an insurance consultant chosen by or acceptable to an Authorized Representative of LIPA; provided, however, that LIPA shall provide adequate funding of such self-insurance if and to the extent recommended by such insurance consultant.

Covenant Regarding Additional System Agreements

Any additional System Agreement executed by LIPA shall contain such terms and conditions as will enable LIPA to retain such overall supervision and control of the business, design, operating, management, transportation, maintenance, planning and research and development functions of the System as may be required by law, the Financing Agreement or the Resolution.

Limitations on Operating Expenses and Costs of Major Renewals and Replacements

LIPA shall not incur or allow any System Manager to incur Operating Expenses or costs of major renewals, replacements and extensions for the System in any year in excess of the reasonable and necessary amount of such Operating Expenses or costs, respectively, and, except as may be necessary to respond to emergency conditions and to assure the continuing operation of the System, shall not expend any amount from the Operating Expense Fund for Operating Expenses or from the Construction Fund for costs of major renewals, replacements and extensions for the System for such year in excess of the respective amounts provided therefor in the LIPA Budget as originally adopted or as amended.

Maintenance of Existence

LIPA covenants and agrees that during the term of the Financing Agreement it will maintain its existence as a corporation, will continue to be a corporation either organized under the laws of or duly qualified to do business in the State, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into one or more other entities or permit one or more other entities to consolidate with or merge into it. LIPA may, however, consolidate with or merge into one or more other entities or permit one or more other entities to consolidate with or merge into it, or sell or otherwise transfer to one or more other entities all or substantially all of its assets as an entirety and thereafter liquidate or dissolve if (a) LIPA is the surviving, resulting or transferee entity, or (b) in the event LIPA is not the surviving, resulting or transferee entity, such entity (i) is solvent, and either

organized under the laws of or duly qualified to do business subject to service or process in the State, (ii) assumes in writing all of the obligations of LIPA as set forth in the Financing Agreement and (iii) is either the Authority or is wholly owned by the Authority, and (c), in either event, the Trustee shall have been furnished (1) an opinion of Bond Counsel to the effect that under then existing statutes and court decisions, such consolidation, merger, sale or transfer does not adversely affect the exclusion of interest on any obligations of the Authority then outstanding the interest on which is excluded from gross income for federal income tax purposes, and (2) written confirmation from each Rating Agency to the effect that such consolidation, merger, sale or transfer, in and of itself, will not result in a withdrawal, suspension or downward revision of the rating assigned by such Rating Agency to the Bonds.

Disposition of Property

LIPA may, with the approval of the Authority, dispose of properties if such disposal, in the judgment of LIPA, (i) is desirable in the conduct of its business, (ii) is not disadvantageous in any material respect to the Holders of Authority Obligations and (iii) does not materially impair the ability of the Authority and LIPA to comply with the Financing Agreement and the rate covenant set forth in the Resolution.

Competitive Facilities

LIPA has covenanted that it will not construct, acquire, or operate, any plants, structures, facilities or properties which will provide electric service in the Service Area (as defined in the Act) unless the same are a part of the System.

Payment of Lawful Charges

LIPA shall pay or cause to be paid, to the extent not paid by the Authority, all taxes and assessments or other municipal or governmental charges, if any, and all PILOTs to the extent not paid by the Authority, lawfully levied or assessed upon or in respect of the System, or upon any part thereof or upon the Revenues, when the same shall become due, and shall duly observe and comply in all material respects with all valid requirements of any municipal or governmental authority relative to any part of the System, and shall not create or suffer to be created any lien or charge upon the System or any part thereof or upon the Revenues therefrom, except the pledge and lien created by the Financing Agreement and by the Resolution for the payment of the principal and redemption price of and interest on, and other payments under, Authority Obligations. Nothing in the Resolution or the Financing Agreement shall be construed to prevent LIPA or the Authority from entering into agreements to make PILOTs.

Tax Rulings

LIPA shall not do or omit to do any act that would result in (i) the revocation of the rulings that were issued by the Internal Revenue Service to the Authority, dated March 4, 1998, and (ii) a resultant material federal income tax liability.

Agreement of the State

In accordance with the Act, the Authority, as agent for the State, pledges to and agrees with the holders of any obligations issued under the Act and the parties to any contracts with the Authority thereunder that the State will not limit or alter the rights thereby vested in the Authority until such obligations together with the interest thereon are fully met and discharged and/or such contracts are fully performed on the part of the Authority, provided that nothing in the Financing Agreement shall preclude such limitation or alteration if and when adequate provision shall be made by law for the protection of the holders of such obligations of the Authority, or those entering into such contracts with the Authority.

Events of Default

An "event of default" means any one or more of the following events: (a) failure by LIPA to make the payments required to be made to the Authority pursuant to the Financing Agreement; (b) failure by LIPA to remit or cause to be remitted the Revenues, or any portion thereof, to the extent received by LIPA, for deposit in the Revenue Fund; (c) failure of LIPA to observe any covenant, term or condition of the Financing Agreement, provided that such failure shall have continued for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, is given to LIPA by the Authority, unless the Authority shall agree in writing to an

extension of such time prior to its expiration, and provided further that such extension shall not be unreasonably withheld if LIPA has instituted and is diligently pursuing corrective action within the applicable period; (d) if LIPA (1) files a petition seeking a composition of its indebtedness under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State; (2) consents to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of LIPA or any substantial portion of its property; (3) makes any assignment for the benefit of creditors; (4) admits in writing its inability to pay its debts generally as they become due; or (5) takes action in furtherance of any of the foregoing; (e) if (1) a decree or order for relief is entered by a court having jurisdiction of LIPA adjudging LIPA a bankrupt or insolvent or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition in respect of LIPA in an involuntary case under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State; (2) a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of LIPA or of any substantial portion of its property is appointed; or (3) the winding up or liquidation of its affairs is ordered and the continuance of any such decree or order unstayed and in effect for a period of sixty (60) consecutive days; or (f) the respective provisions of the Act pursuant to which the Resolution has been adopted or Authority Obligations have been issued or entered into, including, without limitation, those provisions pursuant to which the lien upon the Revenues has been created pursuant to the Financing Agreement and the Resolution and those provisions authorizing the establishment of LIPA, shall be materially and adversely limited, altered or impaired by any legislative action or any formal judgment or the terms, conditions and security provided under the Financing Agreement, Authority Obligations and the Resolution shall be materially and adversely limited, altered or impaired by any legislative action or any final judgment.

Remedies

Whenever an event of default shall have occurred and be continuing, and written notice of the event of default, if required, shall have been given to LIPA by the Authority or by the Trustee and the event of default shall not have been cured within the period provided therefor, the Authority and the Trustee may take whatever action at law or in equity to collect the payments then due and as they thereafter become due, and the Authority and the Trustee, so long as any Bonds are outstanding, may take whatever action at law or in equity to enforce performance and observance of any obligation, agreement or covenant of LIPA under the Financing Agreement.

Termination

The Financing Agreement terminates and the covenants and other obligations contained in the Financing Agreement are discharged and satisfied, when (i) payment of all Authority Obligations has been made or provided for in accordance with the Resolution and (ii) either all payments required thereunder have been made in full, or provision for such payments satisfactory to the Authority and the Trustee has been made or the Authority pays or assumes all liabilities, obligations, duties, rights and powers of LIPA thereunder.

***Amendments to* Agreement; Consents**

The parties to the Financing Agreement may enter into any amendment, change or modification of the Financing Agreement (in writing, signed by each of the parties and consented to in writing if required by the Resolution); provided, the parties shall not enter into or consent to, any amendment, change or modification which materially adversely affects the rights of the Owners of the Bonds by modifying or revoking certain enumerated provisions of the Financing Agreement without first obtaining the consent of the holders of or parties to Authority Obligations in accordance with and to the extent provided by the provisions of the Resolution.

Indemnity by LIPA

To the extent permitted by law, LIPA releases and agrees to hold harmless and indemnify the Authority and its trustees, officers, officials, agents and employees from and against all, and agrees that the Authority and its trustees, officers, officials, agents and employees shall not be liable for any, (i) liabilities, suits, actions, claims, demands, damages, losses, expenses and costs of every kind and nature resulting from any action taken in accordance with, or permitted by the Financing Agreement, or the Resolution, or arising from or incurred by the Authority by reason of its incurrence of Authority Obligations pursuant to the Financing Agreement and the Resolution, or (ii) loss or damage to property or any injury to or death of any or all persons that may be occasioned by any cause whatsoever pertaining to the System arising by reason of or in connection with the presence on, in or

about the premises of the System of any person; provided, however, that the indemnity shall be effective only to the extent of any loss or liability that may be sustained by the Authority or another party so indemnified by LIPA in excess of net proceeds received from any insurance carried with respect to such loss or liability; and provided further that the Authority and LIPA shall each provide waiver of rights of subrogation against the other in any insurance coverage obtained relating to the System.

Conflicts

The Financing Agreement provides that its provisions shall not change or in any manner alter the terms of the Resolution, or the security, rights or remedies of the Trustee or the holders or owners of Authority Obligations. In the event any provision of the Financing Agreement conflicts at any time, or in any manner, with the provisions of the Resolution or any Authority Obligations, the provisions of the Resolution or Authority Obligations shall be controlling and conflicting provisions of the Financing Agreement shall be disregarded.

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SUMMARY OF OPERATING AGREEMENTS

SUMMARY OF CERTAIN PROVISIONS OF THE MANAGEMENT SERVICES AGREEMENT

The following is a brief summary of certain provisions of the Management Services Agreement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Management Services Agreement, a copy of which is on file with the Trustee.

General

The Management Services Agreement establishes the terms and conditions under which the Authority has contracted with KeySpan and its subsidiaries (the "Manager") for the purpose of providing the Operation and Maintenance Services and the Construction Work relating to the T&D System in a manner consistent with policies established by LIPA in order to assure the continued delivery of electric energy to the customers of the T&D System.

Ownership of the T&D System

The Agreement provides that the Manager will not have any ownership or leasehold interest in the T&D System. LIPA has engaged the Manager as an independent contractor to furnish the services described in the Agreement.

The Agreement provides that the Manager will not, without LIPA's prior written consent, create or permit to be created or to remain, and will promptly discharge at its expense, any Encumbrance on the T&D System, other than (1) Encumbrances existing as of the date of the Agreement, or (2) any Lien affecting the T&D System (i) resulting solely from any action or failure to act by LIPA or anyone claiming by, through or under LIPA; or (ii) created by Subcontractors that are promptly discharged or bonded against by the Manager. The Agreement provides that nothing in the Agreement will be deemed to create any Lien or Encumbrance in favor of the Manager on any asset of LIPA as security for the obligations of LIPA under the Agreement.

Operation of the T&D System

General. The Agreement provides that the Manager will not transmit or distribute Power and Energy other than Power and Energy obtained by, on behalf of, or with the approval of LIPA, and will not use the T&D System for any purpose other than the purposes contemplated by the Agreement or to serve or benefit any person other than LIPA and its customers in the Service Area.

Operation and Maintenance. The Agreement provides that, commencing on the LIPA/LILCO Merger Closing Date, the Manager will provide Operation and Maintenance Services and Construction Work for the T&D System on behalf of LIPA in accordance with the Contract Standards. The Manager will be responsible for the safe and reliable operation and maintenance of the T&D System, management and/or performance of construction of improvements thereto and delivery of Power and Energy to LIPA's customers and will be responsible for the following tasks and services, among others: (a) day-to-day operation and maintenance of the T&D System; (b) construction activities performed by the Manager's work force; (c) supervision of routine and major capital improvements; (d) preparation of recommended and monitoring of approved annual capital and operating expenditure budgets, load and energy forecasts and long and short range system and strategic plans; (e) preparation of long and short range transmission and distribution planning analyses; (f) performance of accounting and tax and payment in lieu of tax reporting functions and preparation of monthly reports concerning the T&D System; (g) operation of the T&D System in compliance with applicable provisions of the bond resolutions, and with other requirements pertaining to qualification of the bonds for tax-exemption under the Code; (h) other actions necessary to safely and reliably operate the T&D System in accordance with Prudent Utility Practice; (i) administration and management, at the direction of LIPA, of LIPA's interest in NMP2; and (j) billing and collection, in accordance with LIPA's direction, of all fees and charges in connection with the use or availability of the T&D System for wheeling services.

Maintenance and Repair of T&D System. The Agreement provides that the Manager will maintain the T&D System, the T&D System Site and the Common Facilities in good working order and repair and in a neat and orderly condition, and will conduct periodic, corrective, and preventive maintenance and repair of the T&D System consistent with the Contract Standards for the purpose of, among other things, mitigating and preventing abnormal wear, tear and usage.

The Agreement provides that all additions to the T&D System purchased in conjunction or for the use with any part of the T&D System during the term of the Agreement shall be the property of LIPA, except those which are leased or constitute part of the Common Facilities.

Performance Guarantees. The Agreement provides that, commencing on the LIPA/LILCO Merger Closing Date, the Manager will at all times comply with the Performance Guarantees, except to the extent excused by Uncontrollable Circumstances or LIPA Fault. If the Manager fails to comply with any Performance Guarantee, the Manager shall, without relief under any other Performance Guarantee under the Agreement, (1) promptly notify LIPA of any such noncompliance, (2) promptly provide LIPA with copies of any notices sent to or received from any Governmental Body having regulatory jurisdiction with respect to any violations of Applicable Law, (3) promptly make any applicable payments provided for in the Agreement, and (4) at its own cost and expense to the extent required under the Agreement, promptly take any action necessary in order to comply with such Performance Guarantee, continue or resume performance under the Agreement and eliminate the cause of, and avoid or prevent recurrence of noncompliance with such Performance Guarantee.

Rights and Responsibilities of LIPA. The Agreement provides that LIPA will retain the ultimate authority and control over the assets and operations of the T&D System and the right to direct the Manager in connection with the performance of the Manager's obligations under the Agreement. Without limiting the generality of the foregoing, LIPA's specific rights and responsibilities with respect to the T&D System include: (a) the right to determine all T&D System rates and charges, line extension policies and service rules and regulations applicable to the T&D System and System Power Supply; (b) the right to determine and to change from time to time, in its sole discretion, all policies and procedures for the T&D System consistent with Applicable Law and Prudent Utility Practice; (c) the right to review, amend as appropriate and approve annual capital and operating expenditure budgets pursuant to the procedures outlined in the Agreement and approve or in its discretion, develop, all long-range strategic plans for the T&D System and System Power Supply; and (d) to the extent the Manager acts as the representative of LIPA in connection with the North American Electric Reliability Council, Northeast Power Coordinating Council, the New York Power Pool, the ISO and any other similar institutions or organizations, the right to direct the Manager's actions with respect thereto.

Customer Services, Rates and Rules of Service. The Agreement provides that the Manager shall perform normal and customary customer services in a manner designed to achieve the highest level of customer service, including, but not limited to: customer account service and maintenance; service restorations account inquiry work; customer assistance, credit and collection services; cashiering; account connection and disconnection; and conservation advice.

The Agreement provides that the Manager shall, unless otherwise directed by LIPA, read the meters of electric commercial, industrial, residential heating and residential multiple rate period customers on a monthly basis and all other electric customer meters on a bi-monthly basis. The Manager shall, according to the schedule of rates, tariffs and policies (the "Schedule of Rates") then in effect, render bills to all T&D System customers in the name of LIPA for electric service delivered on behalf of LIPA and in the format determined by LIPA. To the extent directed by LIPA, such bills will also reflect electric services provided to T&D System customers by other parties. LIPA may implement changes to such rates, rules of service, regulations and procedures by giving written notice to the Manager not later than sixty (60) days prior to the effective date of such change to the extent practicable given the nature of the change. The Manager will maintain customer bills and records as LIPA reasonably requests.

The Manager will use best efforts to collect on a timely basis (1) all amounts due LIPA for service provided to customers, and for other services, in accordance with the Schedule of Rates for the periods in which services were provided, and (2) other monies owed to LIPA pursuant to the operation of the T&D System. The Manager's responsibilities will also include the institution of legal proceedings in LIPA's name to collect utility billings and other monies owed LIPA related to the T&D System. All monies collected by the Manager or its Subcontractors will be the property of LIPA and will be deposited by the Manager daily in an account of LIPA specified pursuant to the

Agreement. In collecting such monies, the Manager and any Subcontractor will act solely as an agent for LIPA and will have no right or claim to such moneys and, without limiting the generality of the foregoing, will have no right to assert a claim of set-off, recoupment, abatement, counterclaim or deduction for any amounts which may be owed to the Manager under the Agreement or with respect to any other matter in dispute thereunder.

It is expected that gas customers of Manager's Affiliate and the T&D System electric customers will be billed in a single statement. In the event any electric customer who is also a gas customer will pay less than the total amount due at any time under a single statement, the amounts collected will be applied pro rata between the amounts owed by such customer with respect to electric service and gas service. To the extent moneys are collected for any power supply services provided by any unrelated party, amounts collected will be allocated in accordance with the directions of LIPA. The Manager may elect to bill gas customers separately, provided that the Manager will bear all incremental costs arising by reason of any such election.

Licenses, Permits and Approvals. The Manager will identify for LIPA, prepare, and with LIPA approval, make and prosecute all filings, applications and reports necessary to obtain and maintain all permits, licenses and approvals required to be made, obtained or maintained by each under Applicable Law in order to operate the T&D System.

Operating Period Insurance. During the term of the Agreement, the Manager will obtain and maintain, the Required Operating Period Insurance as specified in accordance with the Agreement and will comply with all applicable Insurance Requirements.

Manager's Reporting Requirements

Monthly Reports. The Manager will provide LIPA and the Consulting Engineer with monthly reports no later than 15 Business Days after the end of each month, which include the following data: (1) on a monthly and year-to-date basis, the actual T&D System costs versus the Annual T&D Budget and the prior year's costs at such time, (2) a description and explanation of significant variations (at least $1,000,000 and 3%) from the Annual T&D Budget or the prior year's results, (3) a description of partial or total shutdowns for maintenance and repairs during the prior month and anticipated during the current month, (4) any known or anticipated adverse conditions which may be expected to arise during the next 30 day period that may affect the ability of the Manager to transmit and distribute Power and Energy in accordance with the Performance Guarantees and the annual operating plan established for the T&D System, (5) identification of those costs which are classified as capital versus operating in sufficient detail in order to allow LIPA to determine which costs qualify for bonding under the Resolution and which are to be recovered through T&D System rates, and (6) any other information or statement which is requested by LIPA and which may be reasonably produced from records maintained by the Manager in the normal course of business. The Manager will also provide a quarterly forecast of projected expenditures by line item through year-end.

Semi-Annual Reports. The Manager will, on a semi-annual basis within 60 days after the end of each half of the Contract Year, provide LIPA and the Consulting Engineer with a report of actual Direct Costs and Third Party Costs together with identification of any material Direct Costs projects or Third Party Costs projects which were included in the Direct Cost Budget or the Third Party Cost Budget from the previous Contract Year which were deferred to the current Contract Year or proposed to be deferred to a subsequent Contract Year, or such costs in the current Contract Year which the Manager proposes deferring beyond the current Contract Year.

Other Costs Reports. The Manager will promptly notify LIPA when an event occurs, or is anticipated to occur, that the Manager believes qualifies for treatment as an Other Cost.

Annual Reports. The Manager will furnish LIPA and the Consulting Engineer with the Annual Settlement Statement, an annual summary of the statistical data provided in the monthly reports, certified by the Manager and the Manager's independent public accountants.

Operations Reports. The Manager will prepare appropriate reports concerning matters reasonably related to the operation of or planning for the T&D System, including, but not limited to: source of Power and Energy supply; revenues and unit sales of Power and Energy supplied to customers in the aggregate and by customer class; environmental requirements and compliance; compliance with Applicable Law; safety requirements and compliance; and reports relating to any incentive and penalty provisions set forth in the Agreement.

Fiscal Affairs, Accounting and Record Keeping. The Manager will maintain possession of operating equipment, buildings, materials and supplies, maps, plans, specifications, and customer billing records during the term of the Agreement in accordance with the Manager's customary practices or in such manner as LIPA may reasonably require. The Manager also will maintain LIPA's fixed asset books and records for those activities performed by the Manager in general conformity with municipal electric utility accounting standards or such other standards as reasonably requested by LIPA.

All cash held by the Manager for the account of LIPA and all cash collected by the Manager for the account of LIPA after the LIPA/LILCO Merger Closing Date will be deposited on each business day in bank accounts in such bank as LIPA may direct and upon such terms and conditions as may be specified by LIPA.

Purchase of Equipment, Materials and Services. The Agreement provides that the Manager will arrange for the purchase or rental for the account of LIPA of equipment, materials, and supplies and services which are not purchased directly by LIPA or other items necessary to properly operate and maintain the T&D System and to maintain the records of LIPA, and to make such additions and extensions to the T&D System, all as may be required by LIPA. Subcontractors will be subject to approval by LIPA in accordance with the Agreement.

Other Services. The Manager will timely pay all bills related to the T&D System which are proper, appropriate and not otherwise disputed and which it has authority to pay and will assure that, to the extent within the Manager's control, no mechanic's or similar liens are filed against any portion of the T&D System.

Major Capital Improvements

Major Capital Improvements Generally. The Major Capital Plan and Budget provided for in the Agreement is intended to provide for the implementation of major repairs and replacements not constituting routine maintenance of the T&D System. In addition, the Major Capital Plan and Budget is intended to recognize that it will be necessary or desirable from time to time during the term of the Agreement to modify, alter or improve the T&D System from its then-current condition. All such projects which constitute Major Capital Improvements will be made in accordance with the Agreement and will be owned by LIPA. The Manager will not make a Major Capital Improvement without notifying LIPA and receiving written consent from LIPA unless such Major Capital Improvement is included in the then current annual Major Capital Plan and Budget. LIPA will have the right, when the Manager has materially exceeded the Major Capital Plan and Budget as of an interim date, to require the Manager to defer specific Major Capital Improvements planned for the remainder of the year.

Major Capital Plan and Budget. Contemporaneously with the preparation of the Annual T&D Budget, the Manager is obligated to prepare a proposed annual and five year Major Capital Plan and Budget concerning planned Major Capital Improvement projects.

The annual Major Capital Plan and Budget will be approved by LIPA before or contemporaneously with the adoption of the Annual T&D Budget, provided that in the event the Major Capital Plan and Budget has not been adopted by LIPA as of the beginning of a Contract Year, the Manager may undertake such Major Capital Improvements as reasonably approved by LIPA on a project-by-project basis.

Cost Determination. Major Capital Improvements, except those awarded to the Manager as a result of the competitive procurement procedures established pursuant to the Agreement, will be performed at the cost of the service without any multiplier fee or mark-up.

The Manager will be entitled to incentive payments for cost savings and disincentive payments for cost overruns and delays in scheduled completion of approved Major Capital Improvements equal to 50% of all variances from the approved Major Capital Plan and Budget; provided, however, that no such incentive or disincentive will be payable for cost variances in excess of 15% of the approved Major Capital Plan and Budget. Incentives and disincentives will be trued-up upon the closing and acceptance by LIPA of approved capital projects.

Public Works Improvements. The Agreement provides that the budget for each Public Works Improvement will be subject to LIPA approval and the Manager will not undertake any Public Works Improvement until the budget therefor has been adopted.

Public Works Improvements will be performed at the cost of the service without any multiplier fee or mark-up; provided, however, that such costs will be reduced by all reimbursements or payments received from the

applicable Governmental Body for the planning, engineering, procurement and completion of the Public Works Improvement. The Manager will be entitled to certain incentive payments for cost savings and disincentives for cost overruns and delays in scheduled completion that result in incremental costs for approved Public Works Improvement.

Major Capital Improvements for which Manager is Responsible. If the T&D System is damaged or destroyed by reason of circumstances for which the Manager is responsible described below under the heading "Allocation of Risks of Certain Costs and Liabilities", the Manager shall promptly proceed to make or cause to be made all Major Capital Improvements reasonably necessary to permit the Manager to perform its obligations under this Agreement. All such Major Capital Improvements for which the Manager is responsible as described under the heading "Allocation of Risks of Certain Costs and Liabilities" shall be made at the Manager's sole cost and expense, and the Manager shall not be entitled to any compensation from LIPA as a result thereof.

Compensation and Budgets

Service Fee

Formula. Commencing with the first Billing Period and for each Billing Period during the term of the Agreement, LIPA will pay the Manager a Service Fee for the services provided by the Manager under the terms of the Agreement in accordance with the following formula:

SF = FDF + TPC + VP + CIF + NCPI

Where

SF	=	Service Fee
FDF	=	Fixed Direct Fee
TPC	=	Third Party Costs
VP	=	Variable Payment
CIF	=	Cost Incentive Fee
NCPI	=	Non-cost Performance Incentives and Disincentives

Each component of the Service Fee will be computed in accordance with the Agreement and may be adjusted from time to time as provided in the Agreement. In addition to the Service Fee, Manager will be entitled to payment for cost overruns as and to the extent as discussed below.

Fixed Direct Fee. LIPA will make a monthly payment to the Manager equal to ninety percent (90%) of the approved annual Direct Cost Budget (the "Fixed Direct Fee").

Third Party Costs. LIPA will make a monthly payment to the Manager for the monthly allocation of the approved annual Third Party Cost Budget.

Variable Payment. The Manager will be entitled to a Variable Payment equal to the lesser of (a) the difference between actual Total Costs (the sum of the actual Direct Costs and the actual Third Party Costs), less the sum of the Fixed Direct Fee and the lesser of actual or budgeted Third Party Costs or (b) the difference between the approved Total Cost Budget (the sum of the Direct Cost Budget and the Third Party Cost Budget) less the sum of the Fixed Direct Fee and the lesser of the actual or budgeted Third Party Costs. Monthly allocation of such payment will be determined by the parties based on historical monthly trends to minimize working capital costs.

Management Fee, Cost Incentive Fee and Non-cost Performance Incentives and Disincentives. To the extent actual Total Costs are less than the approved Total Cost Budget for the year, the Manager will be paid the portion of its Management Fee, described within the definition of Direct Costs as discussed below under the heading "Annual T&D Budget and Five Year Planning Budget" (relating to cost savings), in an amount equal to such cost savings up to a maximum of $5 million. Beyond such $5 million level, the Manager will be paid a Cost Incentive Fee equal to 50% of such additional savings, provided that no incentive will be paid for savings in excess of 15% of the Total Cost Budget. All savings above this cap will be for the benefit of LIPA.

Cost Overruns. To the extent actual Total Costs, excluding the Management Fee, are greater than the Total Cost Budget, excluding the net Management Fee, for the applicable Contract Year, the Manager will absorb the first dollars of such overruns, up to a maximum total of $15 million in each Contract Year. For cost overruns in excess of this amount, the Manager will be entitled to a payment through the Annual Settlement Statement equal to the amount of such excess overruns (the "Overrun Payment").

Limitations. The Agreement provides that the ratio of (1) the sum of the Variable Payment plus the Cost Incentive Fee plus the sum of the Non-cost Performance Incentives and Disincentives (as discussed below under the heading "Non-Cost Performance Incentives and Disincentives") plus the Overrun Payment divided by (2) the sum of (a) the amounts described in (1) above and (b) the Fixed Direct Fee, will not be greater than twenty percent (20%) in any Contract Year.

Annual T&D Budget and Five Year Planning Budget Process

General. The Agreement provides that the Annual T&D Budget and the Five-Year Planning Budget will be established in the manner described below and will provide for the determination and payment of the Manager's costs of operating and maintaining the T&D System and performing its obligations under the Agreement, inclusive of fees paid to the Manager. The Annual T&D Budget and the Five-Year Planning Budget will be comprised of two broad categories: Direct Costs and Third Party Costs. These categories of costs will exclude Incremental Internal Costs and additional Third Party Costs relating to Major Capital Improvements, Public Works Improvements, and Other Costs.

In establishing the Direct Cost Budget for the initial Annual T&D Budget under the Agreement, the Direct Cost Budget will include (1) amounts to compensate the Manager for Operation and Maintenance Services costs anticipated to be reasonably predictable and incurred by the Manager through the utilization of either its work force, or its owned assets, in carrying out its responsibilities under the Agreement and (2) the Manager's fee.

The Third Party Cost Budget will include amounts for reimbursement of, on a dollar for dollar basis, all recurring capital or operating costs incurred by the Manager in carrying out its responsibilities under the Agreement and paid to parties other than the Manager, its parent or affiliates, and any of their employees.

The Manager will be entitled to receive Cost Incentive Fees, as discussed above under the heading "Service Fee", for costs savings from the amounts included for Direct Costs and Third Party Costs in the approved Annual T&D Budget.

Annual T&D Budget Preparation. The Agreement provides that no later than six months prior to the end of each Contract Year, the Manager will prepare a recommended annual budget for the operation and maintenance, including routine capital projects not constituting Major Capital Improvements or Public Works Improvements, of the T&D System and a recommended annual budget for total revenue requirements, inclusive of LIPA's own costs, with the costs that will be paid by LIPA to Manager under the Agreement specifically and separately identified (together, the "Annual T&D Budget"). The recommended Annual T&D Budget will be accompanied by the Five-Year Planning Budget. The Authority will hold at least one hearing to solicit public input on the initial budgets.

LIPA has established an initial Direct Cost Budget. Subsequent annual Direct Cost Budgets will be calculated based upon the initial Direct Cost Budget, subject to adjustments for the "Direct Cost Budget Indices" described in an appendix to the Agreement.

The Agreement provides that the Annual T&D Budget and Five-Year Planning Budget prepared by the Manager and submitted to LIPA for review and approval will be accompanied by any Manager-recommended rate adjustments for the upcoming year at least six months before the beginning of each subsequent Contract Year. The Agreement provides that LIPA will have 60 days to review the proposed Annual T&D Budget and Five-Year Planning Budget and any rate adjustments and to propose modifications as it deems appropriate, so as to have the Annual T&D Budget and the Five-Year Planning Budget adopted at least two months before the beginning of the next Contract Year. All rate proposals will be subject to public hearings prior to approval by LIPA.

Other Costs. The Agreement provides that "Other Costs" are those costs which cannot reasonably be anticipated and will include those costs the Manager and LIPA agree are not included in the Direct Cost Budget, Third Party Cost Budget or Major Capital Plan and Budget ("Other Costs"). Other Costs include the Incremental Internal Costs and additional Third Party Costs incurred by the Manager as a result of events (including but not

limited to major storms and extreme weather) that the Manager and LIPA agree have caused costs to be incurred by the Manager to respond to significant (i) damage to or adverse affects on the T&D System, (ii) changes in the level of required maintenance or operation of the T&D System, or (iii) tasks which are necessary for safety reasons.

Although Other Costs will not be budgeted, the Manager will recommend, and LIPA will adopt, an annual reserve level for Other Costs for each Annual T&D Budget and Five-Year Planning Budget to enable estimation of total "System Revenue Requirements," consisting of the sum of the annual Service Fee, plus an estimate of other costs plus debt service requirements on the Authority's Revenue Bonds plus the Authority's costs as reported to the Manager pursuant to the Agreement. The Manager will be reimbursed for reasonably incurred Other Costs.

Non-Cost Performance Incentives and Disincentives. In addition to the cost saving incentives discussed above under the heading "Annual T&D Budget and Five Year Planning Budget Process," the Manager will be eligible for incentives for performance above certain threshold target levels of performance standards ("Non-cost Performance Incentives") and subject to disincentives for performance below certain other threshold minimum performance standard levels ("Non-cost Performance Disincentives"), with an intermediate band of performance in which neither incentives nor disincentives will apply, for reliability, worker safety, and customer service, all as provided in or established pursuant to the Agreement.

In any Contract Year in no event will the total of the Non-cost Performance Incentives, net of any applicable Non-cost Performance Disincentives, together with the System Power Supply Performance Incentive/Disincentive, be greater than $7.5 million, nor will the total Non-cost Performance Disincentives, net of any applicable Non-cost Performance Incentives together with the System Power Supply Performance Incentive/Disincentive be greater than $7.5 million.

LIPA Non-Performance. If caused by an event the costs of which LIPA is responsible for as discussed below under the heading "Allocation of Risk of Certain Costs and Liabilities," there will be an increase in the Manager's cost of Construction Work or Operation and Maintenance Services, the amount of any such incremental cost increase will be borne by LIPA to the extent it is responsible therefor and will not be considered for purposes of calculating any incentive or disincentive thereunder.

If at any time the T&D System is damaged or destroyed due to an event for which LIPA is responsible, LIPA will pay all Major Capital Improvement Costs and adjustments as are required to be made by LIPA pursuant to applicable provisions of the Agreement.

Manager Non-Performance. If due to an event for which the Manager is responsible as discussed below under the heading "Allocation of Risk of Certain Costs and Liabilities," there will be an increase in the Manager's cost of Construction Work or Operation and Maintenance Services, or in LIPA's costs associated with performing obligations under the Agreement, the amount of any such incremental cost increase will be borne by the Manager to the extent it is responsible therefor.

Annual Settlement. The Agreement provides that the Manager will deliver to LIPA within 60 days after the end of each Contract Year, an Annual Settlement Statement, setting forth the actual aggregate Service Fee payable with respect to such Contract Year and a reconciliation of such amount with the amounts actually paid by LIPA pursuant to the billing statements. The Annual Settlement Statement will also include an accounting of any incentives or disincentives accrued during the applicable Contract Year which LIPA will have an opportunity to review prior to payment.

During the first quarter of the following Contract Year, the monthly payments made to the Manager by LIPA will be (i) reduced by any overpayment by LIPA or (ii) increased to reflect any Non-Cost Performance Incentive earned by the Manager during the previous year and/or any Overrun Payment due.

LIPA's Payment Obligations. The Agreement provides that amounts payable to the Manager under the Agreement will be paid from T&D System revenues and other funds of LIPA available for such purposes in accordance with the terms of the Resolution.

The Agreement contemplates that if any billing disputes cannot be resolved within 30 days, either party may refer such dispute for resolution as discussed below under the heading "Non-Binding Mediation; Arbitration."

Allocation of Risks of Certain Costs and Liabilities. The Agreement provides that except to the extent due to Subsidiary Fault (as determined by either a final non-appealable order or judgment of a court of competent jurisdiction (including administrative tribunals) or a final non-appealable binding arbitration decision), the Manager will be responsible and liable to LIPA for, and will not be entitled to reimbursement from LIPA for any Loss-and-Expense incurred by the Manager or LIPA,

(a) due to any gross negligence or willful misconduct by the Manager during the period commencing six months prior to the LIPA/LILCO Merger Closing Date to the extent LILCO knew or should have known of such gross negligence or willful misconduct and during the term of the Agreement in carrying out its obligations thereunder,

(b) due to any violation of or failure of compliance with Applicable Law by the Manager (except as provided below) during the period commencing six months prior to the LIPA/LILCO Merger Closing Date to the extent LILCO knew or should have known of such violation or failure of compliance and during the term of the Agreement which materially and adversely affects

(i) the condition or operations of the T&D System,

(ii) the financial condition of LIPA,

(iii) the performance or ability of the Manager to perform its obligations under the Agreement, or

(iv) the cost of providing electric service to the customers of the T&D System, provided, however, that Manager will not be responsible and liable to LIPA under the provisions of the Agreement described in this clause (b) with respect to any violation of, failure of compliance with, or liability under, Environmental Laws (as defined in the LIPA/LILCO Merger Agreement) for which LIPA or the Manager may be strictly liable provided that Manager (or for actions prior to the LIPA/LILCO Merger Closing Date, LILCO) acted in a manner consistent with Prudent Utility Practice. Notwithstanding the foregoing, Manager will in all events be liable for any fine or penalty arising by reason of any violation of or failure of compliance with Applicable Law for acts or omissions of the Manager not consistent with Prudent Utility Practice,

(c) due to any criminal violation of Applicable Law by the Manager (or for actions prior to the LIPA/LILCO Merger Closing Date, LILCO), or

(d) due to an event which gives rise to a cost not included in the Direct Cost Budget or Third Party Cost Budget or a cost incurred with respect to Major Capital Improvements or Public Works Improvements, that is incurred by reason of actions or omissions of the Manager not consistent with Prudent Utility Practice.

Default, Termination For Cause And Dispute Resolution

Remedies for Breach. Subject to the provisions of the Agreement described below under the heading "Non-Binding Mediation; Arbitration," in the event that either party breaches any other obligation under the Agreement or any representation made by either party under the Agreement is untrue in any material respect, the other party will have the right to take any action at law or in equity it may have to enforce the payment of any damages or the performance of such other obligation under the Agreement and such right to recover damages or to be reimbursed as provided therein will ordinarily constitute an adequate remedy for any breach of such other obligation or any material untruth in any such representation. Either party may enforce by an action for specific performance the other party's obligations under the Agreement in the event a material breach thereof has occurred and is continuing. Neither party will have the right to terminate the Agreement for cause except after an Event of Default determined in accordance with the provisions of the Agreement has occurred.

Events of Default by the Manager

(1) *Events of Default Not Requiring Cure Opportunity for Termination.* Each of the following shall constitute an Event of Default on the part of the Manager for which LIPA may terminate the Agreement without any requirement of cure opportunity:

(a) *Change of Control.* Change of Control of the Manager, the Parent or the Guarantor; provided, however, that the combination effectuated under the BUG/LILCO Agreement or the LIPA/LILCO Merger Agreement shall not constitute a Change of Control of the Manager for purposes of this provision.

(b) *Worker Safety/Customer Service.* Failure for two out of three consecutive years, for reasons other than major storms or extreme weather, to achieve the "Minimum Worker Safety Standard" or "Minimum Customer Service Standard," as such standards are established in accordance with appendices to the Agreement.

(c) *Bankruptcy.* Certain voluntary or involuntary events relating to bankruptcy affecting the Manager, the Parent or the Guarantor.

(d) *Credit Enhancement.* Failure of the Manager to supply, maintain, renew, extend or replace the credit enhancement required under the Agreement (see "General—Credit Enhancement in Certain Circumstances" below).

(e) *Letter of Credit Draw.* Failure of the Manager to supplement, replace or cause to be reinstated the letter of credit as described in the Agreement (see "General—Credit Enhancement in Certain Circumstances" below) within 30 days following draws equal to, in the aggregate, 50% of the face value thereof.

(2) *Events of Default Requiring Cure Opportunity for Termination.* Each of the following shall constitute an Event of Default on the part of the Manager for which LIPA may terminate the Agreement upon compliance with the notice and cure provisions set forth below:

(a) *System Reliability.* Failure to achieve, for two out of three consecutive years, the "Minimum Reliability Standard" specified in the Agreement.

(b) *Failure to Pay or Credit.* Failure of the Manager to pay or credit undisputed amounts owed to LIPA under the Agreement within 90 days following the applicable due date.

(c) *Failure to Comply with Agreement or Guaranty.* The failure or refusal of the Manager to perform any material obligation under the Agreement, or the failure of the Guarantor to comply with any of its material obligations under the Guaranty unless such failure or refusal is excused by an Uncontrollable Circumstance or Subsidiary Fault; except that no such failure or refusal in clause (b) or (c) will constitute an Event of Default giving LIPA the right to terminate the Agreement for cause unless LIPA has given prior written notice to the Manager or the Guarantor and the Manager or the Guarantor, as applicable, has neither challenged in an appropriate forum LIPA's conclusion nor corrected or diligently taken steps to correct such default within a reasonable period of time, but not more than 60 days, from receipt of the notice (but if the Manager or the Guarantor shall have diligently taken steps to correct such default within a reasonable period of time, the same shall not constitute an Event of Default for as long as the Manager or the Guarantor is continuing to take such steps to correct such default).

Events of Default by LIPA. Each of the following shall constitute an Event of Default on the part of LIPA for which the Manager may terminate the Agreement upon compliance with the notice and cure provisions set forth below:

(a) *Failure to Pay.* The failure of LIPA to pay undisputed amounts owed to the Manager under the Agreement within 90 days following the due date for such payment.

(b) *Failure to Comply with Agreement.* The failure or refusal by LIPA to perform any material obligation under the Agreement unless such failure or refusal is excused by an Uncontrollable Circumstance or Manager Fault; except that no such failure or refusal will constitute an Event of Default giving the Manager the right to terminate the Agreement for cause unless the Manager has given prior written notice to LIPA and LIPA has neither challenged in an appropriate forum the Manager's conclusion nor corrected or diligently taken steps to correct such default within a reasonable period of time, but not more than 60 days, from the date of the notice (but if LIPA shall have diligently taken steps to correct such default within a reasonable period of time, the same shall not constitute an Event of Default for as long as LIPA is continuing to take such steps to correct such default).

(c) *Change of Control of LIPA.* A change of control of LIPA which results in ownership control of LIPA by other than a state public benefit corporation, authority, political subdivision or other instrumentality of the State or any political subdivision thereof.

Procedure for Termination for Cause. If any party has a right of termination for cause, the right may be exercised by giving a notice of termination for cause to the party in default at least two years prior to (or, in the case of a bankruptcy or insolvency default or a Change of Control, simultaneously with, or, in the case of an Event of Default as discussed above under the heading "Events of Default by LIPA," six months) the date of termination specified in such notice (the "Termination Date").

Non-Binding Mediation; Arbitration

The Agreement provides that any dispute arising out of or relating to the Agreement will be resolved in accordance with the mediation and arbitration procedures for the resolution of such disputes established by the Agreement, which shall constitute the sole and exclusive procedures for the resolution of such disputes.

Either party may, without prejudice to any negotiation, mediation, or arbitration procedures, proceed in any court to obtain provisional judicial relief if, in such party's sole discretion, such action is necessary to avoid imminent irreparable harm, to provide uninterrupted electrical and other services, or to preserve the status quo pending the conclusion of the dispute procedures specified in the Agreement.

Provisional Relief

LIPA Emergency Powers. The Agreement provides that if the Manager, due to Uncontrollable Circumstances or any other reason whatsoever, fails to provide any Operation and Maintenance Services and Construction Work contemplated by the Agreement and LIPA or any Governmental Body finds that such failure endangers or menaces the public health, safety or welfare, then LIPA will have the right, upon notice to the Manager, during the period of such emergency, to take possession of and use any or all of the Operating Assets necessary to transmit and distribute Power and Energy which the Manager would otherwise be obligated to transmit and distribute. The Manager will fully cooperate with LIPA to effect such a temporary transfer of possession of the Operating Assets for LIPA's use of the same.

Term

Term of Agreement. The Agreement commenced on June 26, 1997 and will continue in effect until May 28, 2006, unless earlier terminated in accordance with its terms.

Mandatory Competitive Selection of Future Managers. LIPA will conduct a competitive procurement for T&D System management services following May 28, 2003. The Manager will have the right or be ineligible to submit a bid in such procurement on the same basis as other bidders unless the Agreement is terminated due to an Event of Default of the Manager. The Manager is obligated to cooperate with LIPA during such procurement process.

Miscellaneous Provisions

Affiliate. Pursuant to the Agreement, the Manager has agreed to remain an Affiliate of the Guarantor.

Credit Enhancement in Certain Circumstances. The Agreement provides that if the Guarantor's credit rating declines below investment grade, then the Manager shall provide credit enhancement of its obligations under the Agreement in the form of either (i) an unconditional guarantee of all of GENCO's obligations under the Power Supply Agreement, the Manager's obligations under the Management Services Agreement, and the Energy Manager's obligations under the Energy Management Agreement, provided by a corporation or financial institution whose long-term senior debt is or would be rated investment grade, or (ii) an irrevocable letter of credit securing GENCO's obligations under the Agreement, the Manager's obligations under the Management Services Agreement, and the Energy Manager's obligations under the Energy Management Agreement, in a face amount of $60,000,000 provided by a financial institution whose long-term senior debt is rated investment grade. The amount of such letter of credit shall be reduced by $30,000,000 if the Energy Management Agreement has theretofore been or is thereafter terminated and by $4,000,000 if the Power Supply Agreement has theretofore been or is thereafter terminated, such

obligation to continue until the expiration or termination of the Agreement, the Power Supply Agreement and the Energy Management Agreement.

Uncontrollable Circumstances Generally. Except as otherwise specifically provided in the Agreement, neither LIPA nor the Manager will be liable to the other for any failure or delay in performance of any obligation under the Agreement to the extent due to the occurrence of an Uncontrollable Circumstance.

Indemnification. The Agreement provides that the Manager, to the extent permitted by law, will protect, indemnify and hold harmless LIPA and its respective representatives, trustees, officers, employees and subcontractors (as applicable in the circumstances), (the "LIPA Indemnified Parties") from and against (and pay the full amount of) any Loss-and-Expense and will defend LIPA Indemnified Parties in any suit, including appeals, for personal injury to, or death of, any person, or loss or damage to property arising out of any matter for which the Manager is responsible under the caption "Allocation of Risk of Certain Costs and Liabilities" in the Agreement and LIPA, to the extent permitted by law, will protect, indemnify and hold harmless the Manager Indemnified Parties from and against (and pay the full amount of) any Loss-and-Expense, and will defend the Manager Indemnified Parties in any suit, including appeals, for personal injury to, or death of, any person, or loss or damage to property arising out of any matter for which LIPA is responsible under the caption "Allocation of Risk of Certain Costs and Liabilities" in the Agreement. The foregoing indemnifications are subject to certain exceptions, including the negligence or other wrongful conduct of any indemnified party and any Uncontrollable Circumstance.

Assignment and Transfer. The Agreement may be assigned by either party only with the prior written consent of the other party, except that without the consent of the other party (1) LIPA may make such assignments, create such security interests in its rights thereunder and pledge such monies receivable thereunder as may be required in connection with issuance of Revenue Bonds; (2) LIPA may assign its rights, obligations and interests thereunder, or transfer such rights and obligations by operation of law, to any other governmental entity or to a subsidiary of LIPA provided that the successor entity gives reasonable assurances to the Manager that it will be able to fulfill LIPA's obligations thereunder; and (3) the Manager may assign its rights, obligations and interests thereunder to the Parent or any Affiliate thereof except that the Manager may not, without the consent of LIPA, make any assignment or other transfer to any person of its rights and obligations under the Agreement unless the Guaranty is and remains in full force and effect and unless the Guarantor or a majority-owned direct or indirect subsidiary of the Guarantor will have control of and responsibility for the Operation and Maintenance Services and any Construction Work. The Authority may assign its rights, obligations and interests under the Agreement to LILCO (then a wholly-owned subsidiary of the Authority) and the Manager shall assign all of its rights, obligations and interests under the Agreement to the Parent or any Affiliate thereof.

SUMMARY OF CERTAIN PROVISIONS OF THE POWER SUPPLY AGREEMENT

The following is a brief summary of certain provisions of the Power Supply Agreement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Power Supply Agreement, a copy of which is on file with the Trustee.

General

The Power Supply Agreement sets forth the terms and conditions for the sale and delivery of electric capacity and energy by BL Holding Corp. and its subsidiaries ("GENCO") to LIPA.

Power Supply

Delivery of Power. The Agreement provides that during the term of the Agreement GENCO shall sell and deliver to LIPA, and LIPA shall purchase and accept delivery from GENCO of, (i) all the capacity from the GENCO Generating Facilities, and (ii) all the energy that GENCO produces from the GENCO Generating Facilities, in accordance with the Agreement, that LIPA requests to meet the electricity requirements of its retail and wholesale electricity customers (regardless of whether located inside or outside the Service Area). The Agreement also provides that GENCO will provide the various Ancillary Services as required by LIPA, and LIPA shall pay for any associated costs not otherwise compensated by LIPA.

Sale or Assignment of Generating Units. The Agreement provides that GENCO shall not sell or otherwise assign any interest in any of its generating units (as set forth in an appendix to the Agreement) except for (i) liens

securing bona fide debt or other encumbrances incurred in the ordinary course of business, (ii) capital leases, or (iii) sales or assignments made with LIPA's prior written consent, which consent shall be deemed to have been given in respect of certain easements specified in the Agreement.

Transmission Requirements. The Agreement provides that LIPA is responsible for all transmission reinforcements required in conformance with Prudent Utility Practice for any new generation, including any new interconnections and other T&D System requirements regardless of their location, sufficient to maintain the delivery of electricity from the GENCO Generating Facilities onto the T&D System. The additional costs charged to GENCO for such transmission reinforcements will not be greater than if such costs were allocated to all of the LIPA Electricity Customers and transmission service customers on an average system basis.

Purchase Price and Payment

The Agreement provides that during the term of the Agreement LIPA will pay to GENCO monthly an amount equal to the aggregate of the following components:

(i) a capacity charge to compensate GENCO for its fixed costs of generating electricity from the GENCO Generating Facilities,

(ii) a variable charge based on the variable operation and maintenance costs as established by the Agreement, multiplied by the actual MWh of operation of the GENCO Generating Facilities,

(iii) a charge for any costs incurred by GENCO in providing certain Ancillary Services to LIPA, if any such services are required by LIPA which are not otherwise compensated by the charges described in items (i) and (ii) above,

(iv) a charge for non-variable related expenses net of insurance proceeds, that cannot be planned for with any certainty and are outside the control of GENCO, and

(v) certain other miscellaneous charges as specified in the Agreement.

Budgets

Pursuant to the Agreement, GENCO and LIPA have agreed to an initial five-year plan which provides details on the fixed and variable costs of operating the GENCO Generating Facilities. The budget establishes the monthly capacity charge and the monthly variable charge for the first year of the five-year period, which forms the basis for adjustment for subsequent years in such period in accordance with the terms of the Agreement.

The Agreement provides that prior to the commencement of each successive five-year period during the term of the Agreement, GENCO shall prepare and submit to LIPA for review and approval a proposed five-year budget plan. If GENCO and LIPA are unable to reach agreement concerning the budget plan, those portions that are in dispute shall be resolved in a proceeding before the FERC.

The Agreement also provides that GENCO shall annually prepare and submit to LIPA a rolling Five Year Capital Improvement Budget for incremental capital expenditures and associated rate adjustments for LIPA's review and approval.

Capacity Ramp Down Option

The Agreement provides that, commencing in the seventh year of the Agreement, LIPA may determine to reduce the amount of capacity purchased from GENCO. In any such an event, LIPA shall immediately reimburse GENCO for the capacity charges in the amount set forth in the Agreement that would have been recovered from LIPA over the remaining portion of the original term of the Agreement. The Agreement provides that such reduction may not be greater than 1500 MW.

Term and Termination

Term. The Agreement commenced on May 28, 1998 for an initial term of fifteen (15) years. The Agreement provides that it shall terminate upon the purchase of the GENCO Generating Facilities by LIPA as provided for under the Generation Purchase Right Agreement attached to the LIPA/LILCO Merger Agreement.

Termination for Cause by GENCO. The Agreement provides that GENCO shall have the right to terminate the Agreement for cause if one of the following events shall have occurred:

(1) *Failure to Pay.* The failure of LIPA to pay undisputed amounts owed to GENCO under the Agreement within 90 days of such amounts having become due.

(2) *Failure to Comply with Agreement.* The failure or refusal by LIPA substantially to perform any material obligation under the Agreement unless such failure or refusal is excused by force majeure (as defined in the Agreement), except that the Agreement further provides that no such failure or refusal to pay or perform as referenced in these clauses (1) and (2) shall constitute an Event of Default giving GENCO the right to terminate the Agreement for cause unless GENCO has given prior written notice to LIPA stating that a specified failure or refusal to perform exists and LIPA has neither challenged in an appropriate forum GENCO's conclusion nor corrected or diligently taken steps to correct such default within a reasonable period of time, but not more than 60 days, from the date of the notice (but if LIPA shall have diligently taken steps to correct such default within a reasonable period of time, the same shall not constitute an Event of Default for as long as LIPA is continuing to take such steps to correct such default).

Termination For Cause by LIPA. The Agreement provides that LIPA shall have the right to terminate the Agreement for cause after one of the following Events of Default as determined in accordance with the provisions of the Agreement shall have occurred:

(1) *Events of Default Not Requiring Cure Opportunity for Termination.* Each of the following shall constitute an Event of Default on the part of GENCO for which LIPA may terminate the Agreement without any requirement of cure opportunity:

(a) *Change of Control of GENCO.* Change of Control of GENCO or the Guarantor has occurred; provided, however, that the combination effectuated under the LIPA/LILCO Merger Agreement shall not constitute a Change of Control of GENCO for purposes of this provision.

(b) *Bankruptcy.* Certain voluntary or involuntary events relating to bankruptcy affecting GENCO or the Guarantor.

(c) *Credit Enhancement.* Failure of GENCO to supply, maintain, renew, extend or replace the credit enhancement required under the Agreement (see below, "Credit Enhancement in Certain Circumstances" below).

(d) *Letter of Credit Draw.* Failure of GENCO to supplement, replace or cause to be reinstated the letter of credit as described in the Agreement (see "Credit Enhancement in Certain Circumstances" below) within 30 days following draws equal to, in the aggregate, 50% of the face value thereof.

(2) *Events of Default Requiring Cure Opportunity for Termination.* Each of the following shall constitute an Event of Default on the part of GENCO for which LIPA may terminate the Agreement upon compliance with the notice and cure provisions of the Agreement described below:

(a) *Failure to Comply with Agreement.* The failure or refusal by GENCO to substantially perform any material obligation under the Agreement, except that no such failure or refusal shall constitute an Event of Default giving LIPA the right to terminate the Agreement for cause unless LIPA has given prior written notice to GENCO or the Guarantor, as applicable, stating that a specified failure or refusal to perform exists and GENCO or the Guarantor, as applicable, has neither challenged in an appropriate forum LIPA's conclusion nor corrected or diligently taken steps to correct such default within a reasonable period of time, but not more than 60 days, from receipt of the notice (but if GENCO or the Guarantor shall have diligently taken steps to correct such default within a reasonable period of time, the same shall not constitute an Event of Default for as long as GENCO or the Guarantor is continuing to take such steps to correct such default).

Procedure for Termination for Cause. If either GENCO or LIPA shall have a right of termination for cause in accordance with the provisions of the Agreement outlined above, the same may be exercised by notice of termination given to the party in default at least two years prior to (or, in the case of a bankruptcy or insolvency default or a Change of Control, simultaneously with or, in the case of an event of default described in clauses (1)(c) or (1)(d) above, six months) the date of termination specified in such notice.

Non-binding Mediation; Arbitration

The Agreement provides that any dispute arising out of or relating to the Agreement shall be resolved in accordance with the mediation and arbitration procedures for the resolution of such disputes established by the Agreement which shall constitute the sole and exclusive procedures for the resolution of such disputes.

Affiliate

Pursuant to the Agreement, GENCO has agreed to remain an Affiliate of the Guarantor.

Credit Enhancement in Certain Circumstances

The Agreement provides that if the Guarantor's credit rating declines below investment grade, then GENCO shall provide credit enhancement of its obligations under the Agreement at its sole cost and expense in the form of either (i) an unconditional guarantee of all of GENCO's obligations under the Agreement, the Manager's obligations under the Management Services Agreement, and the Energy Manager's obligations under the Energy Management Agreement, provided by a corporation or financial institution whose long-term senior debt is or would be rated investment grade, or (ii) an irrevocable letter of credit securing GENCO's obligations under the Agreement, the Manager's obligations under the Management Services Agreement, and the Energy Manager's obligations under the Energy Management Agreement, in a face amount of $60,000,000 provided by a financial institution whose long-term senior debt is rated investment grade.

Allocation of Risk of Certain Costs and Liabilities

The Agreement contains provisions relating to the allocation of risks and liabilities that are substantially the same as the provisions of the Management Services Agreement described herein under the caption "Summary of Certain Provisions of the Management Services Agreement—Compensation and Budgets—Allocation of Risks of Certain Costs and Liabilities."

SUMMARY OF CERTAIN PROVISIONS OF THE ENERGY MANAGEMENT AGREEMENT

The following is a brief summary of the Energy Management Agreement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Energy Management Agreement, a copy of which is on file with the Trustee.

General

The Energy Management Agreement establishes the terms and conditions for the management by the KeySpan subsidiary party thereto (the "Energy Manager") of fuel supplies used at the GENCO Generating Facilities to produce electric energy for delivery to LIPA, and for management and administration of the System Power Supply on behalf of LIPA in a manner consistent with policies established by LIPA.

Scope of Energy Management Services

As described in the Agreement, the Energy Manager is responsible for (a) fuel procurement, delivery, storage, and management for GENCO Generating Facilities to meet the energy generation requirements of the Electricity Customers, (b) the dispatch of all System Power Supply available to LIPA to meet total capacity and energy requirements of the Electricity Customers and Off-System Sales, (c) the purchase, on behalf of LIPA, of all capacity and energy to meet the needs of the Electricity Customers and (d) the sale, on behalf of LIPA, of Electricity owned by, or under contract to, LIPA which is not otherwise required to meet the needs of the Electricity Customers. The Agreement provides that all such responsibilities will be discharged in a manner consistent with Prudent Utility Practice, the System Policies and Procedures and New York State Public Service Commission policies and procedures pertaining to retail gas customer service. In discharging all such functions, the Energy Manager is obligated to use best efforts to obtain the least-cost fuel and least-cost capacity and energy for the benefit of the Electricity Customers.

The Energy Manager agrees to establish policies and procedures satisfactory to LIPA designed to assure that the Energy Manager's responsibilities are performed without consideration of the ownership or economic return

to the Energy Manager or its Affiliates, except for the incentive provisions of the Agreement (described below at "Fuel Management—Fuel Management Compensation—Fuel Purchase Performance Incentives/Disincentive Payments"), and comply with such policies and procedures.

The Agreement provides that in no event will the Energy Manager take title to Electricity being purchased or sold thereunder.

Fuel Management

Fuel Management Services. The Agreement provides that the Energy Manager will manage all aspects of the Fuel supply for the GENCO Generating Facilities, including determinations regarding the type of Fuel used for operating the GENCO Generating Facilities and the source of such Fuel supply taking into account the purchase of alternate sources of Electricity in lieu of Electricity from the GENCO Generating Facilities when economic. LIPA agrees to compensate the Energy Manager for such Fuel management services, including a Fuel Purchase Performance Incentive/ Disincentive Payment, in accordance with the terms of the Agreement (see "Fuel Management—Fuel Purchase Performance Incentives/Disincentive Payments" below). The Energy Manager will not contract for additional firm assets specifically for use in the GENCO Generating Facilities unless LIPA and the Energy Manager agree to the contract.

Fuel Management Compensation. During the term of the Agreement, LIPA will make monthly payments to the Energy Manager consisting of an amount equal to the sum of: (i) the Monthly Fuel Management Fee, plus (ii) the Monthly Fuel Payment, plus or minus (iii) the Fuel Purchase Performance Incentive/Disincentive.

Fuel Management Fee. The Energy Manager will be paid an annual Fuel Management Fee in consideration for the Energy Manager's performance of the Fuel Services contemplated in the Agreement. The Agreement provides that the cost-related component of the initial Fuel Management Fee, once established and approved by LIPA, will be indexed in the same manner as the Direct Cost Budget under the Management Services Agreement until the termination of the Management Services Agreement and thereafter will be subject to mutually agreeable adjustments. LIPA is obligated to pay the Fuel Management Fee to the Energy Manager in twelve equal monthly installments.

Monthly Fuel Payment. LIPA will, in accordance with the provisions discussed below at "Fuel Management—Payment," pay the total monthly cost of all Fuel for use in the GENCO Generating Facilities that are under contract to LIPA pursuant to the Power Supply Agreement, including but not limited to any current or future fuel related taxes or other fuel related fees or costs reasonably incurred by the Energy Manager. This cost will be based upon (a) the actual variable cost of gas delivered to the delivery points for such fuel plus (i) any incremental Firm Gas Supply costs which are incurred based on use of Firm Gas Supplies in the operation of the GENCO Generating Facilities, (ii) any costs the Energy Manager incurs based on non-use of gas it has otherwise contracted to purchase for use in the operation of the GENCO Generating Facilities, and (iii) the Local Transportation Charge and (b) the delivered cost of oil for use in GENCO's Generating Facilities.

Fuel Purchase Performance Incentives/Disincentive Payments. The Energy Manager will receive a Fuel Purchase Performance Incentive/Disincentive Payment, which will be calculated at the end of each month, with the results reflected in the following month's invoice. The total Fuel Purchase Performance Incentive/Disincentive Payment will not exceed $5.0 million on an annual basis.

Payment. The Energy Manager will submit monthly invoices to LIPA for the Monthly Fuel Management Fee and the Fuel Purchase Performance Incentive/Disincentive Payment by the tenth (10th) Business Day following the month of service, consistent with the provisions in this description of "Fuel Management." Payment of all invoiced amounts will be due and payable by LIPA within fifteen (15) Business Days of LIPA receiving such invoices.

Minimization of Costs. In providing the Fuel, Energy Manager shall use best efforts to minimize Fuel costs for the GENCO Generating Facilities, such efforts being consistent with (i) all applicable insurance policies, (ii) all applicable prudent industry practices and standards, including Prudent Utility Practice, (iii) all applicable operating and contract constraints for Fuel delivery, (iv) Energy Manager's collective bargaining agreements and (v) Applicable Law.

Off-System Sales

The Agreement provides that the Energy Manager will use best efforts to market to Off-System Sales customers, on LIPA's behalf, Electricity from the System Power Supply that is not otherwise needed by the Electricity Customers in a manner which will reduce the net cost of Electricity provided to the Electricity Customers. The Energy Manager will receive 33 percent of the revenue net of incremental costs from Off-System Sales of Electricity from the System Power Supply and LIPA will receive 67 percent of the revenue net of incremental costs from these Off-System Sales of Electricity from the System Power Supply. The incremental costs for such Off-System Sales will be based upon the incremental cost of energy for such Electricity sales including any other costs or charges (including applicable taxes) incurred to produce and deliver the Electricity and/or Ancillary Services for sale by the Energy Manager. The incremental costs associated with capacity sales will include the cost of replacement capacity incurred as a result of the sale, if any, and any other costs or charges related to the sale, including startup, no-load operation, transmission, and applicable taxes.

Notwithstanding any of the above, the Energy Manager will only attempt to sell excess Electricity to the extent that, in GENCO's judgment, such Electricity sales do not jeopardize any of GENCO's tax-exempt debt and to the extent that, in LIPA's judgment, such Electricity sales do not jeopardize the tax-exempt status of any of the Authority's debt. Each party will furnish the other an appropriately detailed description of the constraints imposed on such sales and will update such description from time to time to reflect any applicable changes in law or regulation.

System Power Supply Management

Lowest Cost Electricity. In connection with the purchase and management of the System Power Supply, on LIPA's behalf, the Energy Manager is obligated to use best efforts to provide the lowest cost Electricity to the T&D System and the Electricity Customers, given (i) the transmission and distribution limitations unique and/or external to the T&D System; (ii) the terms of the Existing Power Supply Agreements; (iii) availability of power through the New York Power Pool or its successor; (iv) regulatory and reliability council requirements, including, but not limited to system safety and reliability; and (v) System Policies and Procedures, including environmental policies contained therein.

Specific Energy Manager Responsibilities. In implementing its System Power Supply responsibilities, the Energy Manager will, subject to the transmission, contractual and reliability constraints referred to in the preceding paragraph:

(i) schedule deliveries of and Dispatch energy from the System Power Supply;

(ii) arrange for LIPA's purchase of Electricity to the extent the System Power Supply is insufficient to meet the requirements of the T&D System;

(iii) continually monitor the market for LIPA's sale and purchase of wholesale Electricity and purchase Electricity, on LIPA's behalf, on the wholesale market to displace System Power Supply if such purchases, including the cost of transmission services to deliver such Electricity, will reduce total power supply costs;

(iv) sell Electricity on LIPA's behalf from the System Power Supply that is surplus to the requirements of the T&D System whenever such sales, including consideration of any incremental cost of Transmission for delivery of such sales, are advantageous to LIPA;

(v) arrange for such additional transmission services and capacity as will be necessary for the purchase or sale of Electricity by LIPA; and

(vi) with the prior written consent of LIPA, subcontract with power marketers or brokers, or similar entities, to assist in the acquisition of Electricity and the marketing and sale of excess Electricity.

All contracts for the purchase or sale of Electricity will be entered into by LIPA or by the Energy Manager as agent for LIPA. The Agreement provides that no contract for the purchase or sale of Electricity for a term in excess of three months will be entered into without the prior written consent of LIPA.

System Power Supply Management Compensation. Except as otherwise provided in the Agreement, the payments LIPA will make to the Energy Manager pursuant to the Agreement with respect to System Power Supply Services other than Off-System Sales will be calculated as set forth in the Agreement and as summarized below. During the term of the Agreement, LIPA will make monthly payments to the Energy Manager consisting of an amount equal to the sum of: (i) the System Power Supply Management Fee, plus or minus (ii) the System Power Supply Performance Incentive/Disincentive.

System Power Supply Management Fee. The Energy Manager will be paid an annual System Power Supply Management Fee, in consideration for the Energy Manager's performance of the System Power Supply management services contemplated in the Agreement. The amount of such System Power Supply Management Fee includes a fee of $750,000 and an allowance for certain costs which, for 1998, has been established at $868,000. Such allowance for costs will be indexed during the term of the Agreement in the same manner as the Direct Cost Budget under the Management Services Agreement. LIPA will pay the System Power Supply Management Fee to the Energy Manager in twelve equal monthly installments.

System Power Supply Performance Incentives/Disincentive. The Energy Manager will receive a System Power Supply Performance Incentive/Disincentive, calculated in accordance with the Agreement which will not exceed $2 million on an annual basis.

Payment. The Energy Manager will submit monthly invoices to LIPA for the Monthly System Power Supply Management Fee and the System Power Supply Performance Incentive/Disincentive Payments and Off-System Sales compensation by the tenth (10th) Business Day following the month of service. Such invoices will show separately amounts payable with respect to Off System Sales and System Power Supply Management. Payment of all invoiced amounts will be due and payable by LIPA within fifteen (15) Business Days of LIPA receiving such invoices.

Records; Information

Account Records; Collection of Monies; Availability of Energy Manager

Account Records. The Energy Manager is obligated to maintain such records as LIPA reasonably requests setting forth in accurate and reasonable detail the information relating to the purchase and sale of Fuel and Electricity under the Agreement requested by LIPA.

Collection of Monies. The Energy Manager will use best efforts to collect on a timely basis (1) all amounts due LIPA for Off-System Sales, and (2) any other monies owed to LIPA in connection with System Power Supply and other matters within the purview of the Energy Manager. The Energy Manager will provide current and historical billing information concerning Fuel and System Power Supply to LIPA monthly in such form as reasonably requested by LIPA. All such monies collected by the Energy Manager or any Subcontractor thereto will be the property of LIPA and will be deposited by the Energy Manager daily into such accounts and in the manner as LIPA may from time to time designate. The Energy Manager is unconditionally and absolutely obligated to pay or deposit such moneys as directed by LIPA.

Compliance with Applicable Law. The Energy Manager is obligated to perform all of its obligations under the Agreement in accordance with Applicable Law.

Information. The Agreement requires the Energy Manager to establish and maintain an information system to provide storage and real time retrieval for LIPA review and copying of operating data relating to (i) cost and quantities of Fuel Supply and Power Purchases, (ii) revenues from and quantities of Off-System Sales and (iii) the performance by the Energy Manager of its obligations under the Agreement, including, but not limited to, all information necessary to verify calculations made pursuant to the Agreement.

Books and Records. The Energy Manager will prepare and maintain proper, accurate and complete books, records and accounts regarding Fuel and System Power Supply to the extent necessary (1) to enable LIPA to prepare LIPA's financial statements in accordance with generally accepted accounting principles, (2) to verify data with respect to any operations or transactions in which LIPA has a financial or other material interest under the Agreement, (3) to prepare periodic performance reports and statements relating to purchase of Fuel and System Power Supply, which will be submitted by the Energy Manager to LIPA and (4) to enable LIPA to administer any

fuel adjustment clause or similar provision applicable to Electricity sales. The Energy Manager will, upon notice and demand from LIPA, produce for examination and copying by representatives of LIPA, any documents showing all acts and transactions relating to the Agreement, any Subcontract or any transactions in which LIPA has or may have a financial or other material interest under the Agreement, and will produce such operation books and records for examination and copying in connection with the costs for which LIPA may be responsible under the Agreement.

Fiscal Affairs, Accounting and Record Keeping

General. The Energy Manager will maintain possession of equipment, materials and supplies, maps, plans and specifications, and Fuel and System Power Supply billing records during the term of the Agreement and will duly account to LIPA for such items.

Bank Deposits. All cash held by the Energy Manager for the account of LIPA and all cash collected by the Energy Manager for the account of LIPA after the LIPA/LILCO Merger Closing Date will be deposited on each Business Day in bank accounts in such bank or banks as LIPA may direct and upon such terms and conditions as may be specified by LIPA.

Bill Payments. The Energy Manager will timely pay all bills related to Fuel which are proper and appropriate and which it has authority to pay and will assure that, to the extent within the Energy Manager's control, no liens are filed against any portion of the assets or revenues of LIPA.

Allocation of Risk of Certain Costs and Liabilities

The Agreement contains provisions relating to the allocation of risks and liabilities that are substantially the same as the provisions of the Management Services Agreement described herein under the caption "Summary of Certain Provisions of the Management Services Agreement—Compensation and Budgets—Allocation of Risks of Certain Costs and Liabilities."

Term; Events of Default

Term. The term of the Agreement commenced on May 28, 1998 and, except as otherwise provided therein, will remain in full force and effect for an initial term of (i) fifteen (15) years from such date with respect to the Fuel Services and (ii) eight (8) years from such date with respect to System Power Supply Services.

Events of Default; Procedures for Termination

The Agreement contains provisions relating to Events of Default by the Energy Manager or LIPA and the procedures for termination that are substantially the same as the provisions of the Management Services Agreement that are described herein under the caption "Summary of Certain Provisions of the Management Services Agreement—Compensation and Budget—Events of Default by the Manager—Events of Default by LIPA" and "—Procedure for Termination for Cause."

LIPA Emergency Assumption of Fuel and System Power Supply Management Services. Should the Energy Manager, due to Uncontrollable Circumstances or any other reason whatsoever, fail, refuse or be unable to provide any or all Fuel and System Power Supply Services contemplated hereby and LIPA or any Governmental Body finds that such failure endangers or menaces the public health, safety or welfare, then, in any of those events and to the extent of such failure, LIPA will have the right, upon notice to the Energy Manager, during the period of such emergency, to perform the services which the Energy Manager would otherwise be obligated to perform under the Agreement. The Energy Manager agrees that in such event it will fully cooperate with LIPA to effect such a temporary assumption. The Energy Manager agrees that, in such event, LIPA may take and use any or all of the operating assets of the Energy Manager necessary for the above-mentioned purposes without paying the Energy Manager or any other person any additional charges or compensation whatsoever for such possession and use; provided, however, that if such emergency is due to Uncontrollable Circumstances, LIPA will reimburse the Energy Manager for its Cost-Substantiated costs incurred due to such a transfer of the operating assets.

Energy Manager's Reporting Requirements

Monthly Reports. The Energy Manager is obligated to provide LIPA and the Consulting Engineer with monthly reports no later than 20 days after the end of each month, including such data relating to the Fuel Services and System Power Supply Services as may reasonably be requested to be furnished by LIPA.

Annual Reports. The Energy Manager will furnish LIPA and, the Consulting Engineer, within 60 days after the end of each Contract Year, an Annual Settlement Statement together with annual summary of the statistical data provided in the monthly reports, certified by the Energy Manager, as well as such other data relating to the services provided under the Agreement as may be reasonably requested to be furnished by LIPA.

Fuel Consumption Reports. Fifteen (15) Business Days following the end of each month, Energy Manager is obligated to submit to LIPA a report summarizing the Fuel burned during that month and such other information as the parties may mutually agree.

Indemnification

The Agreement contains redemnification provisions that are substantially the same as the indemnification provisions of the Management Services Agreement that are described herein under the caption "Summary of Certain Provisions of the Management Services Agreement—Miscellaneous Provisions—Indemnification."

Miscellaneous Provisions

Insurance. The Agreement provides that Energy Manager shall maintain with financially responsible insurance companies insurance in such amounts and against such risks and losses as are customary for companies engaged in the business of providing services or undertaking activities similar to the Fuel Services and System Power Supply Services to be provided thereunder.

Assignment and Transfer. Agreement contains provisions relating to assignment and transfer that are substantially the same as the assignment and transfer provisions of the Management Services Agreement that are described herein under the caption "Summary of Certain Provisions of the Management Services Agreement—Miscellaneous Provisions—Assignment and Transfer."

Non-Binding Mediation; Arbitration. The Agreement contains provisions relating to mediation and arbitration that are substantially the same as the mediation and arbitration provisions of the Management Services Agreement that are described herein under the caption "Summary of Certain Provisions of the Management Services Agreement—Compensation and Budget—Non-Binding Mediation; Arbitration."

Affiliate. Pursuant to the Agreement, the Energy Manager has agreed to remain an Affiliate of the Guarantor.

Credit Enhancement in Certain Circumstances. The Agreement contains provisions relating to credit enhancement that are substantially the same as the credit enhancement provisions of the Management Services Agreement that are described herein under the caption "Summary of Certain Provisions of the Management Services Agreement—Miscellaneous Provisions—Credit Enhancement in Certain Circumstances."

Hedging Policies. The Energy Manager agreed not engage in any hedging activities relating to the Fuel Services or System Power Supply Services without express approval from the Boards of Directors of the Energy Manager and its Parent and without notifying and consulting with LIPA at least 60 days prior to implementing such activities. The Agreement provides that in the event that approval for the use of hedging activities is implemented, the incentive/disincentive program will be reexamined by the parties to determine the appropriateness of the inclusion or exclusion of the related costs, gain or losses and appropriate mutually agreeable revisions thereto will be made.

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FORM OF
CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Long Island Power Authority (the "Authority") in connection with the issuance of its Electric System General Revenue Bonds, Series 2000A. The Bonds are being issued pursuant to the Electric System General Revenue Bond Resolution adopted by the Authority on May 13, 1998 as amended and supplemented (the "Resolution"). The Authority covenants and agrees as follows:

SECTION 1. *Purpose of the Disclosure Certificate.* This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. *Definitions.* In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent," if any, shall mean the person or firm, or any successor Dissemination Agent designated in writing by the Authority pursuant to Section 7 of this Disclosure Certificate and which has filed with the Authority and the Trustee a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit B.

"Official Statement" shall mean the Authority's final Official Statement relating to the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of New York.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

"Trustee" shall mean United States Trust Company of New York, New York, New York and its successors and assigns.

Capitalized terms not otherwise defined herein shall have the meanings set forth in the Official Statement.

SECTION 3. *Provision of Annual Reports.* For so long as shall be required by the Rule:

(a) The Authority shall, or shall cause the Dissemination Agent to, not later than 6 months after the end of the Authority's fiscal year (presently December 31), commencing with the report for the 2000 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate with a copy to the Trustee. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Authority may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Authority's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the Authority shall provide the Annual Report to the Dissemination Agent (if other than the Authority). If the Authority is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Authority shall send a notice to each Repository or the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(c) If a Dissemination Agent is appointed by the Authority, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. *Content of Annual Reports.* The Authority's Annual Report shall contain or include by reference the following:

1. The audited consolidated financial statements of the Authority and its subsidiaries for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Authority's audited consolidated financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited consolidated financial statements and the audited consolidated financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Operating results for the prior fiscal year of the type set forth in Exhibit 1 to the Independent Consultant's Report attached as Appendix A to Part 2 of the final Official Statement to the extent line items in this Exhibit are not included in the audited consolidated financial statements.

3. Capital expenditures for the prior fiscal year of the type set forth in the final Official Statement under the heading "The System—Capital Improvement Plan" in Part 2 of the final Official Statement.

4. Service area loads for the prior fiscal year of the type set forth in the final Official Statement under the heading "The System—Loads" in Part 2 of the final Official Statement and in Appendix A—"Independent Consultant's Report—System Loads and Resources."

5. The Authority's own rates and charges (but not regional comparisons) for the prior fiscal year of the type set forth in the final Official Statement under the heading "Rates and Charges" in Part 2 of the final Official Statement and in Appendix A—"Independent Consultant's Report—Utility Rates and Charges."

6. Billings and collections for the prior fiscal year of the type set forth in Part 2 of the final Official Statement under the heading "Billing and Collections."

7. A discussion of operating results, cash flows, uses of cash and capital expenditures of the type set forth in Part 2 of the Official Statement under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Authority shall clearly identify each such other document so included by reference.

SECTION 5. *Reporting of Significant Events*. For so long thereafter as shall be required by the Rule:

(a) Pursuant to the provisions of this Section 5, the Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies.

2. non-payment related defaults.

3. modifications to rights of Bondholders.

4. optional, contingent or unscheduled bond calls.

5. defeasances.

6. rating changes.

7. adverse tax opinions or events affecting the tax-exempt status of the Bonds.

8. unscheduled draws on the debt service reserves reflecting financial difficulties.

9. unscheduled draws on the credit enhancements reflecting financial difficulties.

10. substitution of the credit or liquidity providers or their failure to perform.

11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Authority determines in its sole discretion that knowledge of the occurrence of a Listed Event would be material and would require disclosure under applicable federal securities laws, the Authority shall promptly file a notice of such occurrence with the Repositories or the Municipal Securities Rulemaking Board and the State Repository with a copy to the Trustee. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 6. *Termination of Reporting Obligation*. The Authority's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. *Dissemination Agent.* The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Authority pursuant to this Disclosure Certificate. Initially, the Authority will serve as its own dissemination agent.

SECTION 8. *Amendment; Waiver.* Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Authority shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Authority. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. *Additional Information.* Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Authority shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. *Default.* In the event of a failure of the Authority to comply with any provision of this Disclosure Certificate the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least 50% aggregate principal amount of Outstanding Bonds, shall), or any Holder or Beneficial Owner of the Bonds may (unless the Authority has so complied within 20 days after written notice from the Trustee of its failure to comply) take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed a default or an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. *Duties, Immunities and Liabilities of Dissemination Agent.* The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees to

indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's default or negligence or willful misconduct. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. *Beneficiaries*. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Trustee, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: April __, 2000

LONG ISLAND POWER AUTHORITY

By _____

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Authority: Long Island Power Authority

Name of Bond Issue: Long Island Power Authority Electric System General Revenue Bonds, Series 2000A

Date of Issuance: April __, 2000

NOTICE IS HEREBY GIVEN that the Authority has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate dated April __ 2000 of the Authority. The Authority anticipates that the Annual Report will be filed by _____.

Dated: _____, _____

LONG ISLAND POWER AUTHORITY

By _____

cc: Trustee

EXHIBIT B

NATIONAL REPOSITORIES

As of the date of this Continuing Disclosure Certificate, the following National Repositories are recognized by the Securities and Exchange Commission:

Bloomberg Municipal Repositories
P.O. Box 840
Princeton, NJ 08542-0840
(609) 279-3225
(609) 279-5962 (FAX)
e-mail address: Munis@Bloomberg.com

DPC Data, Inc.
One Executive Drive
Fort Lee, NJ 07024
(201) 346-0701
(201) 947-0107 (FAX)
Contact: NRMSIR
e-mail address: nrmsir@dpcdata.com

Muller Data
Attn: Municipal Disclosure
395 Hudson Street, 3rd Floor
New York, NY 10014
(212) 807-5001 or (800) 689-8466
(212) 989-2078 (FAX)
e-mail address: Disclosure@muller.com

Standard & Poor's J.J. Kenny Repository
55 Water Street, 45th Floor
New York, NY 10041
(212) 438-4595
(212) 438-3975 (FAX)

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BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC") is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Direct DTC Participants") deposit with DTC. DTC also facilitates the settlement among Direct DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in DTC Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct DTC Participant, either directly or indirectly ("Indirect DTC Participants"). The rules applicable to DTC and its Direct DTC Participants are on file with the Securities and Exchange Commission.

Purchases of Offered Securities under the DTC system must be made by or through Direct DTC Participants, which will receive a credit for the Offered Securities on DTC's records. The ownership interest of each actual purchaser of Offered Securities ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect DTC Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect DTC Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in Offered Securities are to be accomplished by entries made on the books of Direct and Indirect DTC Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Offered Securities, except as specifically provided in the Resolution in the event that use of the book-entry system for a series of Offered Securities is discontinued.

To facilitate subsequent transfers, all the Offered Securities are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of a series of Offered Securities with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of Offered Securities; DTC's records reflect only the identity of the Direct DTC Participants to whose accounts Offered Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS WITH THEIR BROKER OR DEALER TO RECEIVE NOTICES (INCLUDING NOTICES OF REDEMPTION) AND OTHER INFORMATION REGARDING OFFERED SECURITIES THAT MAY BE SO CONVEYED TO DIRECT DTC PARTICIPANTS AND INDIRECT DTC PARTICIPANTS.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to Offered Securities. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct DTC Participants to whose accounts Offered Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Except as described below, neither DTC nor Cede & Co. will take any action to enforce covenants with respect to any security registered in the name of Cede & Co. Under its current procedures, on the written instructions of a Direct DTC Participant, DTC will cause Cede & Co. to sign a demand to exercise bondholder rights as record holder of the quantity of securities specified in the Direct DTC Participant's instructions, and not as record holder of all the securities of that issue registered in the name of Cede & Co. Also, in accordance with DTC's current

procedures, all factual representations to be made by Cede & Co. to the Authority, the Trustee or any other party must be made to DTC and Cede & Co. by the Direct DTC Participant in its instructions to DTC.

For so long as Offered Securities are issued in book-entry form through the facilities of DTC, any Beneficial Owner desiring to cause the Authority or the Trustee to comply with any of its obligations with respect to Offered Securities must make arrangements with the Direct DTC Participant or Indirect DTC Participant through whom such Beneficial Owner's ownership interest in Offered Securities is recorded in order for the Direct DTC Participant in whose DTC account such ownership interest is recorded to make the instructions to DTC described above.

NEITHER THE AUTHORITY NOR THE TRUSTEE NOR ANY UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS DIRECT DTC PARTICIPANTS OR INDIRECT DTC PARTICIPANTS) WILL HAVE ANY OBLIGATION TO THE DIRECT DTC PARTICIPANTS OR THE INDIRECT DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT DTC PARTICIPANTS, INDIRECT DTC PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF OFFERED SECURITIES, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

Principal and interest payments on Offered Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct DTC Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such DTC Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct DTC Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect DTC Participants.

THE ABOVE INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY BELIEVES TO BE RELIABLE, BUT THE AUTHORITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, INTEREST OR PURCHASE PRICE ON OFFERED SECURITIES; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY DTC PARTICIPANT, OR BY ANY DTC PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF OFFERED SECURITIES; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF OFFERED SECURITIES; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF OFFERED SECURITIES.

So long as Cede & Co. is the registered owner of Offered Securities, as nominee for DTC, references in this Official Statement to the Bondholders, holders or registered owners of Offered Securities (other than under the

caption "Tax Matters" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of Offered Securities.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Authority or the Trustee to DTC only.

As long as the book-entry system is used for Offered Securities, the Trustee and the Authority will give any notices required to be given to Owners of Offered Securities only to DTC. Any failure of DTC to advise any Direct DTC Participant, or of any Direct DTC Participant to notify any Indirect DTC Participant, or of any Direct DTC Participant or Indirect DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of the action premised on such notice. Conveyance of notices and other communications by DTC to Direct DTC Participants, by Direct DTC Participants to Indirect DTC Participants and by Direct DTC Participants and Indirect DTC Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners may desire to make arrangements with a Direct DTC Participant or Indirect DTC Participant so that all notices of redemption or other communications to DTC which affect such Beneficial Owners will be forwarded in writing by such Direct DTC Participant or Indirect DTC Participant.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DIRECT DTC PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DIRECT DTC PARTICIPANTS, THE INDIRECT DTC PARTICIPANTS, OR THE BENEFICIAL OWNERS OF OFFERED SECURITIES.

For every transfer and exchange of a beneficial ownership interest in Offered Securities, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge, that may be imposed in relation thereto.

DTC may discontinue providing its services as securities depository with respect to Offered Securities at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates for the Offered Securities are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the Offered Securities will be printed and delivered.

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