SUPPLEMENT DATED SEPTEMBER 27, 2011 TO THE
OFFICIAL STATEMENT DATED SEPTEMBER 15, 2011

$250,000,000
LONG ISLAND POWER AUTHORITY
ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2011A

This Supplement supplements the Official Statement dated September 15, 2011 (the "Original Official Statement") related to the above-described bonds. Concurrently with the issuance of such bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the bonds maturing on May 1, 2036 (the "Insured Bonds").

Capitalized terms used but not defined in this Supplement have the meanings ascribed thereto in the Original Official Statement.

On September 27, 2011, Standard & Poor's Ratings Services ("S&P") placed its "AA+" long-term counterparty credit and financial strength ratings on AGM on CreditWatch with negative implications.

In light of this action, the Original Official Statement is revised as follows:

The section in Part 1 of the Original Official Statement captioned "BOND INSURANCE - Assured Guaranty Municipal Corp." is revised as follows.

(a) The first sentence of the second paragraph of such section is amended and restated to read:

> AGM's financial strength is rated "AA+" (CreditWatch negative) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's").

(b) The following new paragraph is added directly below the subheading "*Current Financial Strength Ratings*":

> On September 27, 2011, S&P published a Research Update in which it placed AGM's "AA+" (negative outlook) financial strength rating on CreditWatch negative, meaning that S&P may downgrade AGM's financial strength rating in the near future. According to S&P, the CreditWatch placement is due to significant concentration risk in AGM's insured portfolio that is not consistent with S&P's new bond insurance rating criteria. However, based on discussions with AGM management, S&P further reported that AGM intends to take action to mitigate these concentration risks, and that it is likely such actions, if taken, would support financial strength ratings in the "AA" category. S&P noted that it expects to resolve this CreditWatch placement no later than November 30, 2011. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

(c) The fifth paragraph of such section (exclusive of the new paragraph added by Section (b) of this Supplement) is amended and restated to read:

> On August 8, 2011, S&P published a Research Update in which it affirmed the "AA+" financial strength rating of AGM. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

LONG ISLAND POWER AUTHORITY

New Issue—Full-Book-Entry

In the opinion of Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with the tax covenants described herein, (i) interest on the Series 2011A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2011A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Series 2011A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, and the Series 2011A Bonds 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. See "TAX MATTERS" in Part 1 of this Official Statement.

$250,000,000
LONG ISLAND POWER AUTHORITY
ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2011A

Dated: Date of Delivery **Maturity: As shown on inside cover page**

The Electric System General Revenue Bonds, Series 2011A (the "Series 2011A Bonds"), 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 Series 2011A Bonds under the book-entry-only system described herein. Individual purchases of beneficial ownership interests in the Series 2011A Bonds may be made in the principal amount of $5,000 or any integral multiple thereof. Beneficial Owners of the Series 2011A Bonds will not receive physical delivery of bond certificates. The Bank of New York Mellon, New York, New York, is the Trustee under the Resolution.

The Series 2011A Bonds are being issued (i) to fund Authority capital expenditures and (ii) to pay costs relating to the issuance of the Series 2011A Bonds.

Interest on the Series 2011A Bonds is payable on each May 1 and November 1, beginning May 1, 2012. The Series 2011A Bonds are subject to redemption prior to maturity as and to the extent described herein.

The scheduled payment of principal of and interest on the Series 2011A Bonds maturing on May 1, 2036 (the "Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by **ASSURED GUARANTY MUNICIPAL CORP.**

MATURITY SCHEDULE — See Inside Cover Page

The Series 2011A Bonds 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 Series 2011A Bonds shall not be a 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 Series 2011A Bonds. The Authority has no taxing power.

The Series 2011A Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters with respect to the Authority and LIPA will be passed upon by Lynda Nicolino, Esquire, General Counsel to the Authority and LIPA, and by Squire, Sanders & Dempsey (US) LLP, New York, New York, Disclosure Counsel to the Authority and LIPA. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, New York, New York, Counsel to the Underwriters. It is expected that the Series 2011A Bonds will be available for delivery in book-entry-only form through The Depository Trust Company in New York, New York on or about September 28, 2011.

Morgan Stanley

Citigroup **Goldman, Sachs & Co.**

BofA Merrill Lynch **FirstSouthwest** **Jefferies & Company**
J.P. Morgan **Loop Capital Markets LLC** **Ramirez & Co., Inc.**
RBC Capital Markets **Roosevelt & Cross, Incorporated**
Siebert Brandford Shank & Co., LLC **Wells Fargo Securities**

Dated September 15, 2011

Maturity Schedule

LONG ISLAND POWER AUTHORITY
$250,000,000 ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2011A

Serial Bonds

Maturity May 1	Principal Amount	Interest Rate	Yield	CUSIP*
2016	$ 7,365,000	5.00%	1.61%	542690X31
2017	1,850,000	4.00	1.94	542690X49
2017	5,880,000	5.00	1.94	542690X98
2018	4,000,000	4.00	2.22	542690X56
2018	4,100,000	5.00	2.22	542690Y22
2019	8,490,000	5.00	2.53	542690X64
2020	8,930,000	5.00	2.82	542690X72
2021	9,385,000	5.00	3.04	542690X80
2036[1]	63,360,000	5.00	4.65[2]	542690Y30

Term Bonds

$136,640,000 5.00% Term Bonds due May 1, 2038 - Yield 4.79[2]%
(CUSIP* Number 542690Y48)

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1 Insured by Assured Guaranty Municipal Corp.

2 Priced at the stated yield to the May 1, 2021 optional redemption date at a redemption price of 100%.

* CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2011A Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to the correctness of the CUSIP numbers on the Series 2011A Bonds or as indicated above.

LONG ISLAND POWER AUTHORITY

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BOARD OF TRUSTEES

Howard E. Steinberg— Chairman

Laurence S. Belinsky
David L. Calone
X. Cristofer Damianos
Gemma de Leon
Lawrence E. Elovich
John C. Fabio
Neal M. Lewis
Susan Gordan Ryan
Suzette C. Smookler
Peter K. Tully
Lawrence J. Waldman
Diana Weir

AUTHORITY MANAGEMENT

Michael D. Hervey—*Chief Operating Officer*
Herbert L. Hogue—*Vice President of Finance & Chief Financial Officer*
Lynda Nicolino—*General Counsel and Secretary*
Michael Deering—*Vice President of Environmental Affairs*
Bruce Germano—*Vice President of Customer Services*
Paul DeCotis—*Vice President of Power Markets*
Nicholas Lizanich—*Vice President of Transmission and Distribution*
Kenneth Kane—*Controller*

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

Independent Accountants
KPMG LLP
Melville, New York

Disclosure Counsel
Squire, Sanders & Dempsey (US) LLP
New York, New York

Trustee
The Bank of New York Mellon
New York, New York

Financial Advisor
Public Financial Management, Inc.
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 Series 2011A Bonds, 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 Series 2011A Bonds 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 and LIPA 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, National Grid, KeySpan Corporation or Assured Guaranty Municipal Corp. ("AGM") 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.

AGM makes no representation regarding the Series 2011A Bonds or the advisability of investing in the Series 2011A Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" (other than the information under the subheading "- Rights of AGM") in Part 1 to this Official Statement and "Appendix 3 - Specimen Municipal Bond Insurance Policy."

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.

In connection with the offering of the Series 2011A Bonds, the Underwriters may overallot or effect transactions that stabilize or maintain the market price of the Series 2011A Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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.

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 SERIES 2011A BONDS (AND ONLY SUCH SERIES 2011A BONDS). 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.

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 Series 2011A Bonds 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" or the "Issuer") 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 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 located in Oswego, New York.

The Purpose of the Series 2011A Bonds ..... The Series 2011A Bonds are being issued (i) to fund Authority capital expenditures and (ii) to pay costs relating to the issuance of the Series 2011A Bonds.

Outstanding Indebtedness ..... As of September 1, 2011, the Authority had senior lien Electric System General Revenue Bonds outstanding in the aggregate principal amount of $5,842,369,000, which amount reflects principal payments made through that date. The Series 2011A Bonds are on a parity with all of these senior lien Bonds. The Authority also had outstanding, as of September 1, 2011, subordinate lien indebtedness in the aggregate principal amount of $725,000,000, which amount reflects principal payments made through that date. As of September 1, 2011, LIPA was obligated to make payments on $155,420,000 of NYSERDA Financing Notes that KeySpan Corporation, a subsidiary of National Grid plc, is responsible for providing the funds to pay, which amount reflects principal payments made through that date. Also, the Authority currently expects to issue additional bonds to finance capital expenditures for the period 2011-2015 as set forth in Appendix B to Part 2 to this Official Statement. See "DEBT MANAGEMENT" in Part 2 of this Official Statement.

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 as described in Part 2 of this Official Statement. See "RATES AND CHARGES – Authority to Set Electric Rates" in Part 2 of this Official Statement.

Legislation was passed by the New York State Legislature in June, which would amend the State Public Service Law to require the approval by the PSC, following a full evidentiary hearing, of an increase in LIPA's average customer rates exceeding 2.5% over a 12 month period or to extend or reestablish any portion of a temporary rate increase exceeding 2.5%. The proposed legislation further directs the PSC to institute proceedings to review and/or amend LIPA's "ongoing tariff filings." The proposed legislation has not been presented to Governor Cuomo for consideration and therefore has not been enacted into law. If the Governor were to veto the legislation it would be returned to the State Legislature for reconsideration. The Authority cannot predict whether the Governor will sign or veto such legislation or whether the Legislature will seek to override the veto of that legislation or whether other similar legislation may be introduced and acted upon in the future. Should such legislation or other similar legislation become law, the Authority cannot predict the impact of the legislation on its operations and financial condition including its "ongoing tariff filings." See "RATES AND CHARGES – Proposed Legislation" in Part 2 of this Official Statement.

Rate Structure ..... The Authority has adopted a set of customer rates, which include base rates, the Fuel and Purchased Power Cost Adjustment ("FPPCA") clause, and certain riders and credits. See "RATES AND CHARGES – Rate Tariffs and Adjustments" in Part 2 of this Official Statement.

Service Area ..... LIPA's service area includes approximately 1.1 million customers and experienced its peak usage of approximately 5,915 MW in the summer of 2011. Approximately 52 percent of annual electric revenues are received from residential customers, with 43 percent coming from commercial/industrial customers, and the balance from sales to other municipalities and public authorities. LIPA's largest customer, the Long Island Rail Road, accounts for less than two percent of LIPA's total sales and less than two percent of revenue.

Transmission and Distribution Facilities LIPA's transmission system includes approximately 1,350 miles of overhead and underground lines with voltage levels ranging from 23 kV to 345 kV. The distribution system has approximately 13,745 circuit miles of overhead and underground line (9,047 overhead and 4,698 underground) and approximately 187,032 line transformers with a total capacity of approximately 12,275 MVA. See "THE SYSTEM" in Part 2 of this Official Statement for a discussion of the service area and the transmission and distribution system, as well as information relating to the recent Hurricane Irene and its impact.

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 (PSA) under which LIPA obtains rights to and has obligations to pay for all of the capacity of the fossil-fueled on-Island generating facilities owned by National Grid. Those facilities provide approximately 4,000 MW in capacity.

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 on similar terms. The PSA provides LIPA the option to reduce or "ramp-down" the capacity it purchases in accordance with schedules set forth in the PSA. See "LIPA'S RETAIL ELECTRIC SERVICE BUSINESS – Operating Agreements" in Part 2 to this Official Statement for a discussion regarding proposed amendments to the PSA relating to LIPA's ramp-down option.

In addition, LIPA currently purchases approximately 2,200 MW of capacity from generating facilities on Long Island, elsewhere in New York, and in PJM (as described in Part 2 to this Official Statement) and New England through various transmission interconnections between LIPA's transmission and distribution system and other systems in the region.

LIPA also has an 18% ownership interest in the 1,148 MW Nine Mile Point 2 nuclear unit currently operated by Constellation Energy Nuclear Group, LLC, which owns the remaining 82% interest.

System Operation ..... The Authority manages LIPA's retail electric business and controls costs through a senior management team supported by a small staff.

The day-to-day operations of the electric system are accomplished through certain principal contracts including: (i) a Management Services Agreement (MSA) providing for operation of the transmission and distribution system, (ii) the PSA mentioned above, (iii) an Energy Management Agreement (EMA) providing for the management of LIPA's fuel procurement for certain generating facilities, and (iv) a Fuel Management and Bidding Services Agreement (FMBSA) providing for additional management of LIPA's fuel procurement at certain other facilities. Each such agreement is with a subsidiary of National Grid plc. KeySpan Corporation, a subsidiary of National Grid, has guaranteed the performance, and any payments, by these National Grid subsidiaries. In addition, on January 1, 2010, agreements with Consolidated Edison Energy, Inc. ("CEE") and Pace Global Energy Risk Management, LLC ("Pace") became operational for power supply resource management services formerly provided under the Energy Management Agreement.

The MSA, PSA, EMA and FMBSA are set to expire by year-end 2013, with the PSA being subject to certain discretionary renewal rights of LIPA. In connection with those expiration dates and as part of a review of its alternatives, the Authority issued requests for proposals and is currently evaluating its options. See "LIPA'S RETAIL ELECTRIC SERVICE BUSINESS – Operating Agreements" and see "LIPA'S RETAIL ELECTRIC SERVICE BUSINESS – Strategic Review" in Part 2 of this Official Statement in Part 2 of this Official Statement.

To assist management in the supervision of these principal agreements and to provide other functions requiring specific expertise, the Authority employs outside consultants.

Projected Revenues, Revenue Requirements and Debt Service Coverages ..... Appendix B to Part 2 of this Official Statement sets forth the Authority's estimates for its revenues and revenue requirements for its 2011 through 2015 fiscal years (the "Projection Period"). These projections show that the Authority's debt service coverage ratios calculated in accordance with the Bond Resolution during the Projection Period will be no less than approximately: (i) 2.21x on the senior lien debt outstanding and estimated to be outstanding; (ii) 2.01x on the senior lien debt and the subordinated lien debt, in both cases outstanding and estimated to be outstanding; and (iii) 1.98x on such senior and subordinate lien debt and the NYSERDA Financing Notes.

Security and Sources of Payment for Bonds ..... The Series 2011A Bonds, 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.

Additional Bonds may be issued without any historical or projected debt service coverage test and, in the case of Refunding Bonds, without compliance with any debt service savings test.

See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in Part 2 of this Official Statement.

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SUMMARY STATEMENT

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PART 1

of the

OFFICIAL STATEMENT

of the

LONG ISLAND POWER AUTHORITY
Relating to its
$250,000,000
ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2011A

INTRODUCTION

The $250,000,000 Electric System General Revenue Bonds, Series 2011A (the "Series 2011A Bonds"), are being issued by 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 heretofore supplemented and as supplemented by a resolution of the Authority authorizing the Series 2011A Bonds (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."

As of September 1, 2011, the Authority had outstanding $5,842,369,000 of senior lien bonds, all of which were issued under the Bond Resolution (the "Outstanding Senior Lien Bonds"), which amount reflects principal payments made through that date. The Series 2011A Bonds 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 Series 2011A Bonds. As used in this Official Statement, the term "Bonds" means the Outstanding Senior Lien Bonds, the Series 2011A Bonds 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 NYSERDA Financing Notes mentioned in the second following paragraph.

The Authority also had outstanding $725,000,000 of subordinate lien indebtedness (the "Outstanding Subordinated Lien Bonds") as of September 1, 2011, which amount reflects principal payments made through that date and includes $200,000,000 of Commercial Paper Notes issued and outstanding under the Authority's $300,000,000 Commercial Paper program. 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 $155,420,000 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 NYSERDA Financing Notes and certain promissory notes issued by KeySpan Corporation (the "KeySpan 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 of this Official Statement.

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 Series 2011A Bonds will be used (i) to fund Authority capital expenditures and (ii) to pay costs (estimated to be $2,167,300.17) relating to the issuance of the Series 2011A Bonds, including underwriters' discount and the bond insurance premium.

DEBT SERVICE

The following table shows information regarding the Authority's consolidated debt service requirements following the issuance of the Series 2011A Bonds (based on the assumptions in the footnotes to said table), including debt service payable on the NYSERDA Financing Notes. It also shows the amounts to be paid to LIPA by KeySpan Corporation and one or more of its subsidiaries (the "Promissory Note Obligors") under the KeySpan Promissory Notes. Payments under the KeySpan Promissory Notes are general revenues of LIPA pledged under the Financing Agreement to the Authority and are not dedicated to the payment of any NYSERDA Financing Notes. For a description of the NYSERDA Financing Notes and KeySpan Promissory Notes, see "LIPA'S RETAIL ELECTRIC SERVICE BUSINESS – LIPA Assets and Liabilities" in Part 2 of this Official Statement.

DEBT SERVICE

Twelve Months Ended Dec 31	Series 2011A Bonds		Outstanding Senior Lien		Total Senior Lien Debt Service	Subordinate Lien(5)		NYSERDA Debt Service	LESS: KeySpan Promissory Notes(6)	Net Total Debt Service(4)
	Principal	Interest	Principal(1)	Interest(2)(3)(4)		Principal	Interest(3)			
2011	-	-	$197,646,155	$289,965,840	$487,611,995	$ 26,480,000	$26,166,025	$ 8,075,230	$ 8,075,230	$540,258,020
2012	-	$13,581,971	256,098,675	287,345,339	557,025,985	-	26,472,690	8,075,230	8,075,230	583,498,674
2013	-	12,441,500	152,565,106	278,902,214	443,908,820	-	27,002,700	8,075,230	8,075,230	470,911,521
2014	-	12,441,500	255,685,947	272,381,269	540,508,715	-	27,043,116	8,075,230	8,075,230	567,551,831
2015	-	12,441,500	263,016,199	262,622,528	538,080,226	-	27,100,650	8,075,230	8,075,230	565,180,876
2016	$7,365,000	12,257,375	168,468,634	255,462,543	443,553,552	-	27,396,169	113,313,715	113,313,715	470,949,722
2017	7,730,000	11,889,250	174,963,651	249,730,539	444,313,440	-	27,404,685	2,512,200	2,512,200	471,718,125
2018	8,100,000	11,522,750	185,220,903	242,855,362	447,699,015	-	27,545,102	2,512,200	2,512,200	475,244,117
2019	8,490,000	11,128,000	199,609,395	235,478,758	454,706,152	-	27,411,076	2,512,200	2,512,200	482,117,228
2020	8,930,000	10,692,500	204,656,458	227,654,880	451,933,838	-	27,515,542	2,512,200	2,512,200	479,449,380
2021	9,385,000	10,234,625	213,734,641	219,133,703	452,487,969	-	27,655,708	2,512,200	2,512,200	480,143,677
2022	-	10,000,000	218,733,452	210,419,580	439,153,032	-	27,769,067	2,512,200	2,512,200	466,922,100
2023	-	10,000,000	228,403,523	201,600,941	440,004,464	-	27,876,134	32,112,200	32,112,200	467,880,598
2024	-	10,000,000	244,986,733	191,338,513	446,325,246	-	28,063,776	3,543,400	3,543,400	474,389,022
2025	-	10,000,000	243,902,169	181,169,649	435,071,819	-	28,029,973	16,005,600	16,005,600	463,101,792
2026	-	10,000,000	263,443,608	171,376,184	444,819,791	-	28,145,650	-	-	472,965,441
2027	-	10,000,000	200,920,137	160,217,812	371,137,949	-	28,145,650	-	-	399,283,599
2028	-	10,000,000	210,394,755	150,259,001	370,653,756	-	27,741,711	-	-	398,395,467
2029	-	10,000,000	229,725,237	131,190,078	370,915,316	-	27,411,452	-	-	398,326,767
2030	-	10,000,000	238,490,000	80,962,778	329,452,778	121,900,000	26,766,524	-	-	478,119,301
2031	-	10,000,000	255,495,000	67,196,260	332,691,260	127,300,000	20,553,147	-	-	480,544,407
2032	-	10,000,000	265,415,000	52,863,665	328,278,665	133,000,000	14,100,584	-	-	475,379,249
2033	-	10,000,000	273,060,000	38,119,363	321,179,363	142,800,000	3,038,848	-	-	467,018,211
2034	-	10,000,000	154,755,000	29,561,013	194,316,013	-	-	-	-	194,316,013
2035	-	10,000,000	162,490,000	21,823,263	194,313,263	-	-	-	-	194,313,263
2036	63,360,000	8,416,000	-	13,719,963	85,495,963	-	-	-	-	85,495,963
2037	66,610,000	5,166,750	-	13,719,963	85,496,713	-	-	-	-	85,496,713
2038	70,030,000	1,750,750	-	13,719,963	85,500,713	-	-	-	-	85,500,713
2039	-	-	126,695,000	10,077,481	136,772,481	-	-	-	-	136,772,481
2040	-	-	-	6,435,000	6,435,000	-	-	-	-	6,435,000
2041	-	-	110,000,000	3,217,500	113,217,500	-	-	-	-	113,217,500

(1) The Series 2010A Bonds mature in 2014 ($96,665,000) and 2015 ($96,660,000), while the bonds refunded by the Series 2010A Bonds had scheduled principal payments in the years 2027 through 2029; the Authority's current expectation is to refinance the Series 2010A Bonds at maturity with indebtedness that matures on a similar basis as the bonds refunded.

(2) Accreted interest on capital appreciation bonds is shown in the year of maturity.

(3) Variable rate bonds with associated floating-to-fixed rate swaps are assumed to pay interest at the fixed swap rate. Unhedged variable rate bonds are assumed to pay interest at the rate of 1.50% for 2011, 3.00% for 2012, 4.00% for 2013 through 2015, and 4.50% for 2016 and thereafter. The interest payments on variable rate bonds also include certain ongoing fees (e.g. liquidity fees, remarketing agent fees), which are assumed at current levels through maturity. Expected net receipts under certain basis swaps are not shown as offsets to debt service.

(4) Interest has not been reduced on the Series 2010B Bonds to reflect expected receipt of "build America bonds" interest rate cash subsidies equal to 35% of the interest payable; such cash subsidies constitute Revenues under the Resolution.

(5) Does not include the Authority's outstanding Commercial Paper Notes, which as of September 1, 2011, the Authority had $200 million issued and outstanding under its $300 million Commercial Paper program. Assuming interest at a rate of 3.5% per annum, maintaining this level of outstanding Commercial Paper would result in an additional $7 million per year of debt service interest.

(6) KeySpan Promissory Notes are payable to LIPA 30 days prior to the applicable due dates on the NYSERDA Financing Notes in an amount equal to the principal of and interest on such notes.

DESCRIPTION OF THE SERIES 2011A BONDS

General

The Series 2011A Bonds will be dated the date of delivery and will mature at the times and in the principal amounts as set forth on the inside cover page of this Official Statement. Interest on the Series 2011A Bonds is payable on each May 1 and November 1, beginning May 1, 2012. The Series 2011A Bonds will be offered in authorized denominations of $5,000 and integral multiples thereof.

Securities Depository

Upon initial issuance, the Series 2011A Bonds will be available only in book-entry form. The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Series 2011A Bonds, and the ownership of one fully registered bond for each maturity of Series 2011A Bonds 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 Series 2011A Bonds.

As long as the book-entry system is used for the Series 2011A Bonds, The Bank of New York Mellon, New York, New York (the "Trustee") and the Authority will give any notice required to be given owners of Series 2011A Bonds only to DTC. BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS FOR THE DIRECT PARTICIPANT THROUGH WHOSE DTC ACCOUNT THEIR BENEFICIAL OWNERSHIP INTEREST IS RECORDED TO RECEIVE NOTICES THAT MAY BE CONVEYED TO DIRECT PARTICIPANTS AND INDIRECT PARTICIPANTS.

Redemption

Optional. The Series 2011A Bonds maturing on or before May 1, 2021 are not subject to optional redemption prior to maturity. The Series 2011A Bonds maturing after May 1, 2021 are subject to optional redemption prior to maturity on and after May 1, 2021 at the option of the Authority, as a whole or in part at any time, at par, plus accrued interest to the redemption date.

Sinking Fund. The Series 2011A Bonds are also subject to redemption in part on May 1 of the years and in the respective principal amounts set forth below at 100% of the principal amount thereof, plus accrued interest to the redemption date, from mandatory sinking fund installments which are required to be made in amounts sufficient to redeem on May 1 of each year the principal amount of such Series 2011A Bonds specified for each of the years shown below:

Bonds Due May 1, 2038	
Year	Principal Amount
2037	$66,610,000
2038[1]	70,030,000

[1]Final Maturity

Credit Against Sinking Fund Installments. In the event a principal amount of Series 2011A Bonds is deemed to be no longer Outstanding, except by a redemption from moneys credited to the Debt Service Fund as sinking fund installments, such principal amount shall be applied to reduce the remaining sinking fund installments for such Series 2011A Bonds in such order and amounts as is determined by the Authority.

Extraordinary Mandatory. The Series 2011A Bonds are also subject to extraordinary mandatory redemption prior to maturity, as a whole or in part, at any time at a redemption price equal to 103% of the greater of Amortized Value (defined below) or par, until the Series 2011A Bonds are subject to optional redemption at par and thereafter at a redemption price equal to 100% of the principal amount thereof, in each case together with accrued and unpaid interest thereon to the redemption date, if (i) the Authority has entered into a binding agreement with a non-governmental person or entity, which provides for the sale of some or all of the facilities financed with the proceeds of the Series 2011A

Bonds or which otherwise makes some or all of such facilities available to a non-governmental person or entity, (ii) either such agreement has been consummated or such agreement has been executed but not consummated and an Authorized Representative of the Authority has determined that such consummation is not subject to any material contingencies and (iii) the Authority has been advised by Bond Counsel to the Authority that such firm cannot render an unqualified opinion to the Authority that the execution and delivery of such agreement and consummation thereof will not adversely affect the exclusion of interest on the Series 2011A Bonds from gross income for federal income tax purposes.

The term "Amortized Value" is defined in the Resolution to mean, with respect to any Series 2011A Bond to be redeemed, an amount determined by or at the direction of the Authority equal to the principal amount of such Series 2011A Bonds multiplied by the price of such Series 2011A Bond expressed as a percentage, calculated based on the industry standard method of calculating bond prices (as such industry standard prevails on the date of delivery of the Series 2011A Bonds), with a delivery date equal to the date of redemption, a maturity date equal to the stated maturity date of such Series 2011A Bond (or, if applicable, the optional redemption date for those Series 2011A Bonds priced at the stated yield to such optional redemption date as set forth on the inside cover hereof) and a yield equal to such Series 2011A Bond's original reoffering yield. See Appendix 2 for a schedule of the Amortized Value of the Series 2011A Bonds as of certain redemption dates.

The consummation of such an agreement, the execution of such an agreement and such determination and the receipt of such advice from Bond Counsel to the Authority shall be evidenced by delivery to the Trustee of a written certificate of an Authorized Representative of the Authority as to such matters, together with a copy of such advice of Bond Counsel to the Authority, which certificate and advice shall be conclusive as to the matters stated therein. In the event that the Series 2011A Bonds become subject to such extraordinary mandatory redemption, the Series 2011A Bonds will be redeemed within 180 days of the delivery of such certificate and advice.

The foregoing mandatory redemption provision is included as a term of the Series 2011A Bonds because in May 2010, the Authority engaged the Brattle Group/M.J. Beck to review the existing corporate organizational and governance structure and alternatives available as part of its long-term strategic planning. A report from the Brattle Group/M.J. Beck to the Authority with any findings and/or recommendations is anticipated in fall 2011. The outcome of the review cannot be predicted at this time. See "LIPA'S RETAIL ELECTRIC SERVICE BUSINESS – Strategic Review" in Part 2 of this Official Statement. The Authority may also undertake similar reviews in the future or enter into transactions apart from such reviews, which could require the mandatory redemption of the Series 2011A Bonds in the future.

In the event the circumstances occur that require the Authority to redeem Series 2011A Bonds pursuant to the extraordinary mandatory redemption provisions described above, the Authority may also elect or be required to exercise its rights to redeem or defease all or a portion of the other outstanding indebtedness in accordance with the terms on which such indebtedness may be redeemed or defeased.

Selection of Bonds for Redemption. If fewer than all of the Series 2011A Bonds of an entire maturity shall be called for redemption, the particular Series 2011A Bonds or portions of Series 2011A Bonds to be redeemed shall be selected as described below.

During such time as the Series 2011A Bonds are registered in book-entry-only form in the name of Cede & Co. or other nominee of DTC, partial redemptions of the Series 2011A Bonds of a maturity will be determined in accordance with DTC's procedures as from time to time in effect. See "Book-Entry-Only System" in Appendix G to Part 2 of this Official Statement.

If less than all of the Series 2011A Bonds of a maturity are to be redeemed, DTC and the Direct Participant and, where appropriate, Indirect Participants will determine the particular beneficial ownership interests of such Series 2011A Bonds of such maturity to be redeemed in accordance with their procedures as from time to time in effect. If the Series 2011A Bonds are not registered in book-entry only form, the particular Series 2011A Bonds to be redeemed will be determined by the Trustee, using such method as it deems fair and appropriate.

Notice of Redemption

If any of the Series 2011A Bonds are to be redeemed, notice of such redemption is to be mailed by the Trustee to registered owners of such Series 2011A Bonds to be redeemed not less than 30 nor more than 45 days preceding each redemption date. Any notice of optional redemption may provide that such redemption is conditioned on, among other things, the availability of sufficient moneys on the redemption date.

The Trustee, so long as a book-entry-only system is used for determining ownership of the Series 2011A Bonds, shall send the notice to DTC or its nominee, or its successor. Any failure of DTC or a Direct Participant or, where appropriate, Indirect Participants to do so, or to notify a Beneficial Owner of a Series 2011A Bond of such redemption, will not affect the sufficiency or the validity of the redemption of such Bond. The Authority can make no assurances that DTC, Direct Participants, Indirect Participants or other nominees of the Beneficial Owners of the Series 2011A Bonds to be redeemed will distribute such notices to the Beneficial Owners of such Bonds, or that they will do so on a timely basis. See "Book-Entry-Only System" in Appendix G to Part 2 of this Official Statement.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series 2011A Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series 2011A Bonds maturing on May 1, 2036 (the "Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement. The Policy does not insure principal of or interest on the Insured Bonds due to optional redemption or extraordinary mandatory redemption as described in this Part 1 under the heading "DESCRIPTION OF THE SERIES 2011A BONDS - Redemption."

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM's financial strength is rated "AA+" (negative outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa3" (negative outlook) by Moody's Investors Service, Inc. ("Moody's"). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On August 25, 2011, S&P published *Bond Insurance Rating Methodology and Assumptions*, a criteria article that follows S&P's *Request for Comment: Bond Insurance Criteria*, published January 24, 2011. The criteria described in the article update and supersede S&P's previous criteria for rating bond insurers. S&P noted that the impact of new bond insurance rating criteria could result in financial strength ratings on investment-grade bond insurers (such as AGM) being lowered by one or more rating categories. The article states that the criteria are effective immediately and that S&P expects any rating changes as a result of the new methodology and assumptions would occur after its review of third quarter 2011 financial statements, but no later than November 30, 2011. However, as noted above, a rating agency may place a company's financial strength rating on credit watch for a downgrade at any time. For the complete text of S&P's comments, both publications are available at www.standardandpoors.com.

AGM and its affiliates are currently reviewing S&P's revised bond insurance rating criteria. The final criteria contain a number of changes from the proposals submitted in January 2011 for comment from market participants, including a new Largest Obligors Test that was not included in the January 2011 *Request for Comment*. This test appears to have the effect of significantly reducing AGM and its affiliates' allowed single risk limits and limiting their financial strength rating level.

On August 8, 2011, S&P published a Research Update in which it affirmed the "AA+" financial strength rating of AGM. At the same time, S&P revised the rating outlook on AGM to negative from stable. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P's comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the "Aa3" insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody's comments.

There can be no assurance as to any further ratings action that S&P or Moody's may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed by AGL with the Securities and Exchange Commission (the "SEC") on March 1, 2011, AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, which was filed by AGL with the SEC on May 10, 2011, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, which was filed by AGL with the SEC on August 9, 2011.

Capitalization of AGM

At June 30, 2011, AGM's consolidated policyholders' surplus and contingency reserves were approximately $3,050,613,849 and its total net unearned premium reserve was approximately $2,254,726,646, in each case, in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (which was filed by AGL with the SEC on March 1, 2011);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011 (which was filed by AGL with the SEC on May 10, 2011); and

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 (which was filed by AGL with the SEC on August 9, 2011).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Insured Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" (other than the information under the subheading "-Rights of AGM") and "Appendix 3 - Specimen Municipal Bond Insurance Policy."

Rights of AGM

So long as AGM is not in default under the Policy, AGM shall, under the terms of the Resolution, at all times be deemed to be the exclusive owner of the Insured Bonds for the purpose of all approvals, consents, waivers or institution of any action and the direction of all remedies. If AGM pays the principal, mandatory sinking fund installments or interest on any Insured Bonds pursuant to the terms of the Policy, AGM will be subrogated to all of the rights of the owners of such Insured Bonds, including the right to receive payment of principal or mandatory sinking fund installments on, and interest on, the Insured Bonds. AGM shall have no rights under the Resolution, other than the rights of subrogation to the extent it has made payments under the Policy, in the event AGM is in default on its payment obligations under such Policy.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority ("Bond Counsel"), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2011A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2011A Bonds is not treated as a preference item in calculating the alternative minimum tax that may be imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of facts, and statements of reasonable expectations made by the Authority and LIPA in connection with the Series 2011A Bonds, and Bond Counsel has assumed compliance by the Authority and LIPA with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2011A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Series 2011A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, and the Series 2011A Bonds 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.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to the Series 2011A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, or any facts or circumstances that may thereafter come to its attention, or changes in law or in interpretations thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action thereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2011A Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2011A Bonds in order that interest on the Series 2011A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of gross proceeds of the Series 2011A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2011A Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and LIPA have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2011A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Series 2011A Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of the Series 2011A Bonds. 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 Series 2011A Bonds.

Prospective owners of the Series 2011A Bonds 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 foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits and individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Series 2011A Bonds may 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.

Original Issue Discount

Original issue discount ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Series 2011A Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Series 2011A Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, remarketing agents, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2011A Bonds is expected to be the initial offering price set forth on the cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Series 2011A Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Series 2011A Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be 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 the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2011A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2011A Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Series 2011A Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period, under the owner's regular method of accounting, against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost.

Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2011A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code.

For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2011A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2011A Bond from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Proposed Tax Legislation; Miscellaneous

On September 12, 2011, President Obama sent to Congress draft legislation entitled the "American Jobs Act of 2011" (the "Jobs Act"). On September 13, 2011, Senate Majority Leader Reid introduced the Jobs Act in the Senate (S. 1549). If enacted as proposed, the Jobs Act includes a provision that would limit the amount of exclusions (including tax-exempt interest) and deductions certain high income taxpayers could use to reduce their income tax for taxable years after 2012. It is not possible to predict whether the Jobs Act will be enacted into law. Tax legislation (either proposed or future), administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2011A Bonds under federal or state law or otherwise prevent beneficial owners of the Series 2011A Bonds from realizing the full current benefit of the tax status of such interest and could affect the market price or marketability of the Series 2011A Bonds. Prospective investors should consult with their tax advisors on the foregoing matters as they consider an investment in the Series 2011A Bonds.

UNDERWRITING

The Underwriters listed on the cover page of this Official Statement for which Morgan Stanley & Co. LLC is acting as the Senior Manager, have agreed, jointly and severally and subject to certain conditions, to purchase the Series 2011A Bonds from the Authority at an underwriters' discount of $1,346,754.25. The Underwriters will be obligated to purchase all of the Series 2011A Bonds if any of the Series 2011A Bonds are purchased. The initial public offering prices of the Series 2011A Bonds may be changed from time to time by the Underwriters.

The Series 2011A Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2011A Bonds into investment trusts) at prices lower than such public offering prices.

The following four sentences have been provided by Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., two of the underwriters for the Series 2011A Bonds: Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., each an underwriter of the Series 2011A Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Series 2011A Bonds.

The following two sentences have been provided by J.P. Morgan Securities Inc., one of the underwriters for the Series 2011A Bonds: J.P. Morgan Securities Inc. has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, including the Series 2011A Bonds, at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Series 2011A Bonds with UBS Financial Services Inc.

The following four sentences have been provided by Wells Fargo Securities: Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association ("WFBNA"). WFBNA, one of the underwriters of the Series 2011A Bonds, has entered into an agreement (the "Distribution Agreement") with Wells Fargo Advisors, LLC ("WFA") for the retail distribution of certain municipal securities offerings, including the Series 2011A Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Series 2011A Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

CONTINUING DISCLOSURE UNDERTAKING

The Series 2011A Bonds 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 a form of which is attached hereto as Appendix F to Part 2 of this Official Statement. Pursuant to the Continuing Disclosure Certificate, the Authority will provide for the benefit of the holders of the Series 2011A Bonds certain financial information and operating data relating to the Authority by the dates specified in the Continuing Disclosure Certificate (the "Annual Report"), and provide notices of the occurrence of certain enumerated events with respect to the Series 2011A Bonds. The Annual Report will be filed by or on behalf of the Authority with the Municipal Securities Rulemaking Board and its Electronic Municipal Market Access system ("EMMA"). The notices of such events would be filed by or on behalf of the Authority with EMMA and with the Trustee. The specific nature of the information to be contained in the Annual Report and the notices of events is set forth in the Form of the Continuing Disclosure Certificate which is included in its entirety in Appendix F to Part 2. The Series 2011A Bonds being made subject to the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriters to purchase the Series 2011A Bonds. The Authority's undertakings in the Continuing Disclosure Certificate are being made in order to assist the Underwriters in complying with the Rule. Within the past five years, the Authority has not failed to comply, in any material respects, with any previous undertakings (as such term is used in the Rule) in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

CREDIT RATINGS

The uninsured Series 2011A Bonds have been assigned ratings of "A" by Fitch, Inc. ("Fitch"), "A3" by Moody's Investors Service ("Moody's") and "A-" by Standard & Poor's Rating Services ("S&P"). The Insured Bonds have been assigned ratings of "Aa3" by Moody's and "AA+" by S&P solely as a result of the issuance of the Policy by AGM. It is not a condition to the Underwriters obligation to purchase the Insured Bonds that, at the date of delivery thereof to the Underwriters, the Insured Bonds receive those ratings or ratings in any other specific category.

The respective ratings by Fitch, Moody's and S&P of the Series 2011A Bonds 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, Inc., One State Street Plaza, New York, New York 10004; Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich 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 that such ratings for the Series 2011A Bonds will continue for any given period of time or that any of such ratings will not be revised downward or withdrawn 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 Series 2011A Bonds.

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.

LEGALITY FOR INVESTMENT

The Act provides that the Series 2011A Bonds will be legal investments for public officers and bodies of the State 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, or may properly and legally invest funds, including capital in their control or belonging to them. Under the Act, the Series 2011A Bonds 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 be authorized.

APPROVAL OF LEGAL PROCEEDINGS

Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority, will render its opinions with respect to the validity of the Series 2011A Bonds in substantially the form set forth in Appendix 1 to this Part 1. Certain legal matters with respect to the Authority and LIPA will be passed upon by Lynda Nicolino, Esquire, General Counsel to the Authority and LIPA, and by Squire, Sanders & Dempsey (US) LLP, New York, New York, Disclosure Counsel to the Authority and LIPA. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody 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 Series 2011A Bonds, 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 Series 2011A Bonds 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 Series 2011A Bonds or of any other obligations of the Authority.

This Official Statement has been executed on behalf of the Authority by its Chief Operating Officer pursuant to the authority of the Trustees.

LONG ISLAND POWER AUTHORITY

By: /s/Michael D. Hervey
Chief Operating Officer

APPENDIX 1

Form of Opinion of Hawkins Delafield & Wood LLP
Bond Counsel to the Authority

September __, 2011

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 $250,000,000 Electric System General Revenue Bonds, Series 2011A (the "Series 2011A 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 2011A 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 September 23, 2010 (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 2011A 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 2011A Bonds are dated, mature, are payable, bear interest and are subject to redemption, all as provided in the Resolution.

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 2011A 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 2011A Bonds are not debts of the State or of any municipality thereof, and the 2011A 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 2011A 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 2011A Bonds has been obtained.

6. The adoption of the Resolution, compliance with all of the terms and conditions of the Resolution and the 2011A Bonds, and the execution and delivery of the 2011A 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.

8. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the 2011A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2011A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph 8, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority and the Subsidiary in connection with the 2011A Bonds, and we have assumed compliance by the Authority and the Subsidiary with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2011A Bonds from gross income under Section 103 of the Code.

9. Under existing statutes, interest on the 2011A Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof, and the 2011A 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.

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 and 9, we express no opinion regarding any other federal or state tax consequences with respect to the 2011A Bonds. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to our attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the 2011A 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 2011A 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,

APPENDIX 2

SCHEDULE OF AMORTIZED VALUE OF THE SERIES 2011A BONDS

The following table sets forth the Amortized Value of the Series 2011A Bonds (on an aggregate basis) as of certain redemption dates. As described in Part 1 to this Official Statement under "DESCRIPTION OF THE SERIES 2011A BONDS – Redemption – *Extraordinary Mandatory,"* the Series 2011A Bonds subject to extraordinary mandatory redemption prior to maturity, as a whole or in part, at any time at a redemption price equal to 103% of the greater of Amortized Value or par, until the Series 2011A Bonds are subject to optional redemption at par and thereafter at a redemption price equal to 100% of the principal amount thereof, in each case together with accrued and unpaid interest thereon to the redemption date, upon the occurrence of certain events set forth therein.

Redemption Date	Amortized Value	Redemption Date	Amortized Value
9/28/2011	261,693,043.80	11/1/2016	246,972,155.65
5/1/2012	260,886,884.80	2/1/2017	246,621,079.10
8/1/2012	260,522,028.55	5/1/2017	238,571,455.45
11/1/2012	260,187,438.65	8/1/2017	238,269,613.30
2/1/2013	259,816,328.05	11/1/2017	237,998,810.75
5/1/2013	259,477,992.45	2/1/2018	237,692,528.65
8/1/2013	259,101,062.30	5/1/2018	229,316,725.25
11/1/2013	258,757,151.30	8/1/2018	229,051,853.90
2/1/2014	258,377,161.05	11/1/2018	228,817,792.00
5/1/2014	258,025,949.45	2/1/2019	228,548,156.00
8/1/2014	257,640,281.25	5/1/2019	219,819,753.95
11/1/2014	257,285,880.25	8/1/2019	219,598,424.75
2/1/2015	256,894,284.75	11/1/2019	219,405,922.00
5/1/2015	256,532,858.75	2/1/2020	219,181,042.85
8/1/2015	256,137,399.00	5/1/2020	210,054,986.20
11/1/2015	255,770,007.55	8/1/2020	209,874,489.65
2/1/2016	255,368,721.95	11/1/2020	209,723,283.65
5/1/2016	247,631,128.90	2/1/2021	209,525,848.60
8/1/2016	247,286,881.75	5/1/2021	200,000,000.00*

**Reflects May 1, 2021 optional redemption date at a redemption price of 100%.*

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APPENDIX 3

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: $ in aggregate principal amount of

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), 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 AGM, 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 AGM shall have received Notice of Nonpayment, AGM 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 AGM, 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 AGM. 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 AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM 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, AGM 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 AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM 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 AGM 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 AGM 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.

AGM 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 AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM 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 AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM 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 AGM 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 AGM, 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.

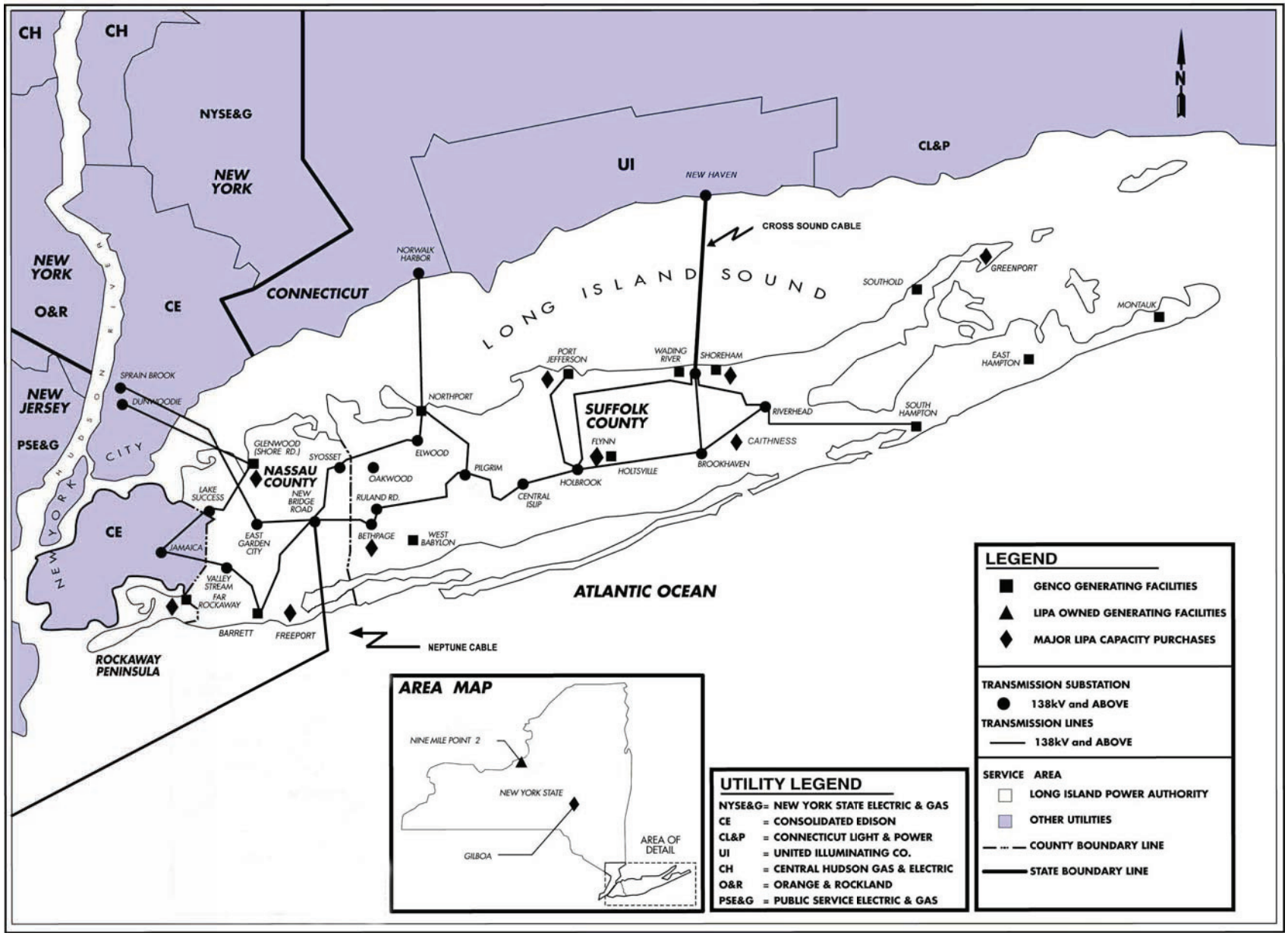
In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

Form 500NY (5/90)

LONG ISLAND POWER AUTHORITY SERVICE AREA



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PART 2

of the

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of the

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PART 2

of the

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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 portion of the Borough of Queens of The City of New York known as the Rockaways. Capitalized terms used but not defined in this Part 2 have the meanings given those terms in Appendix C to this Part 2.

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 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"). LIPA is a stock corporation formed and existing under the Business Corporation Law of the State of New York.

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 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."

As part of the LIPA/LILCO Merger, LIPA retained 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 located in Oswego, New York ("NMP2") 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" in this Part 2). The term "System" means all of the assets of the Authority and LIPA that are used in the furnishing of electric service.

As part of the LIPA/LILCO Merger, the remainder of LILCO's electric service assets (including all of its then-existing fossil-fueled generating units), and its entire gas supply system, were transferred to certain wholly-owned subsidiaries of Keyspan Corporation. In August 2007, Keyspan Corporation was acquired by National Grid plc, a company organized under the laws of England and Wales ("National Grid plc"). Effective May 1, 2008, the subsidiaries of Keyspan Corporation which acquired the electric service assets of LILCO began doing business under the name "National Grid" (each such subsidiary a "National Grid Sub" and collectively the "National Grid Subs").

LIPA'S RETAIL ELECTRIC SERVICE BUSINESS

Relationship of the Authority and LIPA

LIPA is a New York corporation and a wholly-owned subsidiary of the Authority. Pursuant to LIPA's organizational documents, the Authority conducts and manages LIPA's business and affairs. In addition, the members of the board of directors of LIPA are elected by the Authority. Accordingly, LIPA is controlled by the Authority. The Authority is governed by a Board of Trustees (the "Trustees").

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 to this Part 2 for a summary of certain provisions 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 and LIPA are also parties to an Administrative Services Agreement pursuant to which the Authority provides personnel, personnel-related services and other services necessary for LIPA to provide electric service in the Service Area. See "LONG ISLAND POWER AUTHORITY – Management and Operation of the System" in this Part 2.

System Operation by the Authority

In order to assist the Authority (acting through LIPA) in providing electric service in the Service Area, the Authority has 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 "National Grid Operating Agreements"), each with a separate National Grid Sub. These National Grid Subs include those subsidiaries to which LILCO transferred its fossil-fueled generating facilities simultaneously with the LIPA/LILCO Merger. The performance of each such National Grid Sub under its respective National Grid Operating Agreement as well as any payment obligations it may have under such agreement are guaranteed by Keyspan Corporation (see "Guarantees and Indemnities" below). The Authority has also entered into a Fuel Management and Bidding Services Agreement (the "FMBSA") with a National Grid Sub pursuant to which that National Grid Sub procures and manages fuel supplies for certain facilities LIPA has under contract. The performance of the National Grid Sub under the FMBSA as well as any payment obligations it may have under such agreement are guaranteed by Keyspan Corporation.

In addition, the Authority entered into agreements with Consolidated Edison Energy, Inc. ("CEE") and Pace Global Energy Risk Management, LLC ("Pace") (these two agreements together with the National Grid Operating Agreements and the FMBSA are collectively referred to as the "Operating Agreements"), which became effective on January 1, 2010, to provide certain services formerly provided by a National Grid Sub under the EMA, all as described below under "Operating Agreements." The purpose of the Operating Agreements is to provide the Authority and LIPA with the operating personnel and a significant portion of the power supply resources necessary for LIPA to continue to provide electric service in the Service Area. The Authority assigned its rights and obligations under the Operating Agreements to LIPA.

The Authority oversees the operation of the System and manages the Operating Agreements with a staff of approximately 95 and through the support of outside financial, engineering, accounting and legal advisors and consultants. Day-to-day operations and maintenance during the terms of the Operating Agreements are being performed by the workforce of the National Grid Subs, CEE and Pace.

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. The Authority employs a variety of outside consultants to assist it in managing the System.

See "LONG ISLAND POWER AUTHORITY—Management and Operation of the System" in this Part 2.

Strategic Review

On June 25, 2009, the Trustees voted to engage Lazard Frères to update its 2005 strategic organizational review. In February 2010, Lazard Frères issued its report concluding, among other things, that the Authority should not proceed with the purchase of the GENCO Generating Facilities (defined below) but should continue to explore its organizational options based on, in part, the complexities associated with LIPA's existing structure. As such, in May 2010, the Trustees engaged the Brattle Group/M.J. Beck to continue reviewing the existing corporate organizational and governance structure and alternatives available to LIPA as part of its long-term strategic planning. In addressing the various strategic options available to the Authority, the advisor is considering best practices for both municipally-owned and investor-owned utilities, the evolution in the energy industry in New York and surrounding areas and the views of all stakeholders. A report to the Trustees with any findings and/or recommendations is anticipated in fall 2011.

Operating Agreements

Management Services Agreement. The MSA provides for the National Grid 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, financial and operations reporting, planning, engineering, and construction, all in accordance with policies and procedures adopted by LIPA. 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.

The Authority and LIPA exercise control over the performance of the T&D System through specific standards for performance by the Manager contained in the MSA. The primary standards of performance for the delivery of power are the frequency and duration of outages on the T&D System, customer satisfaction, worker safety, completion of the annual workplan and adherence to capital budgets. See a more complete list of the MSA performance metrics in Appendix E to this Part 2.

Under the MSA, the Manager is paid an annual service fee as compensation. The service fee is paid on a monthly basis and is based on a fixed rate per kilowatt-hour of retail electric sales which is subject to an inflation factor, subject to a floor and a cap. In addition to the service fee, the Manager is reimbursed for all approved third-party pass-through costs (as defined in the MSA) and is paid or reimbursed for approved capital and certain unforeseeable costs, such as storm response and restoration work. The MSA provides for penalties for the failure by the Manager to perform within specified performance metrics. See Appendix E to this Part 2 for a summary of the MSA.

The MSA has an expiration date of December 31, 2013. The Authority has initiated the review process for the MSA and alternatives thereto, which included a request for information process that was completed in 2009. Based on that review process and the information obtained through the request for information process, the Authority issued a request for proposals in June 2010 seeking operation and management services related to the T&D System beginning in January 2014, with transition services beginning as early as January 2012. The Authority received multiple proposals by proposers with electric utility experience from which the Authority selected three finalists that the Authority determined were technically qualified. The Authority is currently conducting competitive negotiations in order to determine which finalist offers the Authority and its customers the best value. The current schedule provides for the Authority to make a final selection and execute contracts before the end of 2011 in order to allow adequate time for transition as required prior to the expiration of the current MSA on December 31, 2013. As described above under "Strategic Review," the Authority is also being advised with respect to its existing structure and alternatives thereto.

Power Supply Agreement. The PSA provides for the sale to LIPA by National Grid Generation LLC ("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 owned by GENCO 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. See "THE SYSTEM – Power Supply – *Power Supply Agreement*" in this Part 2.

The PSA provides incentives and penalties for GENCO to maintain the output capability of the GENCO Generating Facilities, as measured by annual industry-standard tests of operating capability, and to maintain and/or 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 on-Island sources, as well as off-Island sources, consistent with existing transmission interconnection and T&D System limitations.

The PSA expires on May 28, 2013 and at the end of this original 15-year term, LIPA may, in its sole discretion, renew the PSA for an additional 15-year term under substantially the same terms and conditions, for all capacity which LIPA has not exercised its ramp-down option next described. The PSA provides LIPA the option to reduce or "ramp-down" the capacity it purchases from GENCO in accordance with schedules set forth in the PSA. On June 23, 2011, LIPA and GENCO agreed to amend the PSA in order to ramp-down 334 MW of generating capacity under the PSA currently being provided by the Far Rockaway Unit 4 and Glenwood Units 4 & 5. This amendment to the PSA provides that these units will continue to be available to LIPA under the current term of the PSA until they are no longer necessary for reliability purposes. As a result of this amendment, the overall cost of the PSA over the remaining term will be reduced by $18.3 million. LIPA has agreed, through this amendment, that it will not ramp down Barrett Units 1 & 2 or Port Jefferson Units 3 & 4. This amendment is subject to the review by the New York State Office of State Comptroller and Attorney General, as well as FERC.

The Authority has initiated a review process for the PSA and alternatives thereto, including its right to extend the term of the PSA and potential exercise of its remaining ramp down option with respect to Northport Unit 1. In connection with that review, LIPA issued a request for proposals in August 2010 seeking proposals for the supply of capacity and energy. See "THE SYSTEM – Power Supply" in this Part 2 for further discussion regarding the request for proposals. See Appendix E to this Part 2 for a summary of the PSA.

Energy Management Agreement. The EMA provides for the National Grid Sub party thereto ("Fuel Manager") to procure and manage fuel supplies for LIPA to fuel the GENCO Generating Facilities. The term of the EMA is until May 28, 2013. As part of the strategic review process described above, the Authority is currently evaluating the EMA and alternatives thereto. The Fuel Manager is compensated for fuel management services through the payment by LIPA of: (i) a monthly fuel management fee; (ii) the cost of fuel purchased on LIPA's behalf; and (iii) a fuel purchase performance incentive/disincentive payment. While LIPA pays for the actual fuel, the EMA further provides incentives for control of the cost of fuel purchased on behalf of LIPA by the Fuel Manager. See Appendix E to this Part 2 for a summary of the EMA.

Fuel Management and Bidding Services Agreement. The FMBSA provides for the National Grid Sub party thereto ("Fuel and Bidding Manager") to procure and manage fuel supplies for LIPA for certain other generating facilities. The term of the FMBSA is until May 28, 2013. As part of the strategic review process described above, the Authority is currently evaluating the FMBSA and alternatives thereto. The Fuel and Bidding Manager is compensated for fuel management services through the payment by LIPA of: (i) a monthly fuel management fee; and (ii) the cost of fuel purchased on LIPA's behalf. See Appendix E to this Part 2 for a summary of the FMBSA.

Certain Other Agreements. In June 2008, LIPA's Board, after a competitive procurement process, selected CEE and Pace to provide certain services relating to making off-system capacity and energy purchases on a least-cost basis to meet LIPA's needs and making off-system sales of energy, capacity and other ancillary services; CEE, a wholly owned subsidiary of Consolidated Edison, Inc., is a wholesale energy company and provides "front" and

"back" office services and Pace, an energy risk management consulting firm, provides independent "mid-office" services. Services under both contracts commenced full operation on January 1, 2010 and are for an initial five-year period and are subject to an extension for a period of five years at LIPA's option.

Certain Rights

The Authority has a right of first refusal (the "Right of First Refusal") to purchase, on substantially the same terms as offered, all (but not less than all) GENCO generating facilities which GENCO may decide to sell to a foreign or foreign-controlled entity during the term of the PSA. Also, pursuant to certain other agreements between LIPA and National Grid or National Grid Subs, certain future rights are granted to LIPA. These rights include continuation of the present gas transportation rate for gas delivered over the gas distribution system to the GENCO Generating Facilities and to certain new generation resources until May 28, 2013, with cost-based adjustments to meet gas delivery system expansion needs. Subject to certain conditions, these rights also 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, National Grid and its subsidiaries also have the right to sell or lease these properties to third parties.

National Grid or various of its subsidiaries owns the common plant (such as administrative office buildings and computer systems) formerly owned by LILCO and charges LIPA for its beneficial use through the National Grid Operating Agreements. National Grid 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. National Grid has also agreed for the period through 2097 not to compete with LIPA as a provider of transmission or distribution service on Long Island.

Guarantees and Indemnities

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

Keyspan Corporation and various National Grid subsidiaries (together with Keyspan Corporation, the "National Grid Parties") have entered into an indemnification agreement with the Authority and LIPA (the "LIPA Parties") pursuant to which the National Grid 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 National Grid Parties prior to the LIPA/LILCO Merger (the "Transferred Assets"). The LIPA Parties have entered into a similar indemnification agreement with the National Grid Parties pursuant to which the LIPA Parties agreed to indemnify the National Grid 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 retained by the LIPA Parties. 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 National Grid 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 included (i) certain regulatory assets of LILCO, including the

Shoreham Regulatory Asset, (ii) promissory notes (the "Keyspan Promissory Notes") evidencing the obligation of Keyspan Corporation and certain of its subsidiaries to pay to LIPA amounts equal to the principal and interest on certain debentures described below and on the NYSERDA Financing Notes described below, (iii) the judgments, actions and claims of LILCO for refunds of property taxes, including the judgment resulting from the litigation contesting the assessment of certain Shoreham Nuclear Power Station property 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 net deferred federal income tax liability. The unamortized balance of 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 financial statements set forth in Appendix A to this Part 2 as the "Acquisition Adjustment." This Acquisition Adjustment is being amortized over 35 years (commencing in 1998) and is being recovered through LIPA's rates. In May 1998, when LIPA acquired LILCO, the original Acquisition Adjustment was approximately $4.2 billion. At December 31, 2010, the balance of the Acquisition Adjustment, net of accumulated amortization was approximately $2.5 billion.

The LIPA Liabilities included (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") (all of which have been retired); (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; $155,420,000 of which remain outstanding as of September 1, 2011 (for which Keyspan is obligated to make payments to LIPA as discussed below); (iii) certain customer deposits and payables; and (iv) other liabilities, including environmental liabilities of LILCO not otherwise transferred to or indemnified by a National Grid Sub.

Keyspan Corporation is obligated to make payments to LIPA under the Keyspan Promissory Notes equal to the principal of and interest on all of the NYSERDA Financing Notes. If at any time during the term of the Keyspan Promissory Notes, the long-term senior debt of Keyspan Corporation is not rated at least "A" by two or more nationally recognized rating services, then Keyspan Corporation 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 Keyspan Promissory Notes; or (ii) economically defease the Keyspan 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 Keyspan Promissory Notes. Payments under the Keyspan 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 NYSERDA Financing Note. The Authority is obligated to pay to LIPA, from the Authority's general revenues, funds sufficient to pay the NYSERDA Financing Notes. This obligation of the Authority, however, is subordinate to the obligations of the Authority to pay, when due, operating expenses and principal and interest on the Bonds and the Subordinated Indebtedness.

DEBT MANAGEMENT

Since the acquisition of LILCO, the Authority has sought to effectively accelerate the retirement of Authority's original $6.7 billion indebtedness issued in 1998 in an amount approximately equal to the $4.2 billion Acquisition Adjustment recorded in 1998 by 2013. This accelerated debt retirement plan had both scheduled and optional elements and also took into account the funding of a certain portion of capital expenditures with cash from operations rather than by issuing new debt. The plan is a matter of Authority policy and may be changed at any time.

To implement this plan the Authority established an accelerated amortization schedule for a portion of the Bonds it issued in 1998 and used excess cash flow over Debt Service and favorable budget variances to retire a portion of 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. A total of approximately $2.3 billion Authority debt has been so retired since 1998. In addition, the Authority funded approximately $1.3 billion of capital expenditures with revenues rather than with borrowings through June 30, 2011. Current projections

show that the Authority should be able to retire debt or fund capital expenditures with operating cash flows in an aggregate amount that would meet or exceed the $4.2 billion target by the end of 2013.

In addition to retiring bonds as described above, since 1998 the Authority has issued approximately $1.9 billion of bonds and notes to finance capital expenditures for projects, including projects to enhance LIPA's system not contemplated under the original plan in 1998 such as those providing additional access to off-Island power supply resources described herein. The Authority also issued additional capital appreciation bonds in 2000 to fund the Shoreham Property Tax Settlement, which have an outstanding par balance of approximately $400 million at June 30, 2011. Therefore, as of June 30, 2011, a total of approximately $6.7 billion in bonds and notes are outstanding (which includes the original $6.7 billion indebtedness issued in 1998, less the approximately $2.3 billion of debt retired, plus the approximately $1.9 billion of debt issued to finance capital expenditures, plus the approximately $400 million of Shoreham Property Tax Settlement debt, but which excludes the $155 million NYSERDA Financing Notes). The Authority currently expects to issue additional bonds to finance capital expenditures for the period 2011-2015 as set forth in Appendix B to this Part 2, which projections are based on the information available during the fourth quarter of 2010.

Variable Rate Debt and Liquidity. The Authority currently has outstanding approximately $1.1 billion of variable rate bonds and commercial paper notes, which consists of (i) approximately $525 million of short-term variable rate bonds supported by letters of credit, (ii) approximately $375 million of insured variable rate bonds supported by a standby bond purchase agreement and (iii) $200 million commercial paper issued and outstanding that is supported by letters of credit under its $300 million commercial paper program. The Authority recently extended letters of credit supporting $325 million of its variable rate bonds and commercial paper notes that were scheduled to expire (in the aggregate amount of $375 million) in June 2011 to December 2011. With the extensions of those expiring letters of credit, there is currently $50 million of commercial paper capacity with liquidity support that is not being utilized. The Authority recently issued a request for proposals for liquidity support, which process it will use to develop a comprehensive variable rate debt strategy that makes the best use of its existing and any new sources of liquidity support.

FINANCIAL INFORMATION

The Authority's Audited Basic Financial Statements for the years ended December 31, 2010 and 2009 are attached hereto as Appendix A. The Authority's Audited Basic Financial Statements contain Management's Discussion and Analysis of the Results of Operations for the year ended December 31, 2010. Certain prior period amounts have been reclassified in the financial information to conform to the current year presentation.

The table below provides certain financial information with respect to the Authority. The information regarding the years 2010 and 2009 has been derived from the Authority's audited Basic Financial Statements and should be read in conjunction with the notes accompanying the Authority's Basic Financial Statements for the years ended December 31, 2010 and 2009 contained in Appendix A to this Part 2. The information for the six-month periods ended June 30, 2011 and June 30, 2010 is from the Authority's unaudited financial records.

Effective January 2010, the Authority changed its accounting methodology used to estimate unbilled energy deliveries and the related customer receivables. This change is needed to more accurately estimate power delivered to customers from the date of their last billing to the end of each accounting period. The unbilled revenue represents an estimate of customer usage during this period. This change in how unbilled revenue is estimated does not impact reported total operating cash flows for any historical period. The change would have increased unbilled revenues, accounts receivables and would have revised reported changes in net assets if it had been in effect prior to 2010. This change was adopted after an extensive analysis of the prior methodology. The prior methodology based the estimate of unbilled sales on several factors including electrical usage, seasonal factors, rate differentials and line losses. The Authority has determined that a more accurate and appropriate method is to accrue unbilled revenues by estimated unbilled consumption at the customer meter.

When this change was implemented effective January 2010, it resulted in: (i) an increase of estimated unbilled receivables of approximately $231 million; (ii) the establishment of a regulatory liability of approximately $129 million to reflect the amount of revenue deferred that will be returned to customers in accordance with the operation of the Fuel and Purchased Power Cost Adjustment (the "FPPCA"); (iii) a $30 million decrease in the unamortized balance of the acquisition adjustment related to a reserve acquired from LILCO; and (iv) a $72 million

increase in net assets. See "RATES AND CHARGES—Rate Tariffs and Adjustments" for additional discussion relating to estimating unbilled energy deliveries and the change in accounting methodology.

	Years Ended December 31,		Six Months Ended June 30,	
	2010	2009	2011 (unaudited)	2010 (unaudited)
(in thousands)				
Electric Revenue	$ 3,859,549	$ 3,312,160	$1,683,044	$1,667,884
Operating expenses:				
Operations – fuel and purchased power	1,879,839	1,566,005	860,000	849,845
Operations and maintenance	1,129,931	864,576	476,928	486,198
General and administrative	41,852	40,153	20,589	18,890
Depreciation and amortization	251,117	254,944	133,382	129,335
Payments in lieu of taxes	281,609	249,652	142,354	131,642
Total Operating Expenses	3,584,348	2,975,330	1,633,253	1,615,910
Operating income	275,201	336,830	49,791	51,974
Other income, net	46,445	33,519	18,646	18,923
Grant income	66,294	--	2,508	--
Interest charges	(330,491)	(331,899)	(163,935)	(159,239)
Change in Net Assets	57,449	38,450	(92,990)	(88,342)
Net assets – beginning of year	319,720	289,178	377,619	325,815
Cumulative effect of change in accounting principle	--	(7,908)	--	--
Net assets – end of period	$ 377,169	$ 319,720	$ 284,179	$ 237,473

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

Consolidated Results of Operations

The accompanying consolidated financial information reflects the operating results of the Authority and LIPA (referred to collectively in this section as the "Authority") for the six months ended June 30, 2011 and 2010.

Change in Net Assets

The change in net assets for the six months ended June 30, 2011 reflects a loss of $93 million as compared with the prior year loss of $88 million for the six months ended June 30, 2010.

Revenues

Revenue increased approximately $15 million primarily as a result of increased Efficiency Long Island rates totaling approximately $14 million, increased delivery charge rates totaling $19 million and load growth and effects of weather impacting revenue by approximately $28 million. These increases were partially offset by lower booked power supply costs recovery totaling ($46) million.

Fuel and Purchased Power Costs

The Authority's tariff includes a fuel recovery provision—the FPPCA—that provides for the recovery of fuel and purchased power costs in the period incurred in amounts sufficient to allow the Authority to earn a financial target of $75 million with a variance of $50 million above or below such amount in each year. Should fuel and purchased power prices change such that the Authority would exceed or fail to meet its financial target, the FPPCA would be reduced or increased accordingly. In no event, however, can the Authority recover an amount that exceeds its fuel and purchased power costs incurred.

For 2011, the Authority decreased its FPPCA by $182 million annually effective January 1, 2011 in order to collect an amount of incurred fuel costs sufficient to meet its financial target. As a result of the change in accounting methodology described herein, which is used to estimate unbilled energy deliveries, effective April 1, 2011, the Authority reduced its FPPCA by $56 million for the remaining months in 2011.

Fuel and purchased power costs increased $10 million for the six months ended June 30, 2011 as compared to the prior year. The increase was due to higher sales impacting fuel cost by $25 million and lower amortization of KeySpan settlement bill credits of $4 million partially offset by lower net commodity prices totaling $19 million.

Operations and Maintenance

Operations and maintenance expense decreased by approximately $10 million, primarily due to the $31 million decrease in expense relating to storm restoration that resulted from unusually high 2010 activity (March 2010 Nor'easter), partially offset by higher Efficiency Long Island costs totaling $7 million, higher scheduled costs under the PSA totaling $7 million, higher MSA costs totaling $4 million, higher bad debt expense totaling $2 million, and higher assessments totaling $1 million.

General and Administrative

General and administrative expense increased approximately $2 million due to increased consulting costs and increased accruals related to compensated absences.

Depreciation and Amortization

Depreciation and amortization increased approximately $4 million due to increased transmission and distribution plant balances.

PILOTS

Revenue-based PILOTs decreased approximately $2 million due to lower revenues billed and an adjustment related to the power for jobs program. Property-based PILOTS increased approximately $13 million due to increased town and school taxes.

Grant Income

Grant income increased approximately $3 million due to the federal interest subsidy related to the Authority's Electric System General Revenue Bonds, Series 2010B Bonds, which were issued as "build America bonds" in May 2010.

Interest Charges

Interest charges increased approximately $5 million due to approximately $4 million related to higher debt balances outstanding compared to June 30, 2010, higher interest paid to customers totaling approximately $1 million (related to incorrect billings), offset by approximately $1 million due to amortizations related to the implementation of GASB No. 53, *Accounting and Reporting for Derivative Instruments*.

Cash and Investments Balances

As of June 30, 2011, the Authority's balance of cash, cash equivalents and investments totaled approximately $272 million.

DERIVATIVES AND HEDGE ACTIVITIES

The Authority uses financial derivative instruments to manage the impact of interest rate, energy price and fuel cost changes on its cost of service, earnings and cash flows. The Authority oversees its risk management program through an executive risk management committee comprised of the Vice President of Finance and Chief Financial Officer who chairs the committee, the Vice President of Customer Services, the Vice President – Power Markets, the Vice President of Administration and an independent risk management consultant (a non-voting member). The risk management program is intended to identify exposures to potential movements in fuel and purchased power prices, quantify the impacts of these exposures on the Authority's financial position, liquidity and the Authority's FPPCA, and mitigate the exposures in line with the Authority's identified level of risk tolerance. The Authority actively manages the program in both upward and downward trending markets and adjusts its positions as necessary to mitigate the impact of potentially unfavorable market movements. At June 30, 2011, the Authority had no collateral posted to its counterparties in connection with its energy commodity hedge positions nor held any collateral posted by its counterparties (mark-to-market value at June 30, 2011 for the Authority's commodity hedge positions was negative $55 million).

The Authority monitors its interest rate derivative exposure through its quarterly swap report. The Authority has not been required to post any collateral with respect to its interest rate derivatives. If, however, the Authority's ratings fall below Baa2/BBB/BBB by Moody's, S&P and Fitch, respectively, on certain of its swaps (mark-to-market at June 30, 2011, negative $54 million), the Authority may be required to post collateral. The Authority may also be required to post collateral on two swaps that are insured by National Public Finance Guarantee (formerly "MBIA") ("NPFG") (mark-to-market at June 30, 2011, negative $45 million), if all of NPFG's *and* the Authority's ratings fall below A3/A-/A- by Moody's, S&P and Fitch, respectively. Similarly, the Authority maintains a swap that is insured by Assured Guaranty (formerly "FSA") ("Assured") (mark-to-market at June 30, 2011, negative $198 million), under which it may be required to post collateral under such swap if all of Assured's ratings fall below A2/A by Moody's and S&P, respectively, *and* the Authority's rating falls below A3/A- by Moody's and S&P, respectively. In the case of the three insured swaps mentioned above, the Authority may provide alternative credit support in lieu of being required to post collateral. For the Authority's current ratings, see "CREDIT RATINGS" in Part 1 of this Official Statement.

In accordance with GASB 53, *Accounting and Reporting for Derivative Instruments,* the Authority records its derivatives at fair value. For a further discussion of these matters, and for a summary of certain interest rate exchange agreements, see Note 4 of Notes to Basic Financial Statements.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") enacted in July 2010 could impact the Authority's use of financial derivative instruments. Regulations to implement the Dodd-Frank Act could impose additional requirements on the use of such instruments, which could affect both their use and cost. The financial and/or operational impacts on the Authority, if any, cannot be determined until such regulations are finalized.

PROJECTED REVENUE REQUIREMENTS AND DEBT SERVICE COVERAGE

Attached as Appendix B to this Part 2 are projections of the Authority's annual revenues and revenue requirements for the period January 1, 2011 through December 31, 2015 (the "Projection Period"). The projections show that the Authority's Debt Service coverage ratios calculated in accordance with the Bond Resolution during the Projection Period will be no less than approximately: (i) 2.21x on the senior lien debt outstanding and estimated to be outstanding; (ii) 2.01x on the senior lien debt and the subordinated lien debt, in both cases outstanding and estimated to be outstanding; and (iii) 1.98x on such senior and subordinate lien debt and the NYSERDA Financing Notes outstanding on June 30, 2011. The projections for the Projection Period are based on the information available at the time they were prepared during the fourth quarter of 2010.

THE PROJECTIONS CONTAINED IN APPENDIX B AND ELSEWHERE IN THIS OFFICIAL STATEMENT ARE FORWARD LOOKING STATEMENTS PREDICATED UPON ASSUMPTIONS PRESENTED HEREIN. NEITHER THE AUTHORITY, LIPA 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 HEREIN, THE RESULTS THAT WILL BE ACHIEVED BY THE AUTHORITY WILL VARY FROM THOSE PROJECTED.

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 Resolution and the Act.

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 indirectly 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 Keyspan 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 (as defined below), (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 LIPA 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 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 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 (including 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 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.

The Trustees have stated a goal of maintaining cash balances, including the Rate Stabilization Fund, of $250 million. Such balances have fluctuated in the past and are expected to fluctuate from time to time in the future.

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) 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.

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 (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 include 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, 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 therefore (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, 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

There is no limit or test for the issuance of additional Bonds under the Resolution.

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. See "RATES AND CHARGES – Authority to Set Electric Rates" and "RATES AND CHARGES – Proposed Legislation."

Trustees

The Authority is governed by a fifteen member Board of Trustees who are required under the Act to be residents of the service area. There are currently two vacancies. 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 Operation 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; (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.

Board/Management. The present Board leadership, officers, and senior management of the Authority, with information covering their background and experience, are listed below. In May 2010, Kevin S. Law announced his resignation as President and Chief Executive Officer ("CEO") of the Authority which became effective September 8, 2010. The Authority launched a nationwide search for Mr. Law's replacement with the assistance of an executive search firm, which is currently underway, and includes internal candidates. Michael D. Hervey was appointed Chief Operating Officer ("COO") by the Board in August 2010. Pursuant to the Authority's By-laws, the COO performs the duties of the President and CEO in the event of the absence, disability, incapacity or vacancy in the office of the CEO and that any such performance continues until a successor CEO is elected by the Trustees and confirmed by the Senate in accordance with the Act and Section 2852 of the Public Authorities Law.

Howard E. Steinberg (66) is the Chairman of the Authority. Mr. Steinberg was appointed Chairman in January 2010. Mr. Steinberg became a Trustee in April 1999. He is of counsel at the law firm McDermott Will & Emery and General Counsel of ZAIS Group LLC, a global credit asset management firm. 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. Mr. Steinberg has served as a member of the Board of Regents of Georgetown University, a member of the Board of Directors of Sheltering Arms Children's Services, and a member of the Board of Overseers of the University of Pennsylvania School of Arts and Sciences. He holds a B.A. from the University of Pennsylvania, and a J.D. from Georgetown University Law Center.

Michael D. Hervey (53) is the Chief Operating Officer for the Authority. Mr. Hervey was appointed to the position in August 2010 and has been performing the duties of the President and Chief Executive Officer since that time. Prior to becoming Chief Operating Officer, he was Senior Vice President of Operations for the Authority, a position he held since May 2009 after having been appointed Vice President of Operations for the Authority in May 2006. Prior to this appointment, he served for five years as the Executive Director of Transmission and Distribution Operations for the Authority. Prior to joining the Authority in 2000, Mr. Hervey held several positions of increasing

responsibility with Commonwealth Edison Company in Chicago, Illinois. Responsibilities at Commonwealth Edison included workforce management, construction, maintenance, quality assurance, disaster recovery, process computing, organizational design, and asset management. He holds a B.S. in Electrical Engineering from Iowa State University and an M.B.A. from Hofstra University.

Herbert L. Hogue (62) is the Vice President of Finance and Chief Financial Officer of the Authority. He was appointed to this position in June 2009. Mr. Hogue has over 20 years of experience in electric power industry finance. Prior to joining the Authority, Mr. Hogue was Chief Financial Officer for Seattle City Light, the electric utility for the Seattle area. Prior to that, he was Managing Director of Corporate Finance for American Electric Power for eight years where he directed project and corporate financings in the U.S., Europe, Latin America and Asia. Mr. Hogue also served as Vice President of Finance for Calpine Corporation and served in finance for Chevron Corporation. He has an M.B.A. from Harvard, a Master of City Planning degree from the University of Pennsylvania and a Bachelor of Science in Civil Engineering from Stanford.

Lynda Nicolino (46) is the General Counsel and Secretary of the Authority. She was appointed to this position by the Board in March 2008 after having been previously appointed Acting General Counsel in March 2007. She joined the Authority in June 1999 as Assistant General Counsel. Prior to joining the Authority, Ms. Nicolino supervised and managed the Suffolk Regional Office for the New York State Attorney General for nearly four years during her tenure as Assistant Attorney General In Charge. Prior to her work with the New York State Attorney General, she worked as an Assistant District Attorney in Suffolk County and in the private practice of law. Ms. Nicolino graduated from Stony Brook University with a Bachelor of Arts degree and received a Juris Doctor from Hofstra University Law School.

Michael Deering (56) is the Vice President of Environmental Affairs for the Authority. He joined the Authority in November 2007. Mr. Deering brings 25 years of environmental and energy experience to the position having served most recently as Vice President of Government Affairs for the Long Island Association, the region's largest business and civic organization. He previously served as the first Commissioner of Suffolk County's Department of Environment and Energy where he helped to overhaul the county's open space and farmland preservation programs. Prior to his tenure with the County, he served first as Legislative Director for the New York State Legislative Commission on Water Resource Needs of Long Island and later as Chief of Staff for New York State Assemblyman Thomas P. DiNapoli. Mr. Deering earned a Bachelor's Degree in Political Science from C.W. Post College and a Master's Degree in Government and Politics from St. John's University. As an adjunct instructor at St. John's, he has taught courses on Government and Politics and Environment and the Law.

Bruce Germano (59) is Vice President of Customer Services for the Authority. He joined the Authority in March 1999. Mr. Germano has worked in the energy field both domestically and internationally for over 37 years, holding positions with Keyspan Corporation, Long Island Lighting Co., American Electric Power, and Gibbs and Hill Inc. Mr. Germano holds a B.S. in Engineering from Manhattan College and a M.S. in Industrial Management from SUNY Stony Brook. He is a member of the Advisory Board at the Advanced Energy Center at Stony Brook University, and a member of the Board of the New York State Smart Grid Consortium. He is also past Chairman of the Steering Committee of IntelliGrid under the Electric Power Research Institute ("EPRI"), an international electric utility consortium whose mission is to develop the smart grid required to support the needs of a digital society in the 21st Century.

Paul DeCotis (55) is Vice President of Power Markets for the Authority. He joined the Authority in July 2009. Prior to joining the Authority, he served as Deputy Secretary for Energy in New York, serving as senior advisor to Governor Spitzer and Governor Paterson. He also served as the Chair of the State Energy Planning Board. Prior to his position in the Governor's administration, he served as Director of Energy Analysis for the New York State Energy Research and Development Authority. Prior to this, he was Chief of Policy at the State Energy Office. Since 1985, he has served as an adjunct faculty member at several colleges and universities including Cornell University, Rochester Institute of Technology and Sage Graduate School. He holds a Bachelor of Arts in International Business Management from the State University College at Brockport, a Master of Arts in Economics from the University at Albany and his Master of Business Administration in Finance from Sage Graduate School at Russell Sage College.

Nicholas Lizanich (55) is Vice President of Transmission and Distribution for the Authority. He joined the Authority in June 2011. Prior to joining the Authority, he worked as an independent consultant to clients in the utility industry. He served as Vice President, Asset Oversight for First Energy Corporation. Prior to this, he held

various positions, including Executive Vice President, Operations, at Patrick Engineering, Inc., a mid-sized engineering consulting firm. Prior to Patrick Engineering, he served as Vice President, Engineering and Planning for ComEd Energy Delivery, a subsidiary of Commonwealth Edison Company. He also served in various positions for First Energy Corporation for over 25 years. He holds a Bachelor of Electrical Engineering and a Master of Science in Industrial Engineering from Cleveland State University.

Kenneth Kane (51) is the Controller of the Authority. He joined the Authority in 1999 as its Director of Financial Reporting. Mr. Kane has over 25 years of experience in the electric utility industry. Prior to joining the Authority, Mr. Kane held the position of Manager of Regulatory and Financial Reporting for LILCO. Prior to this, Mr. Kane held positions at Mitchell Hutchins Institutional Investors and Ernst & Young, LLP. Mr. Kane is a Certified Public Accountant in the State of New York, is a member of the American Institute of Certified Public Accountants, and holds a B.A. from Pace University and an M.B.A. in Finance from Hofstra University.

THE SYSTEM

Service Area

The Service Area consists of Nassau and Suffolk Counties in Long Island (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 LIPA at 3.0 million as of December 31, 2010, which is relatively stable as compared with the population as of December 31, 2008, and represents an increase of over 147,000 since December 31, 2000. As of December 31, 2010, the Authority had approximately 1.1 million customers in the Service Area.

Long Island is a significant regional economy that benefits from its proximity to Manhattan, but also generates its own income, employment, and regional output. Long Island's assets include a highly skilled labor force, close proximity to New York City, 19 colleges and universities and core research institutions, such as Brookhaven National Laboratory, Cold Spring Harbor Laboratory, and the technology and science developmental centers at Stony Brook and Farmingdale Universities that specialize in the areas of biotechnology, computer sciences, wireless and internet technologies, and energy. Long Island also has a highly desirable suburban life style that attracts many individuals to live, work and vacation within the area.

The Long Island economy benefits from high average personal income and a service-based economy. According to data published by the U.S. Bureau of the Census and Bureau of Labor Statistics, the Long Island median household income is substantially above the national average. Thus, according to those reports, while the cost of electricity in the Service Area is also higher than the national average, the cost of electricity as a percentage of income is below the national average.

The Long Island economy, however, has been and is expected to continue to be impacted by the national recession. The unemployment rate was approximately 7.1 percent in July 2011 as compared to 7.5 percent in July 2010, and 7.0 in December 2010 and 2009 and 5.8 percent in December 2008, and 3.8 percent in December 2007 and 2006 according to New York State Department of Labor statistics. Overall, according to independent, published market research, Long Island's recent occupancy rates have been among the lowest in the nation for urban and suburban markets.

In the year ending December 31, 2010, approximately 52% of LIPA's annual retail revenues were received from residential customers and 43% from commercial and industrial customers with the balance derived from sales to other municipalities and public authorities. Individual commercial and industrial customers are relatively small with approximately 93% of these customers having peak demands less than 75 kW. The largest customer in the Service Area (the Long Island Rail Road) accounted for less than two percent of total sales and less than two percent of revenue.

The Transmission and Distribution System

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

includes seven transmission interconnections that are owned in part or under contract that link the T&D System to utilities outside the Service Area.

Transmission Facilities

LIPA's transmission facilities provide for the delivery of capacity and energy from the transmission interconnections and on-Island generating stations to LIPA's electric distribution system. As of December 31, 2010, the transmission system consists of approximately 1,350 miles of overhead and underground lines with voltage levels ranging from 23 kilovolts ("kV") to 345 kV.

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 support distribution circuits and/or connections for telephone, cable television, or fiber optics.

Thirty-nine transmission substations are in service and utilized on the T&D System. The combined capability of these substations is approximately 8,798 million volt-amperes ("MVA"). The transmission system includes transformation equipment at 20 generating sites that is used to step up the generation voltage to transmission voltage levels. With the exception of certain facilities at various generating facilities (*e.g.*, auxiliary and starting transformers), transformation equipment is owned by LIPA.

Distribution Facilities

The distribution system is comprised of 13 kV and 4 kV facilities and is comprised of a combination of overhead and underground equipment. There are currently 148 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 8,122 MVA. As of December 31, 2010, the distribution system also includes 13,745 circuit miles of overhead and underground line (9,047 overhead and 4,698 underground), and approximately 187,032 line transformers with a total capacity of approximately 12,275 MVA. Approximately 38.2 percent of the poles on which LIPA's distribution facilities have been installed are owned by Verizon Communications and used by LIPA pursuant to a joint-use agreement.

Reliability

LIPA undertakes programs intended to maintain and/or improve the reliability and quality of electric service within the Service Area. For the distribution system, this program is focused on several major areas: (i) circuit reconfiguration and reinforcement; (ii) pole replacement; (iii) system automation; (iv) tree trimming; (v) targeted system enhancements; and (vi) circuit conversion and reinforcement projects to serve new customer loads. For the transmission system, the improvement program is focused on: (i) transmission system reliability; (ii) substation reliability improvements; (iii) transmission breaker replacements; and (iv) structure inspection program. These program elements are a key part of LIPA's efforts to achieve and maintain good results in limiting both the frequency and duration of customer outages.

The MSA establishes incentive measures for the Manager to maintain frequency and duration of outages for the T&D System below prescribed levels. Statistics for the 1999 through December 2010 period indicate that LIPA's system-wide frequency and duration of outages were better than average for similar New York State utilities. Those statistics are consistent with PSC standards and exclude outages due to major storms as defined by PSC.

The average period between interruptions for a customer served by LIPA during 2010 was approximately 16.5 months. For those LIPA customers affected by an interruption during 2010, the average length of interruption was approximately 67 minutes. These statistics compare to an average time between interruption of 16.3 months and an average interruption of 70 minutes for a LIPA customer during 2009.

Over the five-year period 2006 through 2010, LIPA's customers experienced an average of 15.4 months between interruptions and average interruption times of 74 minutes. Based on data provided by the State for all State utilities (other than Consolidated Edison Company of New York, Inc. ("Con Edison")), the average time between interruptions during this five-year period was 12.8 months and the average duration of an interruption was 111 minutes.

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 hurricanes, which 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 that are designed to restore service expeditiously. Despite a challenging year in 2010 with respect to storms which saw an increase in the number and severity of storms, the T&D System performed extremely well as a result of the investment into the system over the past several years. For the year ended December 31, 2010, LIPA's Storm CAIDI (Customer Average Interruption Duration Index during storms) metric was approximately 166 minutes.

Hurricane Irene. The United States east coast (from the Carolinas to Maine) was recently impacted by "Hurricane Irene." Hurricane Irene reached Long Island landfall early on Sunday, August 28, 2011, as a high-level tropical storm affecting almost all of the Service Area, with heavy rainfall and maximum sustained winds of up to approximately 65 mph and gusts of up to approximately 91 mph. This produced the worst Long Island weather-related event with respect to customer outages since Hurricane Gloria in September 1985. Approximately 523,000 (45%) of LIPA's customers were affected by the storm, and approximately 90% were restored within 5 days and approximately 99% were restored within 7 days. The Service Area, like many other areas affected by Hurricane Irene, was declared a federal major disaster area.

In advance of Hurricane Irene, LIPA secured on-island and off-island line workers and tree crews to assist in restoration efforts. Over approximately 4,000 LIPA and National Grid crews (including off-island crews from many other states), together with approximately 3,500 additional resources, have been working to restore service to all affected customers. LIPA is currently assessing the costs incurred in connection with the damage, as well as its response and restoration efforts and that assessment is ongoing. At this time, LIPA has estimated restoration costs may be approximately $175 million. Given the federal major disaster area status of the Service Area, LIPA's status as a public authority and LIPA's past experience, LIPA expects to be eligible to receive reimbursement from the federal government (through the Federal Emergency Management Agency (FEMA)) of seventy-five (75%) of the restoration costs from available federal funds.

There has been no permanent impairment of the T&D System as a result of Hurricane Irene. Moreover, LIPA believes that the costs, net of the anticipated FEMA recovery, are not expected to have a direct material negative impact on LIPA's operations or its financial condition. The projected operating results set forth in Appendix B to this Part 2 do not reflect any impact of Hurricane Irene.

Transmission Interconnection Facilities

The geographic location of the Service Area restricts the number of transmission interconnections between LIPA's T&D System and other systems in the region. Currently, seven major transmission lines connect the T&D System with the Con Edison system to the west and with Connecticut Light and Power ("CL&P") and United Illuminating Company to the north and Jersey Central Power & Light ("JCP&L") to the southwest. These interconnections are summarized in the table on the next page.

Service Area Transmission Interconnections

Name	Off System Terminal Locations	Interconnecting Utility	Voltage Level[2]
Dunwoodie to Shore Road ("Y-50")	Westchester County, NY	Con Edison[1]	345 kV
East Garden City to Sprain Brook ("Y-49")	Westchester County, NY	NYPA[1]	345 kV
Northport to Norwalk Harbor Cable ("NCC")	Norwalk, CT	CL&P[1,3]	138 kV
Jamaica to Lake Success	Queens, NY	Con Edison[1]	138 kV
Jamaica to Valley Stream	Queens, NY	Con Edison[1]	138 kV
Shoreham to East Shore ("Cross Sound Cable")	New Haven, CT	United Illuminating Company	138 kV[4]
Newbridge to Levittown ("Neptune Cable")	Sayreville, NJ	JCP&L[5]	345 kV[6]

1 These utilities own the portion of the interconnections not owned by LIPA.
2 Kilovolt or "kV."
3 CL&P = Connecticut Light and Power. CL&P is the wholly-owned operating subsidiary of Northeast Utilities.
4 This cable carries high voltage direct current, which is converted and delivered to the LIPA system at 138 kV.
5 JCP&L = Jersey Central Power & Light. JCP&L is a wholly-owned operating subsidiary of First Energy.
6 This cable carries high voltage direct current, which is converted and delivered to the LIPA system at 345 kV.

The Con Edison cable extending approximately 18 miles from Dunwoodie to Shore Road (the "Y-50 Cable") was placed in operation in August 1978 and is jointly owned by LIPA and Con Edison. The cable is currently operating at full capacity. Power is wheeled by Con Edison across its share of the Y-50 Cable and delivered to Con Edison via the two 138 kV cables to Jamaica.

The East Garden City to Sprain Brook interconnection (the "Y-49 Cable"), installed in 1991, is another major transmission interconnection. The Y-49 Cable is comprised of submarine and land-based portions totaling approximately 23 miles. This line is owned entirely by NYPA; however, most of the capacity of the Y-49 Cable is used by LIPA under the terms of a contract with NYPA. The Y-49 Cable has generally performed well with only a few instances of outages due to terminal equipment failures and one interruption due to an anchor dragging across the submerged cable.

The cable from Northport to Norwalk Harbor (the "NCC"), which was installed in 2008 to replace the original cable installed in 1969, extends approximately twelve miles under the Long Island Sound from the Northport generating station in Suffolk County, New York to Norwalk Harbor, Connecticut. LIPA owns that portion of the line from Northport to the New York-Connecticut state boundary. The replacement NCC began full commercial operation in December 2008. One of the three new cable bundles failed on May 20, 2009. Since the installation was designed with a backup cable, power between Northport and Norwalk Harbor continued to flow over the remaining two cables until the repairs were completed on April 26, 2011. The cost of the repairs was covered by the warranty on the installation.

The cable from Shoreham to New Haven (the "Cross Sound Cable" or "CSC") was constructed pursuant to a firm transmission capacity purchase agreement (the "CSC Agreement") entered into between LIPA and Cross Sound Cable Company, LLC ("CSC LLC") in 2000 pursuant to which LIPA agreed to purchase up to 330 megawatts of transmission capacity. The CSC is owned by CSC LLC. The CSC Agreement, as amended, expires in 2032. The CSC became operational in June 2004.

In September 2005, LIPA entered into a 20-year firm transmission capacity purchase agreement with Neptune Regional Transmission System LLC ("Neptune") to permit LIPA to import power from New Jersey over an undersea high-voltage transmission cable capable of carrying 660 megawatts of electricity which was constructed by Neptune. The cable is owned by Neptune, runs from Sayreville, New Jersey under the Atlantic Ocean and connects with LIPA at its Newbridge Road substation in Levittown. The cable became operational in July 2007.

Capital Improvement Plan

Capital expenditures including NMP2 expenditures for the years 2006 through 2010 were $298 million, $300 million, $297 million, $278 million and $249 million, respectively. Such expenditures included interconnection costs associated with the undersea cable from Sayreville, New Jersey and the new generating stations on Long Island, reliability enhancements, capability expansion, new customer connections, facility replacements and public works. Capital expenditures for 2011 in the approved budget are approximately $314 million. The 2011 capital expenditure program provides for a continuation of the historical programs to maintain reliability and quality of electric service, as well as expenditures for capability expansion, new customer connections, facility replacements, reliability enhancements and public work projects that were comparable to historical levels.

As shown in the table below, LIPA's 18 percent share of capital expenditures for NMP2 during the period 2006 through 2010 averaged approximately $17.7 million annually for plant modifications including the power uprate and nuclear fuel purchases. After the power uprate, capital expenditures for NMP2 plant modifications should return to a level approximately consistent with historical average spending levels, excluding fuel.

LIPA's 18% Share of NMP2 Capital Expenditures
(in millions)

Year	Plant Modifications	Fuel	Total
2006	$ 4.6	$ 1.7	$ 6.3
2007*	4.6	13.2	17.8
2008	4.8	0.5	5.3
2009*	4.5	20.6	25.1
2010	31.7	2.5	34.2

* Year of a refueling or fuel purchase.

Projected capital expenditures for NMP2 for calendar year 2011 total $43 million for expenditures for routine projects, fuel purchases and the power uprate project.

The table below shows estimated capital expenditures for the period 2011 through 2015.

Capital Expenditures
(in millions)

	2011	2012	2013	2014	2015
T&D System[1]:					
System Enhancements	$ 233	$ 252	$ 271	$ 240	$ 257
Interconnections	2	2	2	2	2
New Customers	20	20	24	24	24
Public Works	7	8	3	3	3
Total T&D System	$ 262	$ 282	$ 300	$ 269	$ 286
NMP2[2]	43	15	35	7	40
LIPA Internal[3]	9	4	2	2	2
Total Capital Expenditures	$ 314	$ 301	$ 337	$ 278	$ 328

1 Values for 2011 and 2012 reflect amounts included in LIPA's approved capital budget. Values for 2013 through 2015 are estimated. Values do not include capitalized interest.

2 Reflects LIPA's 18 percent share of NMP2's nuclear fuel purchases and asset expenditures including those relating to the proposed increased power rating for NMP2. Amounts exclude materials and supplies inventory purchases.

3 Capital expenditures and deferred charges for information systems, non-owned interconnection facilities, furniture, and equipment.

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 for 2010 reached approximately 5,825 megawatts ("MW") for the Long Island Control Area (the Service Area together with three municipalities within the Service Area served by their own utilities) of which LIPA accounted for 5,719 MW. On July 22, 2011, LIPA set a new all-time record peak for the Long Island Control Area of 5,915 MW, of which LIPA accounted for 5,545 MW.

The table below shows peak demand and weather-normalized peak load for the period 2006 through 2010.

Year	Peak Demand (MW)	Weather Normalized (MW)
2006	5,667	5,200
2007	5,247	5,239
2008	5,130	5,284
2009	5,034	5,208
2010	5,719	5,303

Under the MSA, the Manager prepares load growth forecasts annually. The Manager's most recent estimate of annual peak demand within the Service Area shows annual compound growth of approximately 1.6 percent over the five year period 2011 to 2015. This growth rate would increase LIPA's summer peak demand, prior to the effects of cogeneration, NYPA supplied load and demand side management, to approximately 5,778 MW in 2015 on a weather-normalized basis. The Manager updates its estimates for summer peak demand in the fourth quarter of each year.

Power Supply

LIPA currently expects to rely on existing power supply resources, additional power supply resources being developed, additional purchases, energy efficiency and demand side management programs to meet its capacity and energy requirements during the 2011 through 2015 period. During 2010, LIPA's 18% interest in NMP2 and its rights to the capacity of the GENCO Generating Facilities provided approximately 4,280 MW of generating capacity. Purchases, including on-Island independent power producers ("IPPs") and off-Island purchases from NYPA (including Power for Jobs) and other suppliers, provided approximately 2,055 MW of additional capacity. In aggregate, these resources provided approximately 6,334 MW in 2010.

To satisfy the anticipated growth in capacity needs of its electric customers, LIPA may enter into additional power purchase agreements as more fully described under "Recent Additions to Power Supply Resources" below, and may implement customer peak load and energy reductions through energy efficiency and demand side management programs. Current reliability rules applied by the NYISO require LIPA to supply at least 101.5 percent of its projected summer 2011 peak load from on-Island installed capacity ("ICAP") resources (the "On-Island Requirement").

In February 2010, LIPA's Board of Trustees approved its Electric Resource Plan for the period 2010-2020. The Electric Resource Plan is intended to provide a blueprint for Long Island's electric energy future and factors in changes in the energy market and technology since the last plan was prepared. The Electric Resource Plan looks at various resource alternatives including, among others, energy efficiency, renewable energy resources, and repowering alternatives. In addition, in 2009 LIPA initiated its $924 million, 10-year energy efficiency program, Efficiency Long Island ("ELI"), which is designed to reduce demand by 500 MW. Through December 31, 2010, the ELI program has substantially met its goals for the first two years and expenditures have been approximately on budget. Based on LIPA's current projections of its load and resources, LIPA's existing resources, combined with any new generating resources that may be added, are projected to be sufficient to meet or exceed this minimum requirement through 2020. The power supply resources relied on by LIPA to supply the electric needs of its customers are described below.

As part of its overall evaluation of its power supply resources, including the scheduled expiration of the PSA in May 2013, in August 2010, the Authority issued a request for proposals to provide the Authority with electric capacity, energy and ancillary services of up to 2,500 MW from new generation and/or transmission resources both on-Island and off-Island to be installed during the 2016 to 2018 time period. The Authority has

received 45 proposals for potential projects from 16 different entities. The Authority is currently evaluating the responses and anticipates making a final decision on the selection of potential projects by early 2012.

Existing Capacity and Energy Resources

Pending the results of the competitive solicitation issued in August 2010, LIPA expects to rely on existing power supply resources, including facilities owned by GENCO, LIPA's share of NMP2 ("Nuclear"), and purchases of capacity and energy from recently added facilities constructed on Long Island to meet the bulk of its capacity and energy requirements during the Projection Period. The table below sets forth LIPA's historical loads and resources.

Historical Loads and Resources

	2006	2007	2008	2009	2010
Annual Peak Demand (Summer) (MW)[1]	5,667	5,247	5,130	5,034	5,719
Capacity (MW)[2]					
Nuclear[3]	205	205	205	206	206
Purchased Capacity:					
GENCO					
Steam[4]	2,683	2,669	2,685	2,707	2,707
Other[4]	1,361	1,372	1,375	1,371	1,367
Other Purchased Capacity[5]	1,395	1,446	1,357	1,618	2,055
Total Purchased Capacity	5,439	5,487	5,417	5,696	6,128
Total Capacity	5,644	5,692	5,622	5,902	6,334
Annual Reserve Margin:					
MW[6]	-23	445	492	868	615
Percent	-0.4	8.5	9.6	17.2	10.8
Energy (MWh)					
Total Energy Requirements[7]	21,077,467	21,609,275	21,389,895	20,727,286	21,806,828
Generating Resources:					
Nuclear[3]	1,627,979	1,635,958	1,536,078	1,785,593	1,590,821
Purchased Energy:					
GENCO					
Steam	9,328,915	8,626,630	6,748,379	4,900,602	5,883,018
Other	218,913	261,139	261,035	192,397	234,331
Other Purchased Energy	9,901,660	11,085,548	12,844,403	13,848,694	14,098,658
Total Purchased Energy	19,449,488	19,973,317	19,853,817	18,941,693	20,216,007
Total Energy	21,077,467	21,609,275	21,389,895	20,727,286	21,806,828

1 Includes peak demand load for Long Island Choice load and Power-for-Jobs.

2 Summer capacity rating as measured in October of each year. Includes capacity under contract to LIPA.

3 LIPA's 18 percent share of NMP2.

4 Values from National Grid Corporate Services.

5 Includes on- and off-Island resources under contract at time of peak. Resources include capacity associated with Independent Power Producers, firm capacity purchases, Power-for-Jobs, and power supply agreements. Excludes short-term bi-lateral and NYISO capacity market auction purchases.

6 Equal to capacity less demand.

7 Includes energy requirements for Power-for-Jobs, Long Island Choice and the Grumman campus.

Power Supply Agreement

Pursuant to the PSA, GENCO supplies LIPA with all of the capacity of the GENCO Generating Facilities. The PSA terminates on May 28, 2013, and may be renewed by LIPA on terms comparable to the original PSA. The GENCO Generating Facilities consist of 53 fossil fuel generating units at 13 sites on Long Island totaling

approximately 4,000 MW in capacity. These steam, combustion turbine, and internal combustion generating units operate using oil, natural gas, or both. The tables below provide a summary description of the GENCO Generating Facilities and historical generation levels for these facilities for the 2006 through 2010 period. The decline in generation from the GENCO Generating Facilities reflects the displacement by more economic sources of generation, including off-Island purchases over the newer submarine transmission cables.

Under the PSA, LIPA pays GENCO certain fixed and variable rates for the generating capacity supplied by GENCO. LIPA 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 FERC. Pursuant to the terms of the PSA, the rates were reset effective January 1, 2004 and were reset again effective February 1, 2009. The rates are not scheduled to reset again prior to the expiration of the PSA in 2013.

GENCO's annual capital expenditures are subject to approval by LIPA. LIPA pays for approved GENCO capital expenditures through the depreciation accruals and return on investments included in the rates for capacity charged under the PSA. The PSA also provides for certain incentives and disincentives related to targeted performance levels by GENCO, including summer dependable maximum net capability, availability, and efficiency levels (heat rate) of the generating facilities.

LIPA is responsible for the supply of natural gas and fuel oil required for operation of the GENCO generating units. The Fuel Manager, a National Grid Sub, procures and manages this fuel supply for LIPA pursuant to the EMA.

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GENCO Generating Facilities[1]
Summary Description

Facility	Nameplate Rating (MW)	Summer DMNC Rating (MW)[2]	Fuel	Year of Commercial Operation	County
Steam Turbine:					
E.F. Barrett 1,2	350	394	Gas, Oil	1956, 1963	Nassau
Far Rockaway 4[3]	100	107	Gas, Oil	1953	Queens
Glenwood 4,5	200	233	Gas	1952, 1954	Nassau
Northport 1,2,3, 4	1,500	1,585	Gas, Oil	1967, 1968, 1972, 1977	Suffolk
Port Jefferson 3,4	350	388	Gas, Oil	1958, 1960	Suffolk
Subtotal	2,500	2,707			
Combustion Turbine:					
E.F. Barrett 1-12	311	296	Gas, Oil	1970-1971	Nassau
Wading River[4]	242	241	Oil	1989	Suffolk
East Hampton 1	21	19	Oil	1970	Suffolk
Glenwood 1-3[4]	126	118	Oil	1967-1972	Nassau
Holtsville 1-10[4]	567	522	Oil	1974-1975	Suffolk
Northport G-1	16	11	Oil	1967	Suffolk
Port Jefferson GT	16	14	Oil	1966	Suffolk
Shoreham 1-2	72	64	Oil	1966, 1971	Suffolk
Southampton 1	12	9	Oil	1963	Suffolk
Southhold 1	14	12	Oil	1964	Suffolk
West Babylon 4	52	49	Oil	1971	Suffolk
Subtotal	1,449	1,355			
Internal Combustion::					
East Hampton 2-4	6	6	Oil	1962	Suffolk
Montauk 2-4	6	6	Oil	1961	Suffolk
Subtotal	12	12			
Total	3,961	4,074			

1 Source: National Grid Corporate Services.
2 DMNC values applicable for the 2010 Summer Capability Season.
3 Permitted for both oil and gas, but currently operational on gas only.
4 Includes increase in DMNC values associated with operating in power recovery mode.

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Historical GENCO Generation*
(GWH)

Generating Facility	Calendar Year 2006	2007	2008	2009	2010
Steam Turbine:					
E.F. Barrett 1,2	1,370	1,384	1,115	916	1,081
Far Rockaway 4	273	249	138	101	190
Glenwood 4,5	333	210	95	65	152
Northport 1-4	5,918	5,510	4,494	3,263	4,030
Port Jefferson 3,4	1,435	1,274	907	556	430
Total Steam Turbine	9,329	8,627	6,749	4,901	5,883
Combustion Turbine:					
E.F. Barrett 1-12	74	43	72	78	68
Wading River	56	100	93	45	65
East Hampton 1	8	16	20	13	13
Glenwood 1-3	10	3	2	1	2
Holtsville 1-10	62	84	59	46	75
Northport G-1	**	**	**	**	**
Port Jefferson GT	**	**	**	**	**
Shoreham 1-2	4	2	1	1	3
Southampton 1	0	3	6	2	3
Southhold 1	0	3	-	2	2
West Babylon 4	2	1	2	-	1
Total Combustion Turbine	216	255	255	188	231
Internal Combustion:					
East Hampton 2-4	1	3	3	2	2
Montauk 2-4	1	3	2	3	2
Total Internal Combustion	2	6	5	5	4
Total	9,547	8,888	7,009	5,094	6,117

* Source: National Grid Corporate Services.

** Less than 1.

Nine Mile Point Two Nuclear Station

LIPA owns an undivided 18 percent interest (approximately 206 MW) in NMP2. NMP2 is one of two boiling-water reactor nuclear units at the Nine Mile Point nuclear power station located in Oswego, New York. NMP2 began commercial operation in April 1988 under a Nuclear Regulatory Commission ("NRC") license that expires in 2046. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Nuclear Plant Matters" in this Part 2.

The other 82 percent interest in NMP2 is owned by Constellation Energy Nuclear Group, LLC ("Constellation"), a division of Constellation Energy Group, Inc. Constellation operates NMP2 under the terms of an operating agreement with LIPA.

The operating agreement between LIPA and Constellation provides for a management committee comprised of one representative from each co-tenant. Additionally, LIPA employs an on-site representative to provide additional support to protect LIPA's interests. The annual NMP2 business plan and the operating and capital budgets are developed by Constellation and submitted to LIPA for review and approval. LIPA receives output from NMP2 and is responsible for operating and capital costs in proportion to its ownership interest.

In 2009, LIPA and Constellation agreed to apply to the NRC to increase the power rating of the plant by 150 MW. LIPA will pay an 18% share of the costs of any such upgrade and receive an 18% share of any additional output from the plant. The majority of the increase in power rating is expected to be completed after the 2012 refueling outage.

The following table sets forth for each calendar year 2006 through 2010 the actual generation attributable to LIPA's 18% ownership interest in NMP2.

NMP2 Energy Generation

	2006	2007	2008	2009	2010
Energy (GWh)	1,628.0	1,636.0	1,536.1	1,785.6	1,591.0

Other Power Supply Agreements

In addition to the generation subject to the PSA with GENCO described above, LIPA currently purchases approximately 2,200 MW of capacity from generation facilities on Long Island and elsewhere under various power supply agreements.

The two tables below set forth: (i) contain a summary of existing power supply agreements (excluding the PSA with GENCO); and (ii) show for each calendar year 2006 through 2010 the energy output from such agreements.

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Summary of Power Supply Agreements
(Excluding GENCO)

Unit Name	Capacity (MW)[1]	Contract Expiration	Unit Type [2]	Primary Fuel Type
NYPA Flynn	134.1	2020	CC	Natural Gas[3]
Suez Nassau Energy Combined Cycle	45.4	2016	CC/Cogen	Natural Gas[4]
Huntington Resource Recovery	24.5	2012	ST	Refuse
Babylon Resource Recovery	14.6	2013	ST	Refuse
Shoreham Energy	79.9	2017	SC	Kerosene[5]
National Grid Glenwood Landing	71.9	2027	SC	Natural Gas[5]
National Grid Port Jefferson	79.9	2027	SC	Natural Gas[5]
NextEra Bayswater	53.6	2020	SC	Natural Gas[5]
NextEra Jamaica Bay	54.2	2018	SC	Kerosene[5]
Global Common Greenport	50.6	2018	SC	Kerosene[5]
Equus	47.5	2017	SC	Natural Gas[4,5]
NYPA Power-for-Jobs	9.6	2012	N/A	N/A
Gilboa	50.0	2015	PS	Water
Village of Freeport	10.0	2034	SC	Natural Gas
Pinelawn Power	76.5	2025	CC	Natural Gas[4,5]
Calpine Bethpage 3	72.4	2025	CC	Natural Gas[5]
Bear Swamp Power	100.0[6]	2021	PS/Hydro	Water
Edgewood Energy	79.9	2018	SC	Natural Gas[5]
Caithness	315.6[7]	2029	CC	Natural Gas[4,5]
Brookfield	N/A[8]	2019	HY	Water
Fitzpatrick	124.0	2011	ST	Nuclear
PPL Energy Plus	N/A[8]	2019	IC	Landfill Methane
Marcus Hook	685.0[9]	2030	CC	Natural Gas
NYPA Hydro Sale for Resale	15.0	7	HY	Water
Long Island Solar Farm (LISF)	31.5	[11]	PV	Solar
Eastern Long Island Solar Project (ELISP)	15.5[10]	[11]	PV	Solar

1 Summer capacity based upon summer 2010 DMNC test results.
2 CC = Combined Cycle; ST = Steam; Cogen = Cogeneration; IC = Internal Combustion; SC = Simple Cycle; PS = Pumped Storage; HY = Hydro; PV = Photovoltaic.
3 Also capable of burning No. 2 fuel oil.
4 Also capable of burning kerosene.
5 LIPA is responsible for fuel procurement and has contracted with a National Grid Sub for this service.
6 Reflects Unforced capacity (UCAP) stated in contract beginning June 2010.
7 LIPA agreement to purchase 286 MW of the total capacity.
8 Energy only contract.
9 Capacity only contract. No energy purchase.
10 Projected Capacity. Actual capacity from ELISP may be as low as 5.5 MW at Commercial Operation Date (COD) depending on how many of the solar facilities ultimately are constructed.
11 Solar PPA expiration dates will be 20 years from the COD of the projects. LISF COD is scheduled for November 2011 and ELISP COD is scheduled for January 2012.

Energy Output of Power Supply Agreements[1]
(GWH)

Type of Resource	Calendar Year 2006	2007	2008	2009	2010
Independent Power Producers					
NYPA Flynn	1,212.7	821.7	1,227.6	1,228.2	958.2
Other Power Supply Agreements	1,578.9	1,353.2	1,124.4	1,724.5	3,069.3
Other[2]	1,664.6	1,677.9	1,668.1	1,544.3	1,772.1
Subtotal IPPs	4,456.2	3,852.8	4,020.1	4,497.0	5,799.6
Entergy Fitzpatrick (off-Island)	1,126.3	1,169.7	1,100.4	1,237.1	1,067.8
Off-Island Purchases[3]	2,950.0	4,599.7	6,000.4	6,424.1	5,633.9
Other Purchases[4]	1,369.2	1,463.3	1,723.5	1,690.5	1,597.4
Total Purchases	9,901.7	11,085.5	12,844.4	13,848.7	14,098.7

1 Source: National Grid Corporate Services.
2 Includes energy produced by all other on-Island plants.
3 Energy purchases made on the spot market, net of sales on the spot market, plus bi-lateral purchases.
4 Reflects Power-for-Jobs and Long Island Choice programs.

Recent Additions to Power Supply Resources

LIPA has added significant power supply resources over the last decade. LIPA added in excess of 750 MW of newly constructed on-Island resources through agreements to purchase power from eight different owners of these newly constructed on-Island generating stations. In addition, LIPA has entered into an agreement with Neptune to purchase 660 MW of firm transmission capacity over an undersea high voltage cable that has been installed between Sayreville, New Jersey and Levittown, New York. The cable, which became operational in 2007, permits LIPA to import 660 MW of power and related energy from the Pennsylvania, New Jersey and Maryland markets. LIPA has also entered into an agreement with FPL Marcus Hook for 685 MW of capacity from a combined-cycle plant in Pennsylvania beginning in 2010 to be provided over the Neptune Cable. LIPA has also entered into an agreement with Caithness Long Island LLC ("Caithness") to acquire 286 MW from a 326 MW combined-cycle plant which began full commercial operational in summer 2009. In addition, LIPA entered into agreements to purchase approximately 50 MW of power from two solar generating facilities under construction on Long Island that are scheduled to be fully operational by 2011 and 2012. LIPA's Electric Resource Plan, which was updated in February 2010, concluded that based on LIPA's current probability weighted projections of Long Island's load and existing resources and planned resources, in addition to the successful implementation of its 10-year energy efficiency program, are projected to be sufficient to meet or exceed the Long Island minimum load requirements through 2020. Retirement of existing capacity could accelerate the need for capacity to meet the Long Island minimum requirement. See "THE SYSTEM—Power Supply" and "LIPA'S RETAIL ELECTRIC SERVICE BUSINESS—Operating Agreements—*Power Supply Agreement*" in this Part 2 for discussions regarding the status of the PSA and the request for proposals to provide LIPA with electric capacity, energy and ancillary services of up to 2,500 MW.

Short-Term Capacity Purchases

In addition to the resources described above, LIPA relies on short-term, firm capacity purchases to meet a portion of its total capacity requirements. LIPA anticipates the need to make additional capacity purchases during the remainder of the Projection Period. Such purchases are accomplished through solicitations, auctions and/or bilateral arrangements. CEE, with input from National Grid's System Planning Department, under LIPA's supervision, determines the requirement and timing of these capacity purchases as LIPA's Power Supply Manager.

Market Energy Purchases

In addition to energy purchased under the terms of the agreements described above, LIPA routinely purchases energy in the day-ahead and real-time markets operated by the NYISO, ISO-NE (described below) and PJM-ISO (described below). These purchases are generally made when the price of energy from these sources is

below the incremental cost of generation from LIPA's contracted resources. During 2010, approximately 26% of the Service Area's energy requirements were obtained through such energy purchases.

The tables below provide a summary of LIPA's estimated demand and energy requirements for the Projection Period. During this period, annual peak demands and energy requirements, after adjustment for various demand side programs, are estimated to increase at annual compound rates of growth of approximately 0.3 percent. The estimated demand and energy requirements shown in the tables below take into account the effects of LIPA's Long Island Choice program, as described below, and reflect the results of resource planning assessments conducted for purposes of the projections set forth in Appendix B in this Part 2. Such information is not intended to represent resource specific power supply expansion plans adopted by LIPA. The information contained in the table below is presented on an unforced capacity ("UCAP") basis in order to conform to the requirements of NYISO. Historical data throughout this Official Statement has been presented on an ICAP basis in order to be consistent with prior years. It is anticipated that the Authority will migrate to the UCAP basis as such information becomes available. ICAP is a measurement of a generating unit's maximum output under certain defined test conditions without considering the impact of forced outages. UCAP is a related measure that takes a generating unit's ICAP and reduces it based on the proportion of a generating unit's historic output that was not available due to forced outages.

Estimated Capacity Requirements and Resources (UCAP Basis)
(MW)

	2011	2012	2013	2014	2015
System Demand					
Net LIPA Load[1]	5,191	5,213	5,227	5,230	5,255
NYCA Coincidence Factor[2]	98.4%	98.4%	98.4%	98.4%	98.4%
Net: LIPA Load Coincident with NYCA Load	5,109	5,130	5,143	5,144	5,167
Off Island Transmission Losses[3]	36	36	36	36	36
Net: LIPA Load Coincident with NYCA Load Plus Off Island Losses	5,145	5,166	5,179	5,180	5,204
Total Required Reserve Margin[4]	315	316	317	317	318
Total Capacity Requirement	5,460	5,482	5,496	5,497	5,522
Resources (UCAP)					
Nine Mile Point 2	206	206	206	206	206
GENCO[5]	3,595	3,303	3,303	3,303	3,303
Resource Additions[6]	897	897	897	897	897
Non-Dispatchable IPP's[6]	148	125	125	111	111
NYPA (Flynn)[7]	133	133	133	133	133
NYPA (Gilboa)	50	50	50	50	0
NYPA (Power for Jobs)	0	0	0	0	0
Future Resource Additions[8]	31	31	31	31	31
UCAP Net Purchases/(Sales)[9]	401	738	752	768	842
Total Capability	5,460	5,482	5,496	5,497	5,522
Reserve Margin	106.1%	106.1%	106.1%	106.1%	106.1%

1 LIPA's estimated Net Peak Load including Long Island Choice Customers and losses. Forecast after reductions for: Natural Conservation and NYISO credit for Demand Reduction Programs.
2 NYCA Peak Load Coincidence Factor Adjustment for Long Island Peak (Approximately 98.4%).
3 NYISO Off-Island Transmission Loss Adjustment factor for LIPA.
4 NYISO required reserves based upon a 6.12% UCAP Reserve Margin. (18.0% ICAP Equivalent).
5 Generating units covered under the PSA. The projected GENCO resources does not factor in the reduction in capacity of approximately 334 MW in 2012 and beyond for the ramp down of the Far Rockaway and Glenwood generating stations contemplated in the pending amendment to the PSA. LIPA expects that this capacity will be replaced with future resource additions or economy purchases.
6 Includes the 2002 Resource Additions (FPL Energy - Far Rockaway, Calpine - Bethpage, National Grid - Glenwood Landing, National Grid - Port Jefferson, PPL Global - Shoreham and PPL Global - Pilgrim), the 2003/2004 Resource Additions (FPL Energy - Jamaica Bay, Global Common - Greenport, Incorporated Village of Freeport and Equus) the 2005 Resource Additions (Pinelawn Power LLC – Pinelawn CC and Bethpage Energy Center – Calpine Bethpage 2 CC) and, and the 2009 Resource Additions (Caithness Long Island, LLC - Caithness).
7 NYPA Holtsville Facility.
8 Includes proposed BP (21 Mw) & enXco (10 Mw) Solar Projects
9 Short term UCAP purchases net of short term UCAP sales (Includes Bear Swamp & Marcus Hook Resources).

Estimated Energy Requirements and Resources
(GWH)

	2011	2012	2013	2014	2015
Energy Requirements					
Total Energy Requirements[1]	21,318	21,387	21,292	21,231	21,234
Resources[2]					
NMP2	1,701	1,720	1,853	1,755	1,852
GENCO[3]	4,862	4,262	4,096	4,168	4,088
Resource Additions[4]	2,733	2,779	2,988	2,977	3,099
Non-Dispatchable IPP Resources	1,284	1,254	1,091	980	982
NYPA (Flynn)[5]	1,054	1,109	1,101	1,095	1,104
Fitzpatrick[6]	1,245	0	0	0	0
NYPA (Power for Jobs)	49	49	49	49	49
Future Resource Additions[7]	29	70	89	115	131
Net Economy[8]	8,010	9,792	9,675	9,743	9,580
Total Resources	21,318	21,387	21,292	21,231	21,234

1 LIPA's estimated Total Energy Requirements including Long Island Choice customers. Source: LIPA Forecast of Electric Requirements, Sales and Peak Loads: 2011 – 2015 as of July 29, 2010, Approved Budget for 2011.

2 Includes the estimated GWH output of both the existing and future Resources expected to be under contract to LIPA during each year of the projected period and spot market energy purchases. Values based upon LIPA's Approved 2011 Operating Budget and 5-Year Financial Projections (2011 - 2015).

3 Generating units covered under the PSA.

4 Includes the 2002 Resource Additions (FPL Energy - Far Rockaway, Calpine - Bethpage, National Grid - Glenwood Landing, National Grid - Port Jefferson, PPL Global - Shoreham and PPL Global - Pilgrim), the 2003/2004 Resource Additions (FPL Energy - Jamaica Bay, Global Common - Greenport, Incorporated Village of Freeport and Equus), the 2005 Resource Additions (Pinelawn Power LLC – Pinelawn CC and Bethpage Energy Center – Calpine Bethpage 2 CC), and the 2009 Resource Additions (Caithness Long Island, LLC - Caithness).

5 NYPA Holtsville facility.

6 Fitzpatrick is an energy only contract that expires December 31, 2011. It is assumed that LIPA acquires the energy from the NYISO at spot market prices thereafter.

7 Reflects the estimated energy output from the Resource Additions expected to be placed into service during the projected period: 50 MW Solar RFP (BP Solar and enXco).

8 Short term purchases net of short term sales (includes Bear Swamp and Marcus Hook Resources).

Fuel Supply

The Fuel Manager procures fuel needed for generation by GENCO pursuant to the EMA and certain other non-GENCO generating units pursuant to the FMBSA. LIPA directly pays for fuel used at the GENCO Generating Facilities and certain non-GENCO facilities in accordance with the terms of the individual agreements. The particular fuel used for generation will depend on generation plant fuel capability, fuel supply and transportation availability, and fuel and fuel transportation cost, subject to environmental constraints. 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.

The natural gas distribution system on Long Island shares natural gas delivery interconnections with the State natural gas market. Con Edison and a subsidiary of National Grid Corporation have entered into an 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. Existing oil storage capacity plus an active oil management program is employed by the Fuel Manager to help LIPA assure continuous fuel oil supply to the GENCO Generating Facilities and certain other non-GENCO generating units.

Constellation is responsible for the fuel requirements of NMP2.

Overview of Regulatory Framework as it Applies to LIPA

LIPA's Provision of Transmission Service to Third Parties

Under Part II of the Federal Power Act ("FPA"), "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 FPA 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, the Authority, and, indirectly, LIPA, are largely exempt from FERC regulation as "public utilities" under Part II of the FPA. 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 FPA as amended by the Energy Policy Act. Further, FERC has stated that it intends to apply the "open access" principles set forth in Order No. 888 (described below) and its progeny to the maximum extent to consumer-owned and other non-jurisdictional utilities, both with respect to deciding cases brought under sections 210 and 211 of the FPA and by requiring such utilities to agree to provide open access transmission service and engaging in regional transmission planning pursuant to the principles in Order Nos. 890 and 1000 (described below) as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs.

On April 24, 1996, FERC issued Order No. 888. As that order was modified on rehearing, it (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.

The rates that LIPA charges for wholesale transmission service, including the calculation of any stranded cost charge, are not subject to direct regulation by FERC under Sections 205 or 206 of the FPA. In 1998 FERC reviewed LIPA's Open Access Transmission Tariff ("OATT"), including its rates for transmission service, and found that the OATT represents an acceptable reciprocity tariff subject to the condition that LIPA adopt a code of conduct and maintain an Open Access Same-time Information System ("OASIS"). While LIPA has retained a reciprocity OATT, transmission service over LIPA's system occurs primarily through the NYISO OATT described below. LIPA's rates for wholesale transmission service are set by the Authority and incorporated for informational purposes into the NYISO OATT. LIPA remains the entity that charges and collects the transmission service charges from customers using its bulk transmission system.

Through FERC Order Nos. 890 through 890-B FERC has adopted certain changes to open access rules promulgated under Order No. 888 and the Order No. 888 pro forma OATT. Order No. 890 contains modifications to existing provisions of the pro forma OATT as well as the addition of new provisions. Issues addressed in Order No. 890 proceedings include: rollover rights, the scope of point-to-point transmission service, the scope of network transmission service, creditworthiness standards, pricing for both generator and energy imbalances, available transmission capacity ("ATC") calculations, transmission planning, and OASIS information.

As part of the Energy Policy Act of 2005 (the "2005 Energy Policy Act"), Congress amended the FPA to include a new Section 211A which grants FERC limited discretionary authority (but does not mandate the exercise of such authority) over certain non-jurisdictional utilities referred to as "unregulated transmitting utilities." The term "unregulated transmitting utility" is defined as an entity that owns or operates facilities used for wholesale transmission service in interstate commerce and is an otherwise exempt entity under Section 201(f) of the FPA. LIPA meets this definition and will be considered an unregulated transmitting utility should FERC decide to implement the provisions of Section 211A.

Section 211A provides that the Commission may require an unregulated transmitting utility to provide transmission services at rates that are comparable to those it charges itself for such service and on terms and conditions (not relating to rates) that are comparable to those under which the unregulated transmitting utility

provides transmission services to itself and that are not unduly discriminatory or preferential. Further, the rate-changing procedures of FPA Sections 205(c) and (d) also would apply to such unregulated transmitting utilities. While FERC now has the discretion to exercise direct jurisdiction over rates and terms of transmission service by unregulated transmitting utilities, FERC may not require a State or municipality to take an action under Section 211A that would violate a private activity bond rule for the purposes of section 141 of the Internal Revenue Code of 1986.

The provisions of Section 211A are not self-executing. Rather, FERC must make a specific ruling to apply the provisions of Section 211A to unregulated transmitting utilities. In Order No. 890, issued March 15, 2007, as supplemented by Order No. 890-A, issued December 28, 2007, and reaffirmed in Order No. 1000, FERC decided not to issue a generic rule to implement FPA section 211A. Rather, FERC proposes to apply Section 211A on a case-by-case basis.

While FERC may apply the terms of Section 211A to LIPA and other unregulated transmitting utilities on a case-by-case basis, it is unclear whether such application will fundamentally change LIPA's provision of wholesale transmission service. LIPA already provides open access transmission service to third parties on a comparability basis through its participation in the NYISO as described below. Further, LIPA maintains its own reciprocity OATT, voluntarily complies with FERC's Standards of Conduct and OASIS requirements and ensures comparability in interconnection service to generators.

New York Independent System Operator

General

The investor-owned utilities in the State, together with NYPA and LIPA (collectively, the "Transmission Owners"), are 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 Transmission Owners, to maintain the reliability of the combined systems and to operate electric power markets within the State. Customers of NYISO pay non-transmission related charges to NYISO and pay the Transmission Service Charge ("TSC") to the Transmission Owners under the NYISO OATT. LIPA participates in the NYISO under provisions designed to protect the Authority's tax-exempt status and recognize that the Authority, not FERC, is the entity with jurisdiction to set LIPA's rates. LIPA remains the entity responsible for billing and collecting its TSC for use of its transmission facilities pursuant to rates set by the Authority under State law. Further, LIPA retains ownership and operational control over its transmission facilities while coordinating the scheduling, maintenance and use of LIPA's transmission system with the NYISO.

In addition to its transmission-related responsibilities, the NYISO provides power pooling and power coordination functions. 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; (iv) the administration of a capacity market; (v) markets for certain ancillary services; and (vi) long-term system reliability planning and economic system planning. A significant feature of the NYISO's tariffs is its operation of an electric power market that uses a Locational Based Marginal Pricing Structure. The NYISO is also responsible for collecting charges from the market participants that consume electric power and paying market participants that provide electric power.

LIPA receives payments for use of its transmission system through the billing and collection of its TSC as well as contractual payments pursuant to certain grandfathered transmission agreements between LIPA and third parties. For non-grandfathered contracts, LIPA directly bills the TSC, a per kilowatt-hour charge, to transmission customers withdrawing energy from the System, and collects the TSC revenue directly from the customers. LIPA's TSC is developed based upon a formula rate, which was approved by the Authority in October 2003.

LIPA is an unregulated transmitting utility under the FPA and therefore its TSC is not subject to review by FERC under FPA Sections 205 and 206. As a condition of LIPA's participation in the NYISO and to recognize LIPA's non-jurisdictional status, the NYISO OATT includes provisions that allow the NYISO to file, on LIPA's behalf, LIPA's TSC for inclusion in the OATT on an informational basis only. FERC limits its review of LIPA's TSC to a comparability review by which it only determines that the rates LIPA is charging are applied to all transmission customers, including LIPA itself, on a comparable basis. LIPA anticipates that the NYISO similarly will take the steps required to comply with Order No. 1000, which is described below.

NYISO Compliance with Order 890

As described above, FERC's Order 890 addressed modifications and improvements to its pro forma OATT. None of the changes in Order No. 890 required modification of LIPA's reciprocity OATT. However, the NYISO (as a FERC-jurisdictional utility) was required to make a series of compliance filings to bring the NYISO's operations into consistency with Order 890. LIPA voluntarily participated in the development of the NYISO's compliance filings covering implementation of most elements of Order 890. The NYISO made several compliance filings with FERC between 2007 and 2009 covering the development, cost-recovery and cost-allocation of reliability and economic transmission upgrade projects. Most of the other changes to the OATT included in Order No. 890 do not substantially affect the provision of transmission service by the NYISO because of its "financial transmission rights" rather than "physical transmission rights" structure. FERC issued orders in 2008 and 2009 that eventually accepted the NYISO's Order No. 890 compliance filings.

Regional Transmission Planning

Order 890, as modified on rehearing, contains provisions requiring that the NYISO adopt a transparent, regional transmission planning process that includes all stakeholders in New York State as well as neighboring, interconnected regions. As part of the Order 890 process, FERC issued orders dated October 16, 2008 and March 31, 2009, approving the New York Independent System Operator/Transmission Owner Reliability Agreement (the "NYISO/TO Reliability Agreement") which permits the NYISO to require transmission owners to make transmission reliability upgrades subject to certain transmission owner rights and conditions. In particular, the NYISO/TO Reliability Agreement provides cost-allocation and cost-recovery assurance to the transmission owners with respect to the construction of reliability projects identified as part of the NYISO's planning process. As part of the development of this NYISO/TO Reliability Agreement, LIPA sought and gained inclusion of several key terms intended to protect LIPA's status as a non-jurisdictional utility and its ability to maintain and issue tax-exempt debt. These conditions include: (i) a provision that LIPA is not obligated to build a project if the construction or use of such project would violate the tax-exempt status of its bonds; (ii) clarification that LIPA's execution of the NYISO/TO Reliability Agreement is not considered a waiver of LIPA's non-jurisdictional status under the FPA; and (iii) procedures by which LIPA may withdraw from the NYISO/TO Reliability Agreement upon 90 days notice subject to any specific obligation it may have already incurred prior to the date of withdrawal. On January 25, 2010, the Authority's Board of Trustees approved a resolution authorizing the execution and implementation of the terms of the NYISO/TO Reliability Agreement by LIPA.

On July 21, 2011, the FERC issued Order No. 1000 to expand upon certain regional planning principles of Order No. 890. Order No. 1000 establishes a framework for developing large regional transmission planning groups, requires the sharing of information between such regional transmission planning groups to enable the development of needed "interregional" transmission facilities and requires the regional transmission planning groups to develop methodologies for allocating the costs of new transmission facilities identified through such regional and interregional transmission planning efforts. It is anticipated that LIPA will work within the NYISO structure to satisfy the requirements of Order No. 1000.

Generator Interconnection Rule

FERC has issued final rules requiring all public utilities that own, operate or control transmission facilities to file standard procedures and standard agreements governing interconnection services for "large" generators producing more than 20 MW (Order No. 2003 & Order No. 2003-A—Large Generator Interconnections) and for "small" generators producing less than 20 MW (Order No. 2006 & Order No. 2006-A—Small Generator Interconnections). These rules apply to "public utilities" as defined under the FPA, including Regional Transmission Organizations ("RTOs") and ISOs such as NYISO. The NYISO OATT now includes Large Generation Interconnection Procedures and a Large Generation Interconnection Agreement consistent with Order Nos. 2003 and 2003-A as well as Small Generation Interconnection Procedures and a Small Generation Interconnection Agreement consistent with Order Nos. 2006, 2006-A and 2006-B (which granted further clarification of its small generator interconnection rules relating to standard legal terms and conditions). As LIPA is not a "public utility" under the FPA, it is not under a direct compliance obligation. However, as part of its participation in the NYISO, LIPA voluntarily complies with the NYISO's generator interconnection procedures for interconnections at the transmission system level. LIPA continues to administer the interconnection process for all generators connecting to its distribution facilities under its own tariff and procedures. At this time, LIPA is

reviewing its own tariff and generator interconnection procedures to include revisions that will be complementary to the NYISO process.

PJM Independent System Operator and Allocation of PJM Regional Transmission Expansion Project Costs

LIPA has entered into a contract with Neptune to purchase 660MW of transmission capacity over an undersea extra high voltage cable installed between Sayreville, New Jersey and Levittown, New York. LIPA has also entered into a contract with Marcus Hook LLP to purchase 91% of the capacity of the Marcus Hook generating facility located in Pennsylvania beginning June 1, 2010.

PJM, a regional transmission organization operating a transmission grid running from Illinois to New Jersey and south to Virginia proposes to allocate a portion of "regional transmission expansion" costs, i.e. the costs of new transmission facilities planned on a regional basis, to Neptune and the other merchant transmission facilities. In an order issued in November 2009, FERC approved a PJM proposal to allocate Regional Transmission Expansion Planning ("RTEP") costs related to facilities rated below 500 kV to merchant transmission facilities and to apply a methodology proposed by PJM. FERC currently is considering rehearing petitions of that order, including a rehearing petition filed by LIPA. In addition, a separate proceeding is ongoing before FERC regarding the cost-allocation of RTEP projects rated above 500 kV. LIPA is likely to be ultimately responsible for RTEP costs allocated to Neptune, which could be significant over the life of the agreement, depending on how the methodology is applied. LIPA, Neptune and other merchant transmission operators/customers are actively participating in the FERC proceedings regarding the appropriate RTEP cost methodologies and have proposed a methodology that appropriately treats merchant transmission facilities that have a fixed, static load, such as the Neptune Line.

New York State Reliability Council

At the time NYISO was created, the New York State Reliability Council, LLC ("NYSRC") was also created. The NYSRC determines the reliability rules that the NYISO and all market participants must operate under and monitors the NYISO's compliance with the reliability rules. The NYSRC provides reliability guidance consistent with the reliability regulation adopted by Congress in 2005 in Section 215 of the FPA, discussed above under "THE SYSTEM—Overview of Regulatory Framework as it Applies to LIPA—*LIPA's Provision of Transmission Service to Third Parties*."

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" in this Part 2.

Authority to Set Electric Rates

Under current State 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 agreed, in connection with the approval of the LIPA/LILCO Merger by the PACB in 1997, 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. See "Rate Tariffs and Adjustments" below for a description of a PSC Order declining to review the appropriateness of LIPA's recovery of fuel and purchased power costs through LIPA's Fuel and Purchased Power Cost Adjustment clause.

For purposes of determining compliance with the 2.5% condition described in the preceding paragraph, the Authority has interpreted the condition as allowing the exclusion of increases in the cost of electricity paid by the Authority's customers related to the FPPCA and other pass-through adjustments. Based on the Authority's interpretation of the PACB condition, the Projected Operating Results for 2011-2015 set forth in Appendix B hereto do assume an increase in average customer rates in excess of 2.5% over a 12-month period during the Projection Period. That assumption is a current estimate and as such will be subject to ongoing review by the Authority. The Authority believes that the PACB condition will not prevent the Authority from complying with its obligations under the Act and under the Resolution. If the Authority's interpretation of the PACB condition were determined to be incorrect, or if the legislation discussed below was enacted and such legislation was applied in a manner inconsistent with the Authority's interpretation of the 2.5% PACB condition, it may influence the timing and size of rate increases implemented by the Authority and/or require (i) the modification of the Authority's plans to apply revenues to accelerate retirement of debt or fund capital expenditures instead of issuing debt (see "DEBT MANAGEMENT" in this Part 2), (ii) the withdrawal of funds from the Rate Stabilization Fund to avoid or minimize rate increases, (iii) various actions designed to increase the liquidity levels to address the timeliness of cost recovery or (iv) other action necessary to meet the condition of the PACB approval or to comply with such legislation, as the case may be.

Proposed Legislation

Legislation was passed by the New York State Legislature in June, which would amend the State Public Service Law to require the approval by the PSC of an increase in LIPA's average customer rates exceeding 2.5% over a 12-month period or to extend or reestablish any portion of a temporary rate increase exceeding 2.5%. Were such legislation to become law, LIPA would have to notify the PSC of any proposed rate increase, extension or re-establishment exceeding 2.5% over a 12-month period, and an approval of any such LIPA request by the PSC would require a full evidentiary hearing. Similar legislation has been proposed in the past, including in 2008 when the State Legislature at that time passed such legislation before it was vetoed on September 4, 2008 by former Governor Paterson and not enacted into law. Revised versions of the 2008 bill were introduced in 2009 and 2010 but were not enacted into law.

If such recently proposed legislation passed by the current State Legislature becomes law, it will become effective on the 180th day thereafter. That legislation further directs the PSC to institute any proceedings (to be concluded before the effective date) necessary to review and/or amend LIPA's "ongoing tariff filings to ensure charges for the furnishing or rendition of electric power or of any related service at the lowest level consistent with sound fiscal operating practices which provide for safe and adequate service." In addition, the proposed legislation provides that, effective immediately, the PSC and LIPA shall amend and/or repeal any rule or regulation necessary for the implementation of the law on its effective date; the PSC and LIPA are authorized and directed to make and complete such rules or regulations on or before such effective date.

The proposed legislation has not been presented to Governor Cuomo for consideration and therefore has not been enacted into law. If the Governor were to veto the legislation it would be returned to the State Legislature for reconsideration. If, on reconsideration, both houses of the State Legislature were to override the Governor's veto by approving the bill by at least a two-thirds majority during the current term (which will end no later than December 31, 2012), then the bill would be enacted into law despite the Governor's veto.

The Authority cannot predict whether the Governor will sign or veto such legislation or whether the Legislature will seek to override the veto of that legislation or whether other similar legislation may be introduced and acted upon in the future. Should such legislation or other similar legislation become law, the Authority cannot predict the impact of the legislation on its operations and financial condition including, without limitation, its "ongoing tariff filings." Moreover, there is no assurance that any of the ratings on the Series 2011A Bonds by any of the rating agencies will not be negatively impacted should such legislation or other similar legislation become law with a resulting adverse effect on the market price of the Series 2011A Bonds.

Rate Tariffs and Adjustments

LIPA's base retail electric rates generally reflect traditional rate designs and include fixed customer charges for all customer classes, seasonal energy rates for all customer classes except street lighting, and seasonally differentiated demand charges for non-residential customer classes (greater than seven kW). Economic

development and load retention incentives are provided to a small number of commercial customers. Miscellaneous service charges, pole attachment charges, and rental rates are also assessed on a monthly basis. In addition to the base delivery service charges, the Authority's charges include a Power Supply Charge (referenced in the Tariff as the FPPCA), a PILOT payments recovery rider, a rider providing for the recovery of the Suffolk Property Tax Settlement, an Energy Efficiency and Renewable Resource Charge to recover the costs of LIPA's customer-side programs and the New York State Assessment Charge to recover the newly-imposed cost of the Temporary State Energy and Utility Conservation Assessment (Public Service Law Section 18-a). Effective March 1, 2011, the Board of Trustees approved a 0.5% increase to the Energy Efficiency and Renewable Resource Charge. Effective March 1, 2011, the Board of Trustees approved an increase to the base rates for delivery service. The increase in the delivery service charge caused an average customer bill to increase approximately 1.9% to 2.2% overall for most rate classes. This was the first time since LIPA acquired the T&D System in 1998 and implemented the Tariff that LIPA implemented an increase in its base rates for delivery service.

LIPA's FPPCA provides for the recovery of fuel and purchased power costs in the period incurred, in amounts sufficient to allow the Authority to earn a financial target of $75 million with a variance of $50 million above or below such amount in each year. Should fuel and purchased power prices change such that LIPA would exceed or fail to meet its financial target, the FPPCA would be reduced or increased accordingly. In no event, however, can LIPA recover an amount that exceeds its fuel and purchased power costs incurred.

Effective January 1, 2009, the Authority increased its FPPCA by $129 million annually in order to collect projected fuel costs and to meet its financial target. As a result of declining fuel costs, effective May 1, 2009, the Authority reduced its FPPCA by approximately $93 million for the remaining months in 2009. Despite the May 2009 reduction to the FPPCA, the continuing decline in fuel costs throughout the remainder of 2009 resulted in the Authority issuing approximately $143 million of customer bill credits to return to customers amounts collected in excess of actual fuel costs incurred. As fuel prices continued to moderate, effective January 1, 2010, the Authority further decreased its FPPCA by $81 million annually in order to collect an amount of projected fuel costs sufficient to meet its financial target for 2010. As a result of lower-than-budgeted fuel and purchased power costs, effective June 1, 2010, the Authority again reduced its FPPCA, this time by approximately $74 million for the remaining months in 2010. Effective January 1, 2011, the Authority reduced its FPPCA by $182 million annually in order to collect an amount of projected fuel costs sufficient to meet its financial target for 2011. As a result of the change in accounting methodology described below, which is used to estimate unbilled energy deliveries, effective April 1, 2011, the Authority reduced its FPPCA by $56 million for the remaining months in 2011.

On May 3, 2006, LIPA voluntarily filed two petitions with the PSC requesting a review of the reasonableness and appropriateness of the costs recovered through its FPPCA, including the appropriateness of its fuel related charges and seeking a confirmation that LIPA treated fuel and purchased power costs properly and similar to other New York electric companies. The PSC, on June 20, 2006, issued a Declaratory Ruling which confirmed that the PSC permits the use of adjustment clauses to allow utilities to adjust their rates to reflect changes in fuel and other costs. Also on June 20, 2006, the PSC issued an Order declining the Authority's request that it review the appropriateness of LIPA's recovery of fuel and purchased power costs through the FPPCA. The PSC noted that LIPA is not subject to PSC jurisdiction except in very limited circumstances unrelated to ratemaking, and LIPA's rates, services and practices are not governed by, and need not comply with, the provisions of the Public Service Law and PSC regulations.

By letter dated June 19, 2007, LIPA requested that the PSC review increases in its base rates or increases effected through operation of the FPPCA which increase LIPA's total retail revenues in an amount equal to or greater than 2.5% of the prior year's total retail revenues. On June 27, 2007, the PSC rejected LIPA's request on the grounds that a full review of LIPA's rates and practices is not within the PSC's jurisdiction, and authority to grant that relief has not been granted to the PSC by the State Legislature. In an effort to improve customer's understanding of LIPA's bills, in September 2008, LIPA requested the PSC to assist in engaging an independent consultant to perform a review of the FPPCA. On March 26, 2009, the LIPA Board of Trustees authorized the engagement of Liberty Consulting Group to perform the independent evaluation of LIPA's FPPCA. On September 23, 2009, Liberty issued a report on their findings. The result of Liberty's engagement found that the Authority's implementation of its FPPCA was consistent with the practices of other New York State utilities and in accordance with industry standards.

On April 27, 2011, Governor Cuomo directed the New York State Inspector General to do a thorough audit of LIPA, and to focus its audit on LIPA's billing and delivery charge practices. LIPA is currently working with the Inspector General and has responded to various requests for information, but the scope and timing of the Inspector General's review and any audit report that may be issued cannot be determined by LIPA at this time.

The Act also 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 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 or through the FPPCA for certain PILOTs related to power generation stations under power supply agreements.

As described above under "FINANCIAL INFORMATION" in this Part 2, effective January 2010, the Authority changed its accounting methodology used to estimate unbilled energy deliveries and the related customer receivables. Consistent with electric industry practice, LIPA bills its customer for lost energy. After LIPA acquired LILCO in 1998, it continued the accounting methodology for recording unbilled revenue that had been used by LILCO since 1991. When Authority staff found that the methodology being used was producing unexpected results and upon further investigation determined the methodology to be flawed, it engaged independent outside consultants who supported the staff's findings. That flawed methodology produced revenue requirements that were overestimated on an aggregate basis by $231 million since 1991, which represents approximately 0.45% of the total amount of electric sales revenue collected by LILCO and LIPA over that 20 year period. As a result, effective January 2010, the Authority changed its accounting methodology used to estimate unbilled energy deliveries and the related customer receivables. This change is needed to more accurately estimate power delivered to customers from the date of their last billing to the end of each accounting period. The unbilled revenue represents an estimate of customer usage during the period. This change in how unbilled revenue is estimated does not impact the total operating cash flows for any historical period. The change would have increased the unbilled revenues, accounts receivables and would have revised reported changes in net assets if it had been in effect prior to 2010. This change was adopted after an extensive analysis of the prior methodology. The prior methodology based the estimate of unbilled sales on several factors including electrical usage, seasonal factors, rate differentials and line losses. The Authority has determined that a more accurate and appropriate method is to accrue unbilled revenues by estimated unbilled consumption at the customer meter.

BILLING AND COLLECTIONS

At December 31, 2010, the Authority served approximately 1.1 million customers in its Service Area. For the 12-month periods ended December 31, 2006, December 31, 2007, December 31, 2008, December 31, 2009 and December 31, 2010, the 12-month write-off rates for uncollectible accounts were 0.49%, 0.47%, 0.51%, 0.77% and 0.71 %, respectively.

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, operations 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.

In addition, such factors include, among others, (i) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (iii) changes in national energy

policy, (iv) new requirements to obtain increasing portions of overall electric energy supply from renewable generating resources, (v) potential imposition of requirements to reduce emissions of greenhouse gases, (vi) issues relating to the ability to issue tax-exempt obligations, (vii) service restrictions on the ability to sell to non-governmental entities electricity from generation projects financed with outstanding tax-exempt obligations, (viii) changes from projected future load requirements, and (ix) increases in costs. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

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.

2005 Energy Policy Act Changes to Federal Power Act and Other Energy-Related Statutes

On August 8, 2005, President Bush signed into law the 2005 Energy Policy Act. Among other things, the 2005 Energy Policy Act: (a) authorizes FERC to require "unregulated transmitting utilities" that formerly were exempt from regulation under sections 205 and 206 of the FPA (including the Authority) to provide open access to their transmission systems and to comply with certain rate change provisions of section 205 of the FPA; (b) authorizes FERC to order refunds for certain short-term wholesale sales made by state and municipal power entities (including the Authority) if such sales violate FERC-approved tariffs or FERC rules; (c) allows load serving entities holding certain firm transmission rights to continue to use those rights to serve their customers; (d) provides that an "electric reliability organization" ("ERO") shall develop reliability standards for operation of the transmission grid subject to FERC approval, that compliance with such standards will be mandatory and enforceable by the ERO and FERC, and that the ERO may delegate its authority to regional entities subject to FERC approval; (e) adds to the FPA a prohibition on market manipulation and submission of false information, and expands civil and criminal penalties for violation of the FPA; (f) authorizes FERC to issue construction permits for transmission projects located in "national interest electric transmission corridors" (to be designated by DOE) in circumstances where the applicable state or regional siting agency does not timely authorize a project or imposes unreasonable conditions; (g) eliminates certain ownership restrictions on electric utilities regarding "qualifying facilities" under section 210 of the Public Utility Regulatory Reform Act ("PURPA"), and authorizes FERC to eliminate prospectively the obligation of electric utilities to purchase and sell electricity to such qualifying facilities if certain market condition findings are made by FERC; (h) requires state utility regulatory commissions and "non-regulated electric utilities" (including the Authority) to consider adopting certain standards on net metering, fuel diversity, fossil fuel plant diversity, certain metering and time-based rate schedules and demand response, and interconnection with distributed generation facilities; (i) repeals the Public Utility Holding Company Act ("PUHCA"), effective six months after enactment of the 2005 Energy Policy Act; (j) increases FERC's authority to review mergers of public utility companies; and (k) directs FERC to establish transmission investment incentives in transmission rate structures for public utilities.

The 2005 Energy Policy Act specifically modified certain long-standing exemptions from FERC jurisdiction for municipalities under FPA Section 201(f) by making it clear that such entities are subject to FERC's jurisdiction for enforcement of reliability rules (FPA § 215), market manipulation rules (FPA § 222) and open access "Lite" (FPA § 211A). On March 18, 2010, as revised on September 17, 2010, FERC issued civil penalty guidelines, which purport to apply to "the penalties to be imposed on all organizations for violations of the statutes, rules, regulations, restrictions, conditions, or orders overseen by [FERC]." The Commission's use of the Penalty Guidelines is discretionary, not mandatory. The new Penalty Guidelines are likely to result in significantly higher penalties in cases where a violation causes a significant pecuniary gain for the violator or loss caused by the violation. The revised Penalty Guidelines provide substantial discretion to take into account, among other things, mitigating factors such as the measures taken by the violator to put measures in place to comply with all requirements.

While municipalities are now subject to compliance obligations and potential FERC enforcement actions, including sanctions for violations of reliability standards, there remains an unresolved legal question as to whether FERC has sufficient statutory authority under those sections of the FPA to impose monetary civil penalties on

municipalities for such violations. Sections 316 and 316A of the FPA limit the Commission's authority to apply civil penalties for statutory and rules violations only to "persons," which is a term defined under the FPA to exclude municipalities. LIPA expects that in future cases before FERC the statutory limits of FERC's authority to impose monetary civil penalties on municipalities will be challenged and the extent of FERC's authority to impose monetary penalties on municipalities will be clarified by courts of appeal.

The foregoing discussion of certain provisions of the 2005 Energy Policy Act does not purport to be a comprehensive discussion of the 2005 Energy Policy Act. Information on the 2005 Energy Policy Act is available from many sources in the public domain, and potential purchasers of the Series 2011A Bonds should obtain and review such information.

Competition

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, the separation of power supply services and costs from electric transmission and distribution services and costs. In recent years, some states have begun reconsideration of their competitive restructuring programs. With respect to public power authorities, excluding LIPA, none of the 15 largest public power authorities (by number of customers served) offered competitive restructuring programs to their retail customers.

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. The Authority fosters wholesale competition by offering Open Access Transmission Service to generators that wish to provide power to the NYISO or to other wholesale customers. This service is offered on a comparable basis to the regulated transmission utilities in the State that are also members of the NYISO. 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 Authority adopted a retail choice program (called "Long Island Choice") which is intended to offer electric customers the opportunity to choose an electric energy supplier other than LIPA. The program is available to all customers in LIPA's service territory. As of December 31, 2010, three suppliers were selling electricity to 2,566 commercial and industrial customers in the Service Area representing a total load of 230 MW.

The Authority can make no prediction as to what effect, if any, new or revised State or federal laws addressing retail and commercial competition will have on ongoing implementation of retail competition.

New York State Electric Utility Industry Regulation

General. Legislation is regularly introduced in the New York Legislature, which could affect the operations of the Authority. The Authority is not able to predict which, if any, of such legislation might be enacted into law, what form any of such legislation, if enacted, might take or what impact any of such legislation if enacted might have on the Authority's operations.

NYISO. For a description of the NYISO and its present activities, see "THE SYSTEM – New York Independent System 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 other units 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. State regulation of electric utility emissions may change significantly. The changes could affect the cost of purchased power from combustion turbines and other types of plants. If enacted, new regulations may change existing cost assumptions for electric utilities. While it is too early to determine if any new provisions will be enacted, in what form, or what their effect will be, any 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 1992 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 of the decommissioning and decontamination of the United States Department of Energy ("DOE") nuclear fuel enrichment facilities.

In accordance with the Nuclear Waste Policy Act of 1982, Niagara Mohawk, as the then-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 Nine Mile Point or others in the near term. The contract provides that DOE will be paid a fee quarterly based on nuclear generation and sales of electricity from Nine Mile Point at a specified rate. LIPA's share of such fees which relate to NMP2 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 2046, 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 NMP2. 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.

Constellation procures public liability property worker tort and replacement power insurance for NMP2 and LIPA reimburses Constellation for its 18% share of those costs.

In November 2002, the President signed into law the Terrorism Risk Insurance Act ("TRIA") of 2002, which was extended by the Terrorism Risk Insurance Extension Act of 2005 and the Terrorism Risk Insurance Program Reauthorization Act of 2007. Under the TRIA, property and casualty insurance companies are required to offer insurance for losses resulting from certified acts of terrorism. The nuclear property and accidental outage insurance programs, as discussed below, provide coverage for certified acts of terrorism.

Losses resulting from non-certified acts of terrorism are covered as a common occurrence, meaning that if non-certified terrorist acts occur against one or more commercial nuclear power plants insured by the insurers of NMP2, within a 12-month period, such acts would be treated as one event and the owners of the currently licensed nuclear power plants in the United States would share one full limit of liability (currently $3.24 billion).

The Price-Anderson Amendments Act mandates that nuclear power generators 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 $300 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 104 presently licensed nuclear reactors in the United States to a retrospective assessment of up to $100.6 million for each nuclear incident, payable at a rate not to exceed $15 million per year. LIPA's interest in NMP2 could expose it to a maximum

potential loss of $18.1 million, per incident, through assessments of up to $2.7 million per year in the event of a serious nuclear accident at NMP2 or another licensed U.S. commercial nuclear reactor.

LIPA has also obtained insurance coverage from Nuclear Electric Insurance Limited for the expense incurred in purchasing replacement power during prolonged accidental outages.

Following the March 11, 2011 earthquake and resulting tsunami that affected the Fukushima Daiichi Plants in Japan, LIPA and the nuclear industry have been working to comprehend the events that damaged the reactors and associated fuel storage pools and then determine whether any changes might be necessary at United States nuclear plants. The performance of the General Electric boiling water reactor with Mark I containment systems in Japan as well as associated on-site spent fuel storage facilities are of particular interest. NMP2 is a General Electric boiling water reactor with Mark II containment system, which is a similar system.

The NRC has formed a task force to perform a systematic and methodical review of its regulatory requirements, programs, processes and implementation in light of information from the Fukushima Daiichi Plants to determine if there are any near-term or long-term changes that should be made to further ensure protection of public health and safety. On July 12, 2011, the task force issued an initial report, which stated that the continued operation and continued licensing activities of the U.S. fleet of nuclear plants do not pose an imminent risk to public health and safety. The report also included a series of recommendations that are intended to clarify and strengthen the regulatory framework for protection against natural disasters, mitigation, and emergency preparedness, and to improve the effectiveness of the NRC's programs. The NRC expects the task force to update its report within approximately six months.

LIPA is uncertain as to the extent of any changes in the regulations, programs and processes of the NRC as a result of the recommendations of the task force. Legislation has been introduced in Congress that would require an overhaul of NRC safety regulations. LIPA is uncertain whether this or any similar legislation may be enacted, and if enacted, the impact of any such legislation or any changes resulting from the NRC review on the operation and costs of NMP2.

Potential Regulation of Emissions

In recent years, there has been growing concern in the scientific community and among the public about global warming, and the contributions to global warming made by electric generating plants that emit carbon dioxide in the generation process. A number of legislative proposals have been made in the US Congress to address the issue. LIPA expects the debate on this issue to continue, but cannot predict what, if any, proposals may become law. Any legislation that addresses global warming is likely to have an adverse effect on electricity generation that results in the emission of carbon dioxide or other greenhouse gases. In addition, in the case of Massachusetts v. EPA (no. 05-110, decided April 2, 2007), the United States Supreme Court held that EPA has the authority to regulate greenhouse gas emissions. Since that time, EPA has issued a number of rulemakings and announcements to lay the groundwork for potential regulation of greenhouse gas emissions and future legislation. LIPA cannot predict if and when EPA or the US Congress might choose to enact greenhouse gas emission regulations governing electric generating plants that emit carbon dioxide in the generation process, the structure of any such regulation or the impact on LIPA's power supply costs of any such regulation, which impact could be substantial.

ENVIRONMENTAL MATTERS

General

As discussed in "LIPA'S RETAIL ELECTRIC SERVICE BUSINESS—Guarantees and Indemnities" in this Part 2, National Grid 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 National Grid 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, National Grid 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 National Grid Parties after the LIPA/LILCO Merger (the "Transferred Business").

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.

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 Retained Business and to the Transferred Business.

National Grid Parties are responsible for all environmental 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 environmental liabilities traceable to the Transferred Business; and certain scheduled environmental liabilities. Certain environmental liabilities that are traceable to GENCO, including liabilities arising from asbestos litigation, may be recovered from LIPA by National Grid Parties as part of the capacity charge under the PSA. The Authority has established reserves for environmental liabilities, which it believes, based on information currently available to it, are adequate.

LIPA Parties are responsible for all environmental 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 environmental liabilities. Notwithstanding the parties' contractual allocation of environmental liabilities, under certain circumstances LIPA could be liable for environmental costs related to Transferred Assets as the prior owner if a National Grid Party fails to satisfy such liability.

Environmental 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 National Grid 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 National Grid Parties to the extent provided for under the PSA and MSA.

For purposes of allocations, an environmental 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 National Grid Parties, see "Legal Proceedings" in Note 13 to the Authority's Basic Financial Statements for the years ended December 31, 2010 and 2009, attached hereto as Appendix A.

REGULATION

The operations of the Authority and LIPA are 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. 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, 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 which were accepted by the Authority by a resolution of the Trustees adopted unanimously on August 21, 1997. One of those conditions relates to the establishment of rates, and is described herein under the caption "RATES AND CHARGES – Authority to Set Electric Rates."

New York State Comptroller. Pursuant to the Act, the Authority must obtain the written approval of 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 $50,000 in amount must be approved by the Comptroller before such contracts become effective. The Authority is submitting Authority contracts, which are subject to such approval to the Comptroller. In addition, the Comptroller's office periodically conducts audits of the Authority to examine the Authority's policies, procedures, controls and other financial and management practices.

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 the 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 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 – Proposed Legislation" in this Part 2.

State Board on Electric Generation Siting and the Environment. On August 4, 2011, Governor Cuomo signed legislation (the "Power NY Act of 2011"), which, among other things, establishes a new process for the siting of electric generating facilities and repowering projects over 25 megawatts. With respect to siting, the Power NY Act of 2011 is intended to provide greater certainty to the regulated community by provide a time-certain review process by a multi-agency board capable of granting all necessary permits, as well as to provide more meaningful input from those impacted by the siting of a facility.

Department of Environmental Conservation. The Department of Environmental Conservation (the "DEC") 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.

Public Authorities Reform. The Public Authorities Accountability Act of 2005 (the "PAAA") was signed into law by the Governor in January 2006. The PAAA addressed a wide range of matters pertaining to many public authorities in the State, including the Authority. In December 2009, the Governor signed into law additional legislation intended to further reform the way public authorities conduct business in New York. Among other things, that legislation creates an independent authorities budget office with certain oversight powers and expands on the filing and publication requirements of the PAAA.

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. 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 FPA and therefore, FERC does not exercise direct jurisdiction over rates for service over LIPA's facilities under either FPA Sections 205 or 206. 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 FPA on rates, terms and conditions comparable to those of the Authority for the Authority's own use of its system. Further, FERC may, in the future, apply the provisions of FPA Section 211A to LIPA, in which case LIPA would become subject to FERC jurisdiction with respect to the provision of wholesale transmission service at rates that are comparable to the rates it charges itself, on terms and conditions that are comparable and not unduly discriminatory or preferential. FERC has not asserted jurisdiction over unregulated transmitting utilities under FPA Section 211A at this time.

While the Authority and LIPA are non-jurisdictional entities with respect to the establishment of rates, terms and conditions of service for the sale of energy and provision of transmission service, the Energy Policy Act of 2005 provided for the assertion of FERC jurisdiction over municipal utilities such as LIPA with respect to compliance with reliability standards and prohibitions against market manipulation. Under FPA, Section 215, all users, owners and operators of the bulk power system, including LIPA, are required to comply with reliability standards issued by the ERO (Electric Reliability Organization) and approved by FERC. Implementation of the reliability standards is largely undertaken by the Regional Entity, the Northeast Power Coordinating Council ("NPCC"). In June 2007, the initial reliability standards became effective establishing approximately 100 reliability standards for numerous aspects of transmission, generation and load serving operations conducted by, or on behalf of LIPA. In addition to ERO standards and NPCC standards and criteria, the NYISO and New York market participants are required to comply with NYSRC Reliability Rules for planning and operating the New York State Power System. NYSRC Reliability Rules are consistent with and more stringent and specific than associated ERO standards and NPCC standards and criteria. This is permitted by federal legislation in FPA Section 215. The NYSRC Reliability Rules include Local Rules that apply to New York City and Long Island that are more stringent than other NYSRC Rules. These Local Rules are more stringent because of the need to protect the reliable delivery of electricity for specific electric system characteristics and demographics relative to these zones. These conditions include unique circumstances and complexities related to the maintenance of reliable transmission service, and the dire consequences that would result from failure to provide uninterrupted service.

Separately, FPA Section 222 prohibits "any entity" (including otherwise non-jurisdictional entities such as LIPA) from engaging in the use of any manipulative or deceptive device or contrivance as part of its purchase or sale of electric energy or transmission service. FERC has implemented FPA Section 222 through the issuance of an anti-market manipulation rule set forth in 18 C.F.R. §1.c.2 and applied such rule to non-jurisdictional entities participating in wholesale energy markets. Violations of these requirements are subject to enforcement and potential sanctions by FERC, for which the Commission may apply its new Penalty Guidelines. As described above, the Penalty Guidelines have the potential to result in imposition of significant penalties in cases where a violation causes a significant pecuniary gain for the violator or loss caused by the violation. LIPA expects that future cases before FERC and courts of appeal will clarify the authority of FERC to apply monetary civil penalties to municipalities under the FPA.

Environmental Protection Agency. The 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.

Other Jurisdictions

The regulatory procedures of neighboring states such as Connecticut and New Jersey impact the ability of LIPA to obtain additional power supplies through the construction of new cables which extend into such jurisdictions.

LITIGATION

The Series 2011A Bonds

There is no litigation pending or threatened in any court (either State or federal) to restrain or enjoin the issuance or delivery of the Series 2011A Bonds 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 Series 2011A Bonds or the validity of the Series 2011A Bonds.

Other Litigation

LIPA is involved in numerous actions arising from the ordinary conduct of its business both prior to and subsequent to the LIPA/LILCO Merger including environmental claims brought by governments and individual plaintiffs alleging that LIPA is responsible for all or a portion of the clean up costs or personal injuries or damages as a result of the alleged use, release or deposit of hazardous substances including asbestos. While LIPA cannot presently predict the costs of such pending claims, or additional similar claims which may arise in the future, 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. See "Legal Proceedings" in Note 13 to the Authority's Basic Financial Statements for the years ended December 31, 2010 and 2009, attached hereto as Appendix A and "ENVIRONMENTAL MATTERS – Environmental Liabilities" in this Part 2 for a description of certain litigation in which LIPA is involved.

ADDITIONAL INFORMATION

Certain of the corporations mentioned in this Official Statement, including National Grid plc. and Constellation Energy Group, Inc., the parent of Constellation Energy Nuclear Group, LLC, the operator of NMP2, 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. 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.

Appendix A

Basic Financial Statements of the Authority

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LONG ISLAND POWER AUTHORITY

(A Component Unit of the State of New York)

Basic Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Basic Financial Statements

December 31, 2010 and 2009

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KPMG LLP
Suite 200
1305 Walt Whitman Road
Melville, NY 11747-4302

Independent Auditors' Report

The Board of Trustees
Long Island Power Authority:

We have audited the balance sheets, statements of revenues, expenses, and changes in net assets, and statements of cash flows of the Long Island Power Authority (Authority), a component unit of the State of New York, as of and for the years then ended December 31, 2010 and 2009, which collectively comprise the Authority's basic financial statements. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in note 4 to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of January 1, 2009.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope and of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis listed in the accompanying table of contents is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 31, 2011

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (unaudited), the basic financial statements, and the notes to the financial statements.

The financial statements provide summary information about the Authority's overall financial condition. The notes provide explanation and more details about the contents of the financial statements.

The Authority is considered a special-purpose government entity engaged in business-type activities and follows financial reporting for enterprise funds. The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). In accordance with GASB standards, the Authority has elected to comply with all authoritative pronouncements applicable to nongovernmental entities (i.e., pronouncements of the Financial Accounting Standards Board) that do not conflict with GASB pronouncements.

Management's Discussion and Analysis (Unaudited)

The management's discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial information for the years ended December 31, 2010 and 2009. The discussion and analysis should be read in conjunction with the financial statements and accompanying notes, which follow this section.

The Authority 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 Authority complies with all authoritative pronouncements applicable to nongovernmental entities (i.e., pronouncements of the Financial Accounting Standards Board) that do not conflict with GASB pronouncements. In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires that the fair value of financial arrangements called "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. GASB No. 53 became effective for the Authority beginning in 2010 and required retroactive application. The implementation resulted in reclassifications and adjustments to prior period amounts.

The operations of the Authority are presented as an enterprise fund following the accrual basis of accounting in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

The Authority is subject to the provisions of FASB ASC 980 *Regulated Operations* (previously SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*). This statement recognizes the economic impact of regulation, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, the Authority records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively.

The following is a summary of the Authority's financial information for 2010, 2009, and 2008 (amounts in thousands):

Balance Sheet Summary

		December 31,		
		2010	**2009**	**2008**
Assets:				
Current assets:				
Cash, cash equivalents and investments	$	479,026	495,547	257,720
Other current assets		927,957	682,583	725,269
Noncurrent assets:				
Utility plant, net		6,431,896	6,459,718	5,725,010
Promissory notes receivable		155,425	155,425	155,425
Nonutility property and other investments		80,703	74,679	71,753
Deferred charges and long-term receivables		301,044	291,520	584,360
Regulatory assets		730,490	789,279	1,097,230
Acquisition adjustment, net		2,487,366	2,629,216	2,741,897
Total assets	$	11,593,907	11,577,967	11,358,664
Liabilities and net assets:				
Regulatory liability	$	192,992	164,520	2,483
Other current liabilities		1,213,524	1,168,720	1,196,538
Noncurrent liabilities:				
Long-term debt		6,363,244	6,394,949	6,394,364
Capital lease obligations		2,834,416	2,970,126	2,369,168
Regulatory liability		74,085	—	—
Other noncurrent liabilities		405,453	356,295	310,187
Deferred credits		133,024	203,637	796,746
Total liabilities		11,216,738	11,258,247	11,069,486
Net assets (deficit):				
Capital assets net of related debt		(87,016)	(171,412)	(56,269)
Restricted		365	46,340	229,285
Unrestricted		463,820	444,792	116,162
Total net assets		377,169	319,720	289,178
Total liabilities and net assets	$	11,593,907	11,577,967	11,358,664

(Continued)

Summary of Revenues, Expenses, and Changes in Net Assets

	Year ended December 31,		
	2010	**2009**	**2008**
Electric revenue	$ 3,859,549	3,312,160	3,751,610
Operating expenses:			
Operations – fuel and purchased power	1,879,839	1,566,005	2,164,658
Operations and maintenance	1,129,931	864,576	785,342
General and administrative	41,852	40,153	31,347
Depreciation and amortization	251,117	254,944	246,919
Payments in lieu of taxes	281,609	249,652	239,659
Total operating expenses	3,584,348	2,975,330	3,467,925
Operating income	275,201	336,830	283,685
Other income, net	46,445	33,519	69,862
Grant income	66,294	—	—
Interest charges	(330,491)	(331,899)	(323,365)
Change in net assets before extraordinary loss	57,449	38,450	30,182
Extraordinary loss on early extinguishment of debt	—	—	(3,840)
Change in net assets	57,449	38,450	26,342
Net assets – beginning of year	319,720	289,178	262,836
Cumulative effect of a change in accounting principle	—	(7,908)	—
Net assets – end of year	$ 377,169	319,720	289,178

Excess of Revenues over Expenses

The revenues in excess of expenses for the years ended December 31, 2010, 2009 and 2008 totaled approximately $57 million, which includes an adjustment to net assets of $72 million (discussed below), $39 million and $26 million, respectively.

Revenues

Effective January 2010, the Authority changed its accounting methodology used to estimate unbilled energy deliveries and the related customer receivables. This change is needed to more accurately estimate power delivered to customers from the date of their last billing to the end of the accounting period. The unbilled revenue represents an estimate of customer usage during this period. This change in how unbilled revenue is estimated does not impact reported total operating cash flows for any historical period. The change would have increased unbilled revenues, accounts receivable and would also revise reported changes in net assets. This change was

adopted after an extensive analysis of the prior methodology. The prior methodology based the estimate of unbilled sales on several factors including electrical usage, seasonal factors, rate differentials and line losses. LIPA has determined that a more accurate and appropriate method is to accrue unbilled revenues by estimating unbilled consumption at the customer meter.

The net impact of this change results in an increase of net assets of approximately $72 million, $62 million which resulted from increased sales and approximately $10 million of which is due to reduced acquisition adjustment amortization related to a change to a reserve acquired from LILCO in 1998.

When this change was implemented effective January 2010, it resulted in: (i) an increase of estimated unbilled receivables of approximately $231 million; (ii) the establishment of a regulatory liability of approximately $129 million to reflect the amount of revenue deferred that will returned to customers in accordance with the operation of the fuel and purchased power cost adjustment (FPPCA); (iii) a $30 million decrease in the unamortized balance of the acquisition adjustment related to a reserve acquired from LILCO; and (iv) the $72 million increase in net assets (noted above).

Revenue for the twelve months ended December 31, 2010 increased approximately $547 million when compared to the similar period of 2009. This increase is primarily attributable to higher sales-driven recoveries of power supply costs totaling $184 million, the positive effects of weather totaling $113 million, higher average customer usage totaling approximately $32 million and an adjustment of $5 million related to a settlement of a long standing dispute with a commercial customer. In addition, effective January 1, 2010, the Authority implemented two new cost recovery mechanisms, the New York State Assessment and the Energy Efficiency Cost Recovery Rate, which positively impacted revenues by $124 million. Also impacting revenue was the change in the method for unbilled receivables (discussed above) totaling $62 million. Furthermore, despite the reduction in the FPPCA rate effective June 1, 2010, approximately $136 million of power supply recovery revenues were collected that exceeded actual fuel and purchased power supply costs incurred. This over-recovery has been deferred for return to the customer through the reduced FPPCA rate effective January 1, 2011.

Revenue for the twelve months ended December 31, 2009 decreased approximately $439 million when compared to the similar period of 2008. This decrease is primarily attributable to lower recoveries of power supply costs totaling $369 million, the negative effects of weather totaling $34 million, and lower average customer usage totaling approximately $36 million. Despite the reduction in the FPPCA rate effective May 1, 2009 and the one-time bill credits issued totaling approximately $143 million, approximately $164 million of power supply recovery revenues were collected that exceeded actual fuel and purchased power supply costs incurred for the year ended December 31, 2009. The over-recovery was deferred and returned to the customer through the reduced FPPCA rate effective January 1, 2010.

Fuel and Purchased Power Costs

The Authority's tariff includes a power supply costs recovery provision – the Fuel and Purchased Power Cost Adjustment (FPPCA) that provides for the amount and timing of fuel and purchased power cost recoveries.

For the year ended December 31, 2010, fuel and purchased power costs increased by $314 million. LIPA experienced higher commodity costs of $146 million, higher consumption due to sales volumes totaling $113 million, higher amortization of prior year fuel deferrals totaling $3 million and the lower amortization of customer bill credits that resulted in a variance of an additional $52 million when compared to 2009.

For the year ended December 31, 2009, fuel and purchased power costs decreased by $599 million. LIPA experienced lower commodity costs of $611 million, lower consumption due to sales volumes totaling $68 million and the higher amortization of customer bill credits that reduced expense by an additional $64 million when compared to 2008.

Operations and Maintenance Expense (O&M)

Operations and maintenance (O&M) expense for the year ended December 31, 2010 increased $265 million due primarily to higher storm restoration costs totaling $167 million (excluding FEMA reimbursements of $57 million for qualified storms which are included in Grant Income), higher energy efficiency and renewable costs totaling $20 million, higher NYS assessment charges totaling $45 million, higher Management Services Agreement (MSA) costs totaling $13 million (due to higher sales), and higher scheduled costs related to the Power Supply Agreement (PSA) totaling $19 million. O&M expense includes property taxes on the National Grid generating facilities paid by the Authority as a component of the PSA capacity charge which totaled approximately $181 million and $173 million for the years ended December 31, 2010 and 2009, respectively.

O&M expense for the year ended December 31, 2009 increased $79 million due to higher Power Supply Agreement (PSA) capacity charge billings totaling $39 million, higher energy efficiency and renewable costs totaling $25 million, higher storm restoration costs totaling $13 million, higher charge-offs of bad debt accounts totaling $9 million and higher Nine Mile Point 2 costs totaling $2 million. These increases were partially offset by $4 million due to the scheduled increase in the synergy savings credits from National Grid, lower asset retirement accretion expense of $3 million due to a revised Nine Mile Point 2 decommissioning study and $2 million due to the elimination of postage paid envelopes.

General and Administrative Expenses (G&A)

General and administrative expenses for the year ended December 31, 2010 increased by $2 million primarily due to higher pension costs attributable to early retirement incentive provided in 2010.

General and administrative expenses for the year ended December 31, 2009 increased by $9 million partially attributable to an adjustment in 2008 related to injuries and damages reserve that resulted in a $3 million credit in 2008. Also contributing to the increase is higher employee benefit costs totaling $1 million and higher advertising and consulting costs totaling $5 million due to various new projects.

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2010 decreased by $4 million. The acquisition adjustment recorded from the LILCO acquisition in 1998 was decreased to reflect the true-up resulting from the unbilled revenue change discussed above. This decrease in the acquisition premium resulted in a reduction of the amortization expense of approximately $10 million. This decrease was partially offset by $6 million of increased depreciation expense as a result of the increased investment in the transmission and distribution system.

For the year ended December 31, 2009, depreciation and amortization increased approximately $8 million, due to higher utility plant balances.

Payments in Lieu of Taxes

For the year ended December 31, 2010 payments in lieu of taxes (PILOTs) increased approximately $32 million due to higher property taxes on the transmission and distribution assets totaling $23 million and higher revenue based taxes (due to higher sales in 2010) totaling $9 million.

For the year ended December 31, 2009 PILOTS increased $10 million due to higher property taxes on the transmission and distribution assets.

Other Income, Net

Other income increased approximately $13 million for the year ended December 31, 2010, when compared to the year ended December 31, 2009, as a result of: (i) higher earnings on the Authority's NMP2 trust account totaling $3 million partially offset by lower investment earnings of $1 million; (ii) the recognition of $6 million related to previously deferred receipts that were deemed Nonrefundable; and (iii) the absence of miscellaneous expenses totaling $5 million (due to the Board approved costs related to community benefits packages paid in 2009).

Other income decreased approximately $36 million for the year ended December 31, 2009, when compared to the year ended December 31, 2008, as a result of lower investment earnings totaling $19 million due to lower average cash balances and lower interest rates, lower sales of emissions allowance credits totaling $4 million and higher miscellaneous expenses totaling $6 million (due to the Board approved costs related to community benefits packages). In addition, in 2008 LIPA recognized $7 million of nonrecurring income related to an interest rate swap that was terminated.

Grant Income

In March 2010, Long Island experienced a severe storm causing damage to the transmission and distribution system. As a result of damage, the Federal Emergency Management Agency (FEMA) declared Long Island an Emergency Disaster Area which entitled LIPA to a reimbursement of approximately 75% of the repair costs. The Authority recorded as grant income approximately $54 million related to that reimbursement. An additional $3 million FEMA recovery was recorded as grant income related to a 2009 storm event.

In May 2010, LIPA issued Electric System General Revenue Bonds, Series 2010B which are taxable Build America Bonds. LIPA receives an interest subsidy from the federal government equal to 35% of the interest paid. LIPA recognized as grant income approximately $3 million in subsidies for these Bonds.

The Authority also received a $6 million energy efficiency and renewable energy grant from New York State Energy Research Development Authority (NYSERDA) under its Regional Greenhouse Gas Initiative Program. LIPA participates in an agreement to reduce greenhouse gas emissions from its contracted power plants. The monies paid to NYSERDA by the participants are used to fund energy efficiency programs throughout New York.

Interest Charges and Credits

For the year ended December 31, 2010, total interest charges decreased approximately $1 million attributable to a lower interest rates on variable rate debt and lower outstanding debt balances.

For the year ended December 31, 2009, total interest charges increased approximately $6 million due to higher debt balances outstanding and higher interest rates on the fixed rate debt which refunded variable rate securities.

Cash, Cash Equivalents, and Investments

The Authority's cash, cash equivalents, and investments totaled approximately $479 million, $496 million, and $258 million at December 31, 2010, 2009, and 2008, respectively. The decrease from 2009 to 2010 is primarily due to higher debt maturities than bond issuances during 2010. The increase from 2008 to 2009 is due to the fuel and purchased power supply costs recovered in excess of that incurred and the lower counterparty collateral postings required. The Authority also has the authorization to issue up to $300 million of commercial paper notes, $200 million of which were outstanding at December 31, 2010, 2009 and 2008.

Capital Assets

The Authority continued its investment in transmission and distribution (T&D) upgrades to manage reliability and to enhance capacity needed to meet anticipated customer demands. For the years ended December 31, 2010 and 2009, capital improvements to the T&D system totaled approximately $208 million and approximately $229 million, respectively. These improvements included interconnection equipment, the replacement or upgrade of transformer banks and circuit breakers, new substations, enhanced transmission lines and upgraded command and control equipment.

Regulatory Assets

Regulatory assets decreased approximately $59 million during the year ended December 31, 2010. The decrease is the result of: (i) the recovery of the 2003 deferred excess fuel and purchased power costs totaling approximately $38 million, scheduled to be recovered over a ten-year period which began January 1, 2004, in accordance with the Authority's tariff; (ii) the recovery of the New York State special assessment totaling $45 million; (iii) the scheduled recovery of approximately $41 million related to the Shoreham Property Tax Settlement Agreement through a surcharge on billings for electric service to customers residing in Suffolk County (the Shoreham surcharge), which began in 2003 (as discussed in greater detail in note 3 to the financial statements); and (iv) the amortization of deferred interconnection facility costs totaling $2 million. These decreases were partially offset by: (i) carrying charges of $31 million on the Shoreham Property Tax Settlement Agreement related credits for the year; and (ii) the deferral of the 2010 special assessment paid to New York State (NYS) totaling $36 million.

Regulatory assets decreased approximately $128 million from December 31, 2008 to December 31, 2009. The decrease is the result of: (i) the negative mark-to-market valuation on the Authority's fuel and purchased power derivatives totaling approximately $137 million; (ii) the recovery of the 2003 deferred excess fuel and purchased power costs totaling approximately $35 million, scheduled to be recovered over a ten-year period which began January 1, 2004, in accordance with the Authority's tariff; and (iii) the scheduled recovery of approximately $36 million related to the Shoreham Property Tax Settlement Agreement through a surcharge on billings for electric service to customers residing in Suffolk County (the Shoreham surcharge), which began in 2003 (as discussed in greater detail in note 3 to the financial statements). These decreases were partially offset by: (i) carrying charges on the Shoreham Property Tax Settlement Agreement related credits totaling approximately $31 million for the year; (ii) the deferral of the 2009 NYS special assessment totaling $37 million (since LIPA's rates did not include the recovery until 2010, the 2009 assessment was deferred to be collected ratably from

ratepayers over the next four years); and (iii) approximately $12 million of incremental costs associated with the Southampton Visual Benefits Assessment (VBA) Agreement between the Authority and the Town of Southampton (Town). In May 2008, the Authority and the Town reached an agreement allowing the Authority to collect over a 20-year period any incremental costs (plus interest) associated with installing an underground transmission line.

Regulatory Liabilities

For the year ended December 31, 2010, the regulatory liabilities increased by approximately $102 million resulting primarily from (i) the establishment of a regulatory liability totaling $129 million resulting from the revised unbilled receivable estimate; (ii) the excess recovery of fuel and purchased power supply costs recovered totaling $136 million which will be returned to customers through reductions in the FPPCA in 2011; and (iii) the excess collection of the 2010 efficiency and renewable charge totaling $11 million. These increases were partially offset by the return of the 2009 excess recovery of fuel and purchased power supply costs totaling $174 million.

For the year ended December 31, 2009, the regulatory liabilities increased by approximately $162 million resulting primarily from the fuel and purchased power supply costs recovered in excess of costs incurred which was returned to customers through reductions in the FPPCA in 2010.

Debt

The Authority's debt, including current maturities, is comprised of the following instruments (amounts in thousands):

	Balance at December 31,		
	2010	**2009**	**2008**
General Revenue Bonds	$ 5,945,934	5,924,664	5,722,633
Subordinated Revenue Bonds	551,450	576,705	785,825
Commercial Paper Notes	200,000	200,000	200,000
NYSERDA Notes	155,420	155,420	155,420
	$ 6,852,804	6,856,789	6,863,878

During 2010, debt decreased approximately $4 million resulting from scheduled maturities of approximately $225 million and the refunding of $212 million outstanding insured variable rate debt. This was partially offset by: (i) the issuance of Electric System General Revenue Bonds Series 2010A totaling approximately $193 million (plus premium of approximately $20 million) which was used for the purpose of the $212 million refunding; (ii) the issuance of the Electric System General Revenue Bonds Series 2010B totaling $210 million which will be used to finance the Authority's on going capital improvements program; and (iii) the accretion of the capital appreciation bonds totaling approximately $30 million.

During 2009, debt decreased approximately $7 million resulting from scheduled maturities of approximately $242 million and the refunding of $231 million outstanding insured variable rate debt. This was partially offset by: (i) the issuance of Electric System General Revenue Bonds Series 2009A totaling approximately

$436 million which was used for the purpose of the refunding and the remainder used to finance the Authority's on-going capital improvements program; and (ii) the accretion of the capital appreciation bonds totaling approximately $30 million.

For a full discussion on the Authority's refunding activities during 2010 and 2009, see note 9 to the financial statements.

Risk Management

The Authority is routinely exposed to commodity and interest rate risk. In order to attempt to mitigate such exposure, the Authority formed an Executive Risk Management Committee to strengthen executive management oversight for the risk mitigation activities of the Authority. In addition, the Authority retains an external consultant specializing in risk management, energy markets and energy trading to enhance the Authority's understanding of these areas.

The risk management program is intended to identify exposures to movements in fuel and purchased power prices, quantify the impact of these exposures on the Authority's financial position, liquidity and the FPPCA and attempts to mitigate the exposures in line with the Authority's identified levels of risk tolerance. The Authority actively manages the program in both upward and downward trending markets and adjusts its positions as necessary in an attempt to mitigate the impact of potentially unfavorable market movements. At December 31, 2010, 2009 and 2008 the Authority had posted approximately $365,000, $46 million, and $229 million, respectively, of collateral to its counterparties in connection with its energy commodity hedge positions. No collateral was held by or posted by the Authority with respect to its interest rate derivatives.

In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the Authority records its hedging and investment derivatives at fair value and records deferred inflows and outflows for changes in fair values on hedging derivatives and defers as unrealized gains and losses changes in fair value for investing derivatives in accordance with its rate making practices. For a further discussion on these matters, see note 4 of the financial statements.

Fuel and purchased power transactions – For the year ended December 31, 2010, the Authority had realized losses of $169 million and recognized $5 million of option premium amortization which increased fuel and purchased power costs by $174 million. The Authority also recorded deferred outflow (unrealized loss) and deferred charges on commodity derivatives of approximately $123 million, reflecting the negative mark-to-market on the Authority's fuel derivative positions. For the year ended December 31, 2009, the Authority had realized losses of $106 million and recognized $38 million of option premium amortization which increased fuel and purchased power costs by $144 million. The Authority also recorded a deferred outflow (unrealized loss) on commodity derivatives of approximately $180 million, reflecting the negative mark-to-market on the Authority's fuel derivative positions.

Interest rate transactions – At December 31, 2010 and 2009, the Authority recorded deferred outflows of $85 million and $67 million, respectively, related to its interest rate hedging derivatives. The Authority also recorded net unrealized fair value losses on its investment derivatives of approximately $154 million and $72 million, respectively. Any gains or losses resulting from changes in the mark-to-market valuations on investment derivatives are deferred, and will be recognized when realized consistent with FASB ASC 980 *Regulated Operations* (previously SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*).

Power Supply

The Authority has entered into numerous agreements for capacity and energy necessary to continue to satisfy the energy demand of Long Island, while increasing the diversity of its fuel mix alternatives.

For additional information on power purchase agreements and its related accounting treatments, see notes 3 and 12 to the financial statements.

Investment Ratings

Below are the Authority's securities as rated by Moody's Investors Service (Moody's), Standard and Poor's Ratings Services (S&P), and Fitch Ratings (Fitch):

	Investment ratings		
	Moody's	**S&P**	**Fitch**
Senior Lien debt	A3	A-	A

Certain Senior and all Subordinated Lien debt and the Commercial Paper notes are supported by either a Letter of Credit (LOC) or are insured against default. Such debt carries the higher of the ratings of the credit support provider (LOC bank or insurance company), or that of the Authority.

Contacting the Long Island Power Authority

This financial report is designed to provide our bondholders, customers, and other interested parties with a general overview of the Authority's finances and to demonstrate its accountability for the funds it receives. If you have any questions about this report or need additional information, contact the Authority at 333 Earle Ovington Blvd., Suite 403, Uniondale, New York 11553, or visit our website at www.lipower.org.

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Balance Sheets

December 31, 2010 and 2009

(Dollars in thousands)

Assets and Deferred Outflows		2010	2009
Current assets and deferred outflows:			
Cash and cash equivalents	$	363,319	371,264
Investments		115,707	124,283
Counterparty collateral – posted by the Authority		365	46,340
Accounts receivable (net of allowance for doubtful accounts of $32,519, at December 31, 2010 and 2009)		565,339	246,670
Other accounts receivable		80,617	104,872
Fuel inventory		167,630	156,029
Deferred charges		2,744	2,372
Deferred outflow – commodity derivatives		90,341	110,556
Material and supplies inventory		7,432	8,276
Interest receivable		22	28
Prepayments and other current assets		13,467	7,440
Total current assets and deferred outflows		1,406,983	1,178,130
Noncurrent assets and deferred outflows:			
Utility plant and property and equipment, net		6,431,896	6,459,718
Promissory notes receivable – KeySpan Energy		155,425	155,425
Nonutility property and other investments		80,703	74,679
Other long term receivables		65,145	72,657
Deferred outflow – commodity derivatives		24,098	65,782
Deferred outflow – financial derivatives		81,729	66,705
Deferred charges		130,072	86,376
Regulatory assets:			
New York State assessment		27,788	37,040
Southampton visual benefit assessment		11,900	12,070
Shoreham property tax settlement		542,798	552,929
Fuel and purchased power costs recoverable		148,004	187,240
Acquisition adjustment (net of accumulated amortization of $1,577,670 and $1,466,296, respectively)		2,487,366	2,629,216
Total noncurrent assets and deferred outflows		10,186,924	10,399,837
Total assets and deferred outflows	$	11,593,907	11,577,967

See accompanying notes to basic financial statements.

Liabilities and Net Assets		2010	2009
Current liabilities:			
Short-term debt	$	200,000	200,000
Current maturities of long-term debt		238,100	224,960
Current portion of capital lease obligations		135,710	127,953
Accounts payable and accrued expenses		362,820	362,384
Regulatory liabilities:			
Fuel and purchased power costs refundable		181,884	164,520
Energy efficiency cost recovery variances		11,108	—
Commodity derivative instruments		93,086	112,928
Accrued payments in lieu of taxes		46,389	41,091
Accrued interest		53,616	52,642
Customer deposits		28,701	28,103
Claims and damages due within one year		55,102	18,659
Total current liabilities		1,406,516	1,333,240
Noncurrent liabilities:			
Long-term debt		6,363,244	6,394,949
Borrowings		110,297	114,520
Commodity derivative instruments		29,712	66,611
Financial derivative instruments		170,121	81,277
Regulatory liability – fuel and purchased power costs refundable		74,085	—
Capital lease obligations		2,834,416	2,970,126
Asset retirement obligation		73,675	73,680
Deferred credits		133,024	203,637
Claims and damages		21,648	20,207
Total noncurrent liabilities		9,810,222	9,925,007
Net assets (deficit):			
Invested in capital assets net of related debt		(87,016)	(171,412)
Restricted		365	46,340
Unrestricted		463,820	444,792
Total net assets		377,169	319,720
Total liabilities and net assets	$	11,593,907	11,577,967

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2010 and 2009

(Dollars in thousands)

		2010	2009
Operating revenues – electric sales	$	3,859,549	3,312,160
Operating expenses:			
Operations – fuel and purchased power		1,879,839	1,566,005
Operations and maintenance		1,129,931	864,576
General and administrative		41,852	40,153
Depreciation and amortization		251,117	254,944
Payments in lieu of taxes		281,609	249,652
Total operating expenses		3,584,348	2,975,330
Operating income		275,201	336,830
Nonoperating revenues and expenses:			
Other income, net:			
Investing income		6,237	5,029
Grant income		66,294	—
Carrying charges on regulatory asset		31,576	31,860
Other		8,632	(3,370)
Total other income, net		112,739	33,519
Interest charges and (credits):			
Interest on long-term debt, net		323,308	328,028
Other interest		14,116	12,333
Allowance for borrowed funds used during construction		(6,933)	(8,462)
Total interest charges		330,491	331,899
Total nonoperating revenues and expenses		(217,752)	(298,380)
Change in net assets		57,449	38,450
Total net assets, beginning of year		319,720	289,178
Cumulative effect of a change in accounting principle (note 4)		—	(7,908)
Total net assets, end of year	$	377,169	319,720

See accompanying notes to basic financial statements.

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Statements of Cash Flows

Years ended December 31, 2010 and 2009

(Dollars in thousands)

		2010	2009
Cash flows from operating activities:			
Received from customers for system sales, net of refunds	$	3,738,230	3,528,777
Other operating revenues received		55,136	89,742
Paid to suppliers and employees:			
Operations and maintenance		(1,113,622)	(982,774)
Fuel and purchased power		(1,841,547)	(1,604,744)
Payments in lieu of taxes		(389,049)	(351,769)
Collateral on fuel derivative transactions, net		45,975	182,945
Net cash provided by operating activities		495,123	862,177
Cash flows from investing activities:			
Sales of investment securities		344,204	34,620
Purchase of investment securities		(335,275)	(126,234)
Fair value adjustment – short term securities		(15)	93
Realized gains on short term securities		(338)	(201)
Earnings received on investments		1,134	2,783
Other		1,925	(2,453)
Net cash provided by (used in) investing activities		11,635	(91,392)
Cash flows from noncapital financing related activities:			
Grant proceeds		50,691	—
Net cash provided by noncapital related activities		50,691	—
Cash flows from capital and related financing activities:			
Capital and nuclear fuel expenditures		(248,912)	(282,578)
Proceeds from promissory note		8,075	8,075
Proceeds from the issuance of bonds, net of discount/premium		421,759	445,045
Bond issuance costs		(2,379)	(3,112)
Interest paid, net		(306,977)	(319,639)
Redemption of long-term debt		(436,960)	(472,470)
Net cash used in capital and related financing activities		(565,394)	(624,679)
Net (decrease) increase in cash and cash equivalents		(7,945)	146,106
Cash and cash equivalents at beginning of year		371,264	225,158
Cash and cash equivalents at end of year	$	363,319	371,264
Reconciliation to net cash provided by operating activities:			
Operating income	$	275,201	336,830
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		251,117	254,944
Nuclear fuel burned		7,466	6,690
Shoreham surcharges		40,987	35,923
Provision for claims and damages		218,805	50,683
Accretion of asset retirement obligation		4,236	2,729
Amortization of settlement benefits to ratepayers		(48,000)	(100,000)
Other, net		(5,518)	(1,730)
Changes in operating assets and liabilities:			
Accounts receivable, net		(271,204)	(12,334)
Regulatory asset – New York State assessment		9,252	(37,040)
Fuel and material and supplies inventory		(10,757)	(25,737)
Deferred fuel and purchased power costs		129,385	197,021
Counterparty collateral		45,975	182,945
Claims, damages and storm restoration		(180,921)	(39,847)
Accounts payable, accrued expenses and other		29,099	11,100
Net cash provided by operating activities	$	495,123	862,177

See accompanying notes to basic financial statements.

(1) Basis of Presentation

The Long Island Power Authority (Authority) was established as a corporate municipal instrumentality of the State of New York (State), constituting a political subdivision of the State, created by Chapter 517 of the Laws of 1986 (the LIPA Act). As such, it is a component unit of the State and is included in the State's annual financial statements.

The Authority's reporting entity is comprised of itself and its operating subsidiary the Long Island Lighting Company (LILCO), a wholly owned subsidiary of the Authority doing business as LIPA. LIPA has one share of $1 par value common stock authorized, issued and outstanding, which is held by the Authority.

As the Authority holds 100% of the common stock of LIPA and controls the operations of LIPA, under Governmental Accounting Standard Board Statement No. 14, *The Financial Reporting Entity*, LIPA is considered a blended component unit of the Authority and the assets, liabilities and results of operations are consolidated with the operation of the Authority for financial reporting purposes.

The Authority and its blended component unit, LIPA, are referred to collectively, as the "Authority" in the financial statements. All significant transactions between the Authority and LIPA have been eliminated.

(2) Nature of Operations

The Authority, as owner of the transmission and distribution system located in the New York State Counties of Nassau and Suffolk (with certain limited exceptions) and a small portion of Queens County known as the Rockaways (Service Area), is responsible for supplying electricity to customers within the Service Area. To assist the Authority in meeting these responsibilities, the Authority contracted with KeySpan Energy Corporation (KeySpan), a wholly owned subsidiary of National Grid plc, to provide: operations and management services related to the transmission and distribution system through a Management Services Agreement (MSA); capacity and energy from the fossil fired generating plants of KeySpan, through a Power Supply Agreement (PSA); and, fuel management services through an Energy Management Agreement (EMA) (collectively; the Operating Agreements). Through these contracts, the Authority pays KeySpan directly for these services and KeySpan, in turn, pays the salaries of its employees and fees of its contractors and suppliers. In 2010 and 2009, the Authority paid to KeySpan approximately $2 billion each year under the operating agreements, which includes all fees under such agreements, reimbursement for various taxes and PILOTS, certain fuel and purchased power costs, capital projects, conservation services, research and development and various other expenditures authorized by the Authority. In 2006, the Authority entered into agreements with certain of the KeySpan subsidiary companies to amend the MSA and certain other Operating Agreements. The Amended and Restated MSA has a term that expires on December 31, 2013.

Certain services provided for under the EMA expired on December 31, 2009. Through a competitive procurement process, the Authority has selected two new providers of those services. Both contracts commenced on January 1, 2010 for an initial five-year period and are subject to an extension for a period of five years at the Authority's option. Both contracts have been approved by the New York State Comptroller and the Attorney General.

The Authority has a right of first refusal to purchase, on substantially the same terms as offered, all (but not less than all) GENCO generating facilities which GENCO may decide to sell to a foreign or foreign-controlled entity during the term of the PSA (Right of First Refusal).

In consideration for the Authority's waiver of its rights under the change of control provisions in the Operating Agreements as a result of the National Grid acquisition of KeySpan in 2007, the Authority and National Grid reached an agreement (the Agreement and Waiver). Under the Agreement and Waiver, National Grid agreed to pay the Authority approximately $91 million over a period of seven years representing the Authority's guaranteed share of the synergy savings resulting from the National Grid acquisition of KeySpan. The Authority recorded the net present value (using a 7.8% interest rate) totaling approximately $68 million. As of December 31, 2010, the Authority has a current receivable of approximately $47 million and a noncurrent other receivable of approximately $25 million outstanding.

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 service to its customers. 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 Administrative Services Agreement.

(3) Summary of Significant Accounting Policies

(a) General

The Authority 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 Authority complies with all authoritative pronouncements applicable to nongovernmental entities (i.e., pronouncements of the Financial Accounting Standards Board) that do not conflict with GASB pronouncements.

The operations of the Authority are presented as an enterprise fund following the accrual basis of accounting in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

(b) Accounting for the Effects of Rate Regulation

The Authority is subject to the provisions of FASB ASC 980 *Regulated Operations* (previously 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 Authority records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively.

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.

In order for a rate-regulated entity to continue to apply the provisions of FASB ASC 980 *Regulated Operations*, it must continue to meet the following three criteria: (i) 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; (ii) the regulated rates must be designed to recover the specific enterprise's costs of providing the regulated services; and (iii) 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 Authority'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 Authority believes that FASB ASC 980 *Regulated Operations* continues to apply.

The Authority regularly assesses whether regulatory assets and liabilities are probable of recovery or refund. If recovery or refund is not approved by the Board of Trustees, which sets rates charged to customers, or if it becomes no longer probable that these amounts will be realized or refunded they would need to be written-off and recognized in the current period results of operations. In addition the acquisition adjustment totaling approximately $2.5 billion would be evaluated for impairment.

(c) Cash and Cash Equivalents and Investments

Funds held by 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. Certain investments and cash and cash equivalents have been designated by the Authority's Board of Trustees to be used for specific purposes, including rate stabilization, debt service, and capital expenditures. Investments' carrying values are reported at fair market value. For a further discussion, see note 8.

(d) Counterparty Collateral

The Authority and its counterparties require collateral posting for mark-to-market valuations that exceed established credit limits. At December 31, 2010 and 2009, the Authority was required to post approximately $365,000 and $46 million, respectively, of collateral to various counterparties, which is considered a restricted net asset.

(e) Utility Plant and Property and Equipment

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 borrowed 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. For a further discussion, see note 6.

Property and equipment represents leasehold improvements, office equipment and furniture and fixtures of the Authority.

(f) Fuel Inventory

Under the terms of the EMA and various Power Purchase Agreements, the Authority owns the fuel oil used in the generation of electricity at the facilities under contract to the Authority. Fuel inventory represents the value of low sulfur and other liquid fuels that the Authority had on hand at each year-end in order to meet the demand requirements of these generating stations. Fuel inventory is valued using the weighted average cost method.

(g) Material and Supplies Inventory

This represents the Authority's share of material and supplies inventory needed to support the operation of the Nine Mile Point 2 (NMP2) nuclear power station.

(h) Promissory Note Receivable

As part of the 1998 Merger, KeySpan issued promissory notes to the Authority of approximately $1.048 billion. As of December 31, 2010 and 2009, approximately $155 million remained outstanding. The fair market value of the note at December 31, 2010 and 2009 is approximately $156 million. The interest rates and timing of principal and interest payments on the promissory notes from KeySpan are identical to the terms of certain LILCO indebtedness assumed by the Authority in the merger. KeySpan is required to make principal and interest payments to the Authority thirty days prior to the corresponding payment due dates.

(i) Nonutility Property and Other Investments

The Authority's nonutility property and other investments consist primarily of the Nine Mile Point 2 Decommissioning Trust Funds (the Trusts). At December 31, 2010 and 2009, the value of the Trusts was approximately $81 million and $75 million, respectively.

(j) Other Long-Term Receivables

This represents the net present value of synergy savings credits due from National Grid resulting from their purchase of KeySpan as discussed in note 2. The Authority also recorded the net present value of a receivable related to the partial reimbursement of costs to construct the interconnection facilities related to the Neptune cable, which is to be paid to the Authority over a period of 20 years.

(k) Deferred Outflows

This represents the accumulated changes in the fair value of a derivative instrument that qualifies for hedge accounting as it is deemed effective. Under hedge accounting, the change in the fair value of a hedging derivative instrument is reported as a deferred inflow or deferred outflow on the Balance Sheets.

The change in fair value of ineffective hedges and other investment derivative instruments are reported as deferred charges, as the Authority is subject to the provisions of FASB ASC 980

Regulated Operations, and all such gains and losses are deferred until realized, which corresponds to the period they are recovered in rates.

(l) Deferred Charges

Deferred charges consists of primarily of (i) the balance of the ineffective investment derivative instruments; (ii) the unamortized balance of costs incurred to issue long-term debt which are amortized to interest expense over the life of the debt issuance to which they relate; and (iii) costs related to the transition to two new service providers who, after competitive solicitation were selected to provide support services to LIPA's fuel hedging program which commenced on January 1, 2010.

(m) Regulatory Assets

Shoreham Property Tax Settlement (Settlement)

In January 2000, the Authority reached 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 regarding the over assessment of the Shoreham Nuclear Power Station. As required under the terms of the agreement, the Authority was required to issue $457.5 million of rebates and credits to customers over the five-year period which began May 29, 1998. In order to fund such rebates and credits, the Authority used the proceeds from the issuance in May 1998 of its Capital Appreciation Bonds, Series 1998A Electric System General Revenue Bonds totaling approximately $146 million and the issuance in May 2000 of approximately $325 million of Electric System General Revenue Bonds, Series 2000A.

As provided under the Settlement, beginning in June 2003, Suffolk County customers' bills include a surcharge (the Suffolk Surcharge) to be collected over the succeeding approximate 25 year period to repay the debt service and issuance costs on the bonds issued by the Authority to fund the Settlement as well as its cost of pre-funding certain rebates and credits.

As future rates will be established at a level sufficient to recover all such costs identified above, the Authority recorded a regulatory asset in accordance with FASB ASC 980 *Regulated Operations*. The balance of the Shoreham property tax settlement regulatory asset as of December 31, 2010 and 2009 was approximately $543 million and $553 million, respectively. The balance represents rebates and credits issued to customers, costs of administering the program plus annual debt service costs on the bonds identified above less surcharges collected since 2003.

Southampton Visual Benefit Assessment

The Authority has recorded the incremental costs (approximately $12 million) incurred to bury a portion of a transmission cable routed through the Town of Southampton (Town) that will be recovered from certain customers of the Town over a period of 20 years beginning in 2009.

New York State Temporary Energy and Utility Conservation Assessment

As a result an amendment to the Public Service Law effective April 1, 2009, utilities in the State are required to collect from all customers a special assessment which will be paid directly to the State for a five year period that began in 2009. As the Authority's rates did not include the recovery of this assessment until approved by the Board of Trustees effective January 1, 2010, the 2009 assessment has been deferred and will be collected ratably from customers over the next four years.

Fuel and Purchased Power Costs Recoverable

The Authority's tariff includes a fuel recovery provision – the Fuel and Purchased Power Cost Adjustment (FPPCA) that provides for the recovery of fuel and purchased power costs in the period incurred, up to amounts sufficient to allow the Authority to earn a financial target of $75 million with a variance of $50 million above or below such amount in each year. Should fuel and purchased power prices change such that Authority would exceed or fail to meet its financial target, the FPPCA would be reduced or increased accordingly. In no event, however, may Authority recover an amount that exceeds its fuel and purchased power costs incurred.

Prior to 2004, the Authority deferred a portion of its excess fuel and purchased power costs and collected those costs in subsequent years. In order to transition to a current period recovery method, the Authority deferred, in 2003, approximately $365 million of unrecovered fuel and purchased power costs to be recovered over a 10-year period beginning January 1, 2004. As of December 31, 2010 and 2009, the uncollected balance of this deferral totaled approximately $110 million and $148 million, respectively.

Also recorded as fuel and purchased power costs recoverable are amounts incurred related to various energy projects, whose amortization is charged to fuel and purchased power costs over the period of benefit (the life of the power purchase agreement.) As of December 31, 2010 and 2009, the uncollected balance of this deferral totaled approximately $38 million and $39 million, respectively.

(n) Acquisition Adjustment

The acquisition adjustment, an intangible asset, represents the difference between the purchase price paid and the net assets acquired from LILCO and is being amortized and recovered through rates on a straight-line basis using a 35-year life. The net unamortized value of the acquisition adjustment decreased approximately $30 million to reflect the true up resulting from the unbilled revenue change discussed in Revenues.

(o) Capitalized Lease Obligations

Capitalized lease obligations represent the net present value of various contracts for the capacity and/or energy of certain generation and transmission facilities in accordance with FASB ASC 840 Leases (previously Emerging Issues Task Force No. 01-08, *Determining Whether an Arrangement Contains a Lease* and previously SFAS No. 13, *Accounting for Leases*). Upon satisfying the capitalization criteria, the net present value of the contract payments is included in both Utility Plant and Capital Lease Obligations.

The Authority recognizes in fuel and purchased power expense an amount equal to the contract payment of the capitalized leases discussed above, as allowed through the ratemaking process. The value of the asset and the obligation is reduced each month so that the balance sheet properly reflects the remaining value of the asset and obligation at each month end.

For a further discussion on the capitalization of capacity and/or energy contracts, see note 12.

(p) Deferred Credits

Deferred credits primarily represent amounts received from KeySpan/National Grid (Grid benefits) as a result of certain renegotiated agreements. The Board authorized $48 million and $100 million of these Grid benefits to be used during 2010 and 2009, respectively, as a reduction to the amounts recoverable from customers through the FPPCA, and in 2009 provided for the establishment of a $10 million fund to assist qualifying low income senior citizens customers which expired in August 2010 with an used balance of approximately $6 million.

(q) Borrowings

Borrowings represent the unamortized balance of cash premiums received at the time of entering into certain financial derivative instruments. The Authority is amortizing such premiums over the life of the instrument in accordance with GASB No. 53.

(r) Commodity and Financial Derivative Instruments

Represents the amount that the Authority believes it would be required to pay in order to terminate these derivative instruments as of December 31, 2010 and 2009 which approximates fair value.

(s) Claims and Damages

Losses arising from claims including workers' compensation claims, property damage, and general liability claims are partially self-insured. Storm losses are self-insured. Reserves for these claims and damages are based on, among other things, experience, and expected loss.

(t) Revenues

Operating revenues are comprised of cycle billings for electric service rendered to customers, based on meter reads, and the accrual of revenues for electric service rendered to customers not billed at month-end. Effective January 1, 2010, the Authority changed its methodology for the accrual of revenues. After an extensive analysis of the prior methodology which based the estimate of unbilled sales on several factors including electrical usage, seasonal factors, rate differentials and line losses, the Authority has determined that a more accurate and appropriate method is to accrue unbilled revenues by estimating unbilled consumption at the customer meter.

Application of the new methodology to the prior years resulted in an increase of net assets of approximately $72 million, $62 million from increased sales and approximately $10 million due to reduced amortization related to a reserve acquired from LILCO in 1998.

All other revenue is reported as nonoperating revenue when service is rendered. Fuel and purchased power supply costs recoveries collected in excess of that incurred are deferred until the FPPCA rate is adjusted. For the years ended December 31, 2010 and 2009, the Authority received approximately 53% of its revenues from residential sales, 43% from sales to commercial and industrial customers, and the balance from sales to public authorities and municipalities.

(u) Depreciation and Amortization

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 average composite depreciation rate is 2.85% and 2.85% for December 31, 2010 and 2009, respectively.

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. Property and equipment is being depreciated over its estimated useful life using the straight-line method.

The following estimated useful lives and capitalization thresholds are used for utility property:

Category	Useful life	Capitalization threshold
Generation – nuclear	39 – 46 years	$ 200
Transmission and distribution	20 – 48 years	200
Common	4 – 41 years	200
Nuclear fuel in process and in reactor	6 years	—
Generation assets under capital lease	10 – 25 years	—

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

The Authority makes 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. In addition, the Authority has entered into various PILOT arrangements for property it owns, upon which merchant generation and transmission is built.

(w) Allowance for Borrowed Funds Used during Construction

The allowance for borrowed funds used during construction (AFUDC) is the net cost of borrowed funds used for construction purposes. AFUDC is not an item of current cash income. AFUDC is computed monthly on a portion of construction work in progress, and is shown as a net reduction in interest expense. The AFUDC rates were 5.09% and 5.19% for the years ended December 31, 2010 and 2009, respectively.

(x) Income Taxes

The Authority is a political subdivision of the State of New York and, therefore, is exempt from Federal, state, and local income taxes.

(y) Regulatory Liability – Fuel and Purchased Power Costs Refundable

Regulatory liabilities represent amounts that are expected to be refunded to customers through the ratemaking process. In accordance with the FPPCA, the Authority must return any FPPCA revenues it recovers in excess of the fuel and purchased power costs it incurs. Any such over recoveries are recognized as regulatory liabilities.

A regulatory liability for approximately $129 million was recorded in 2010. This amount resulted from the change in the unbilled revenue estimate and represents deferred revenue that will be refunded to customers. The Authority will return this excess to customers over a three year period $55 million in 2011 and $37 million in 2012 and 2013.

(z) Asset Retirement Obligation

The Authority follows FASB ASC 410 *Asset Retirement and Environment Obligations* (previously SFAS No. 143, *Accounting for Asset Retirement Obligations*). An Asset Retirement Obligation (ARO) exists when there is a legal obligation associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, or development and/or normal operation of the asset. The Authority, as an 18% owner of Nine Mile Point 2 (NMP2) Nuclear Power Station, has a legal obligation associated with its retirement. This obligation is offset by the capitalization of the asset which is included in "Utility plant and property and equipment". As of December 31, 2010 and 2009, the NMP2 asset retirement obligation totaled approximately $67 million and $68 million, respectively. The Authority maintains a Trust for the decommissioning of NMP2. The decommissioning funds are reported at their fair market value and any unrealized gains or losses are deferred as a component of the ARO in accordance with FASB ASC 980 *Regulated Operations* and have no impact to the Authority's net assets. For a further discuss on the Authority's NMP2 decommissioning obligations and related funding see note 7.

Additionally, FASB ASC 410 *Asset Retirement and Environment Obligations* defines the term conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. As of December 31, 2010 and 2009, the asset retirement obligation for the Authority's utility assets totaled approximately $7 million and $6 million, respectively.

A summary of the asset retirement obligation activity of the Authority for the years ended December 31, 2010 and 2009 is included below (amount in thousands):

		2010	2009
Asset retirement obligation:			
Beginning balance	$	73,680	92,558
Changes in fair market value of decommissioning fund		729	977
Change in estimate		(5,063)	(22,584)
Accretion expense		4,329	2,729
Balance at December 31,	$	73,675	73,680

(aa) Long-Lived Assets

Long-lived assets and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that there is a significant unexpected decline in the service utility of a capital asset. Impairment is measured using one of three approaches that best reflects the decline in service utility. Assets to be disposed of and assets held for sale are reported at the lower of the carrying amount or fair value less costs to sell.

(bb) Use of Estimates

The accompanying financial statements were prepared in conformity with U.S. 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.

(cc) Reclassifications

Certain prior year amounts have been reclassified in the financial statements to conform to the current year presentation. In prior years, approximately $11 million was recorded as a direct reduction to accounts receivable for specific accounts which had been determined to be potentially uncollectible. This amount has been reclassified to the allowance for doubtful accounts. The net effect has no impact on net accounts receivable as it is a reclassification within accounts receivable. This also has no impact on change in net assets.

(dd) Recent Accounting Pronouncements

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This statement requires that the fair value of financial arrangements called "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. If a derivative effectively hedges (significantly reduces) an identified risk of rising or falling cash flows or fair values, then its annual fair value changes are deferred until the hedged transaction occurs or the derivative ceases to be effective. Alternatively, the annual change in the fair value of other derivatives should be reported immediately as investment income or loss, which the

Authority then defers in accordance with its tariff as provided under FASB 71. Additional information about derivatives should be disclosed in the notes to the financial statements, including identification of the risks to which hedging derivative instruments expose the Authority. GASB No. 53 became effective for the Authority beginning in 2010. For a further discussion, see note 4.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55). GASB No. 55 incorporates the hierarchy of GAAP for state and local governments into GASB's authoritative literature. Prior to this standard, the GAAP hierarchy was included in an American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards, rather than in the GASB's literature. This statement was effective for the Authority upon issuance and does not have a material impact on the Authority's financial statements.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance contained in the AICPA Statements on Auditing Standards* (GASB No. 56). GASB No. 56 incorporates certain accounting and financial reporting guidance presented in the AICPA'S Statements on Auditing Standards into the GASB's authoritative literature. This statement was effective for the Authority upon issuance and does not have a material impact on its financial statements.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple – Employer Plans* (GASB No. 57). GASB No. 57 addresses issues related to the use of alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer OPEB plans. The statement amends previous GASB statements on OPEB plans, and will improve the consistency of reporting for OPEB plans. This statement is effective for the Authority beginning in 2012. The Authority does not believe this statement will have a material impact on its financial statements.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus* (GASB No. 59). GASB No. 59 addresses topics relating to the reporting and disclosure of certain financial instruments and external investment pools, and includes some clarifications to GASB No. 53. This statement becomes effective in 2011. The Authority does not believe this statement will have a material impact on its financial statements.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB No. 62). GASB No. 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 included in: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure that do not conflict with or contradict GASB pronouncements. The statement also supersedes Statement No. 20*, Accounting and Financial Reporting for Proprietary Fund Accounting* which eliminates the election for business-type activities to apply post November 30, 1989 FASB Statements and Interpretations that

do not conflict with GASB pronouncements. This statement becomes effective 2012. The Authority does not believe this statement will have a material impact on its financial statements.

(4) Derivative Instruments

In 2010, the Authority implemented GASB No. 53 which requires retroactive application by restating all prior periods presented in the financial statements. The Authority has restated its 2009 financial statements to comply with GASB No. 53 with an approximate $8 million adjustment to its 2009 beginning net assets. The adjustment was primarily due to the change in the method of amortizing the upfront premiums received on certain of the Authority's swaps which are now considered borrowings. For 2010, the Authority recognized approximately $7 million of incremental interest charges as a result of amortizing the upfront premiums as required by GASB No. 53.

The Authority uses derivative instruments to attempt to manage the cash flow impact of interest rate changes and market price fluctuations for the purchase of fuel oil, natural gas and electricity on its customers, net assets and cash flows. The Authority also utilizes financial derivative instruments to attempt to mitigate its exposure to certain market risks associated with operations and does not use derivative financial instruments for trading or speculative purposes. These contracts are evaluated pursuant to GASB No. 53 to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with interest rate and commodity price risk exposures. The fair values of the Authority's derivatives as defined by GASB No. 53 are reported on the Balance Sheets as Derivative Instruments.

The Authority applies hedge accounting for derivative instruments that are deemed effective hedges and under GASB No. 53 are referred to as hedging derivative instruments. Under hedge accounting, changes in the fair value of a hedging derivative instrument is reported as a deferred inflow or deferred outflow on the Balance Sheets until the contract is settled or hedge accounting is terminated.

The Authority's derivative instruments that do not meet the definition of a hedging derivative instrument are referred to as investment derivative instruments. Changes in the fair value of investment derivative instruments are deferred until settled or terminated.

All settlement payments or receipts for hedging derivative instruments are recorded as either fuel and purchased power expense or interest expense for interest rate derivatives on the Statements of Revenues, Expenses and Changes in Net Assets in the period settled. All settlement payments or receipts related to investment derivative instruments are recorded as interest expense or as fuel and purchased power expense in the Statements of Revenues, Expenses and Changes in Net Assets in the period incurred.

A portion of the Authority's fuel and purchased power derivative contracts are exchange-traded contracts with readily available quoted market prices. Another portion is non exchange-traded contracts valued using prices provided by external sources, primarily price quotations available through brokers or over-the-counter, on-line exchanges. The remainder of the fuel and purchased power as well as the financial derivative products represents contracts for which external sources or observable market quotes are not available. These contracts are valued based on various valuation techniques including but not limited to models internal to the Authority's energy risk management consultant based on extrapolation of observable market data with similar characteristics. Contracts valued with prices provided by models and

other valuation techniques make up a significant portion of the total fair value of such derivative contracts. The Authority's policy is to not discount the fair value of each contract using an interest rate which represents default risk associated with a particular counterparty.

The Authority's derivative instruments at December 31, 2010 are as follows (in thousands):

Derivative instrument description		Fair value December 31, 2010	Net change in fair value	Fair value December 31, 2009	Type of hedge	Financial statement classification for changes in fair value
Hedging derivative instruments:						
Financial derivatives:						
Interest Rate Swap 1	$	(27,969)	(11,904)	(16,065)	Cash flow	Deferred outflow
Interest Rate Swap 2		(17,498)	(6,788)	(10,710)	Cash flow	Deferred outflow
Interest Rate Swap 3	$	(81,957)	(27,924)	(54,033)	Cash flow	Deferred outflow
Interest Rate Swap 7		(6,430)	(92)	(6,338)	Cash flow	Deferred outflow
Total	$	(133,854)	(46,708)	(87,146)		
Commodity derivatives:						
Natural Gas Swaps	$	(93,906)	2,550	(96,456)	Cash flow	Deferred outflow
Residual Oil Swaps		(11,648)	(41,744)	30,096	Cash flow	Deferred outflow
Purchased Power Swaps		(10,933)	52,029	(62,962)	Cash flow	Deferred outflow
Natural Gas Basis Swaps		3,523	7,297	(3,774)	Cash flow	Deferred outflow
Residual Oil Options		(535)	12,075	(12,610)	Cash flow	Deferred outflow
Natural Gas Options		(940)	29,693	(30,633)	Cash flow	Deferred outflow
Total	$	(114,439)	61,900	(176,339)		
Investment derivative instruments:						
Financial derivatives:						
Interest Rate Swap 4		(18,133)	(21,066)	2,933	N/A	Deferred charges
Interest Rate Swap 5		(9,067)	(10,535)	1,468	N/A	Deferred charges
Interest Rate Swap 6		(9,067)	(10,535)	1,468	N/A	Deferred charges
Total	$	(36,267)	(42,136)	5,869		
Commodity derivatives:						
Natural Gas Options	$	(19)	2,353	(2,372)	N/A	Deferred charges
Natural Gas Swaps		(8,340)	(7,512)	(828)	N/A	Deferred charges
Total	$	(8,359)	(5,159)	(3,200)		

The terms of the Authority's commodity derivative instruments that were outstanding at December 31, 2010 and 2009 are summarized in the tables below:

	Notional amount ('000s)	Beginning date	Ending date	Authority pays per unit	Authority receives
2010:					
Natural Gas Swaps	62,168 Dths	1/1/2011	12/31/2013	$ 5.06 to 11.06	Natural Gas at Henry Hub
Residual Oil Swaps	1,772 Bbls	1/1/2011	7/31/2013	63.5 to 122.8	Residual Fuel Oil at New York Harbor
Purchased Power Swaps	1,906 Mwhs	1/1/2011	9/30/2013	60.5 to 144	Power at PJM East
Natural Gas Basis Swaps	3,393 Dths	1/1/2011	3/1/2011	0.57 to 3.25	Gas Basis between Henry Hub and Transco Z6, New York
Residual Oil Options	30 Bbls	1/1/2011	2/28/2011	94.35 to 100.35	Residual Fuel Oil at New York Harbor
Natural Gas Options	768 Dths	1/1/2011	10/31/2012	5.85 to 9.5	Natural Gas at Henry Hub

	Notional amount (000's)	Beginning date	Ending date	Authority pays per unit	Authority receives
2009:					
Natural Gas Swaps	56,143 Dths	1/1/2010	12/31/2012	$ 5.3 to 11.73	Natural Gas at Henry Hub
Residual Oil Swaps	2,925 Bbls	1/1/2010	12/31/2012	52.2 to 122.8	Residual Fuel Oil at New York Harbor
Purchased Power Swaps	– Mwhs	1/1/2010	12/31/2010	47 to 147.5	Power at PJM East
Natural Gas Basis Swaps	5,323 Dths	1/1/2010	3/31/2010	1.33 to 5.85	Gas Basis between Henry Hub and Transco Z6, New York
Residual Oil Options	770Bbls	1/1/2010	2/28/2011	53.5 to 102.7	Residual Fuel Oil at New York Harbor
Natural Gas Options	13,345 Dths	1/1/2010	7/31/2011	6.65 to 12.5	Natural Gas at Henry Hub

The terms of the Authority's financial derivative instruments that were outstanding at December 31, 2010 are summarized in the tables below (amounts in thousands):

Financial derivative	Type	Effecitve date	Termination date	Authority pays	Authority receives	Orignal notional	Upfront cash payment
Interest rate:							
Swap 1	Synthetic Fixed	11/12/1998	4/1/2025	4.208%	SIFMA	$ 150,000	$ —
Swap 2	Synthetic Fixed	11/12/1998	4/1/2025	4.208	SIFMA	100,000	—
Swap 3	Synthetic Fixed	6/1/2003	12/1/2029	5.120	69.47% of 1-month LIBOR	587,225	106,400
Swap 4	Basis Swap	7/1/2004	8/15/2033	SIFMA	70.50% of 1-month LIBOR	502,090	17,500
Swap 5	Basis Swap	7/1/2004	8/15/2033	SIFMA	70.50% of 1-month LIBOR	251,045	8,750
Swap 6	Basis Swap	7/1/2004	8/15/2033	SIFMA	70.50% of 1-month LIBOR	251,045	8,750
Swap 7	Synthetic Fixed	7/11/2006	9/1/2015	4.110%	CPI + 0.765%	110,715	—

In May 2010 the Authority undertook a current refunding of a portion of the VRDOs hedged by Interest Rate Swap 3 and the interest rate swap was reassigned to a new underlying notional with identical terms. This refunding and reassignment effectively terminated the original hedge. At December 31, 2009, Interest Rate Swap 3 was considered a hedging derivative instrument. In accordance with GASB No. 53, at the time of a termination event related to a current refunding of the hedged debt, the balance of the amounts in deferred outflows are to be included in the net carrying amount of the refunded debt for the purposes of calculating the deferred loss on refunding. As only a portion of the hedged debt was refunded the Authority prorated the deferral. The $82 million deferred outflow at the refunding date was apportioned to the deferred loss on refunding ($32 million) and to deferred charges ($56 million). The change in fair value of Swap 3 from the refunding date to December 31, 2010 is reported as a deferred outflow ($5.8 million) as the Swap was determined to be effective at December 31, 2010.

Collateral Posting: Under certain conditions, the Authority may be required to post collateral related to its interest rate derivative instruments. Under the terms of its interest rate derivative agreements, collateral may be required if the Authority's credit ratings and, in the case of insured swaps, the credit ratings of any related interest rate swap insurer, fall below minimum levels as provided in each swap agreement, and the Authority fails to provide alternative credit enhancements. Collateral for its financial derivatives, if required, would approximate fair value. The Authority has never been required to posted collateral under its interest rate derivative instruments.

The Authority has collateral requirements for all of its commodity derivatives. Collateral is required to be posted with the counterparty when the negative fair value of the commodity derivative instrument exceeds the unsecured line of credit established with each counterparty as listed in the counterparty table below. In the event of collateral being posted, the value will equal the difference between the fair value and the amount of the unsecured line of credit. At December 31, 2010 and 2009, the Authority had posted collateral with counterparties of approximately $0.4 million and $46.4 million, respectively.

The Authority is exposed to the following risks related to derivative instruments as defined by GASB No. 53:

Credit Risk: The risk that the counterparty (or its guarantor) will default on its obligations under the agreement. Currently, counterparty risk for the Authority is limited as the termination values of the

transactions are generally negative. Additionally, the Authority has sought to limit counterparty risk by contracting only with highly rated counterparties or requiring guarantees of the counterparty's obligations. Below is a table with the credit-ratings of the Authority's counterparties:

Counterparty	Moody's	S&P	Authority's unsecured line of credit (millions)
Barclays Bank PLC	Aa3	AA-	$ 40
BP Corporation North America Inc.	Baa1	A	10
Credit Suisse Energy LLC	Aa1	A+	40
Deutsche Bank AG	Aa3	A+	50
J. Aron & Company	A1	A	40
JPMorgan Chase Bank, N.A.	Aa1	AA-	25
Macquarie Energy LLC	A1	A	10
Lehman Brothers Financial Products Inc.	Not rated	Not rated	—
Societe Generale	Aa2	A+	25
UBS AG, Stamford Branch	Aa3	A+	—
Bear Stearns Capital Markets Inc.	Aa3	A+	—
Citibank, N.A. New York	A1	A+	—
Merrill Lynch Commodities, Inc.	A2	A	20
Bank of America Corp	A2	A	—
Morgan Stanley Capital Group Inc.	A2	A	40

Termination Risk: Termination risk is the risk that a derivative could be terminated by a counterparty prior to its scheduled maturity due to a contractual event with the Authority owing a termination payment and no longer meeting the objective of the hedge. As long as the Authority fulfills its obligations under the contracts and does not default under the agreements, the counterparties do not have the right to terminate these agreements. The Authority believes that termination risk is low because the counterparties may terminate the agreements only upon the occurrence of specific events such as, payment defaults, other defaults which remain uncured for 30 days after notice, bankruptcy or insolvency of the Authority (or similar events), or a downgrade of the Authority's and its insurer's, if any, credit rating below investment grade. If, at the time of termination, the mark-to-market of the derivative was a liability of the Authority, the Authority could be required to pay that amount to the counterparty. Termination risk associated with all of the Authority's derivatives is limited to the fair value.

Basis Risk: The Authority is exposed to basis risk on certain of its pay-fixed interest rate swaps because the variable-rate payments received by the Authority (SIFMA, 69.47% of LIBOR) on these hedging derivative instruments are based upon indexes other than the actual interest rates the Authority pays on its hedged variable rate debt. The terms of the related hedging fixed rate swap transactions are summarized in the charts above.

The Authority is exposed to other basis risk on a portion of its commodity swaps when the commodity swap payment received is based upon a reference price in market (i.e. natural gas priced at Henry Hub) that

differs from the market in which the hedged item is expected to be bought (natural gas priced at New York gate). If the correlation between these market prices should fail the Authority may incur costs as a result of the hedging derivative instrument's inability to offset the price of the related commodity.

Rollover risk: The Authority is exposed to rollover risk on its Swap 1 and 2. Certain of it Series 2001 2A, 3A and 3B bonds mature in 2030 while Swap 1 and 2 terminate in April 2025, leaving the Authority exposed to interest rate volatility during the period from 2025 to 2030.

(5) Rate Matters

Under current New York State law, the Board of Trustees of the Authority is empowered to set rates for electric service in the Service Area without the approval of the New York State Public Service Commission (PSC) or any other state regulatory body. However, in connection with the approval of the 1998 merger of the Authority and LILCO (d/b/a LIPA) by the New York State Public Authorities Control Board (the PACB), the Authority agreed that it would comply with the condition imposed by the PACB and 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 base rates within the service area by no less than 14% over a ten-year period commencing on the date when the Authority 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, including a precipitous rise in oil prices). The 10-year period expired May 28, 2008.

The LIPA 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; 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. In addition, the Authority must establish or maintain reserves or other funds or accounts required or established by or pursuant to the terms of such resolution.

In addition to the delivery rate, the Authority's tariff also includes: (i) the FPPCA, to allow for adjustments to customers' bills to reflect changes in the cost of fuel and purchased power and related costs; (ii) a PILOTS recovery rider, which allows for rate adjustments to accommodate PILOTS; (iii) a rider providing for the recovery of costs associated with the Shoreham Property Tax Settlement; (iv) a rider for the Authority's energy efficiency and renewables program; and (v) a rider providing for the collection of the Temporary State Assessment imposed by the New York State Legislature.

As part of its ratemaking jurisdiction, and due to rising costs, the Authority proposed for the first time, an increase to its delivery rates as part of the 2011 budget proposal. The Authority proposed an increase of approximately 1.9% across all rate classes to increase its recovery of operating expenses and property taxes (among other things) and achieve the targeted $75 million in net income. The Authority's Trustees approved the budget in December 2010 and, following public notice and hearings, approved the rate increase in February 2011, to be effective on March 1, 2011.

For a further discussion on rate matters, see note 13.

(6) Utility Plant and Property and Equipment

The following schedule summarizes the utility plant and property and equipment of the Authority as of December 31, 2010 (amounts in thousands):

	Beginning balance	Additions	Deletions	Ending balance
Capital assets, not being depreciated:				
Land	$ 16,693	873	—	17,566
Retirement work in progress	35,940	17,964	18,851	35,053
Construction in progress	189,098	252,378	273,064	168,412
Total capital assets not being depreciated	241,731	271,215	291,915	221,031
Capital assets, being depreciated:				
Generation – nuclear	708,078	9,136	12,904	704,310
Transmission and distribution	3,284,051	252,869	30,310	3,506,610
Common	37,194	2,806	198	39,802
Nuclear fuel in process and in reactor	93,791	2,984	450	96,325
Office equipment, furniture, and leasehold improvements	5,280	12,579	6,042	11,817
Generation and transmission assets under capital lease	3,555,024	—	—	3,555,024
Total capital assets being depreciated	7,683,418	280,374	49,904	7,913,888
Less accumulated depreciation for:				
Generation – nuclear	250,926	21,817	7,931	264,812
Transmission and distribution	674,156	122,565	39,575	757,146
Common	12,684	3,924	162	16,446
Nuclear fuel in process and in reactor	66,773	7,466	—	74,239
Office equipment, furniture, and leasehold improvements	3,947	1,535	—	5,482
Generation assets under capital lease	456,945	127,953	—	584,898
Total accumulated depreciation	1,465,431	285,260	47,668	1,703,023
Net value of capital assets, being depreciated	6,217,987	(4,886)	2,236	6,210,865
Net value of all capital assets	$ 6,459,718	266,329	294,151	6,431,896

In 2010, depreciation expense related to capital assets was approximately $150 million.

The following schedule summarizes the utility plant and property and equipment of the Authority as of December 31, 2009 (amounts in thousands):

	Beginning balance	Additions	Deletions	Ending balance
Capital assets, not being depreciated:				
Land	$ 16,089	604	—	16,693
Retirement work in progress	34,159	19,480	17,699	35,940
Construction in progress	272,733	243,370	327,005	189,098
Total capital assets not being depreciated	322,981	263,454	344,704	241,731
Capital assets, being depreciated:				
Generation – nuclear	713,876	7,341	13,139	708,078
Transmission and distribution	3,047,676	307,161	70,786	3,284,051
Common	31,493	6,435	734	37,194
Nuclear fuel in process and in reactor	73,207	20,584	—	93,791
Office equipment, furniture, and leasehold improvements	4,607	673	—	5,280
Generation and transmission assets under capital lease	2,818,947	736,077	—	3,555,024
Total capital assets being depreciated	6,689,806	1,078,271	84,659	7,683,418
Less accumulated depreciation for:				
Generation – nuclear	233,524	21,862	4,460	250,926
Transmission and distribution	634,898	115,664	76,406	674,156
Common	8,767	4,392	475	12,684
Nuclear fuel in process and in reactor	60,083	6,690	—	66,773
Office equipment, furniture, and leasehold improvements	3,570	377	—	3,947
Generation assets under capital lease	346,935	110,010	—	456,945
Total accumulated depreciation	1,287,777	258,995	81,341	1,465,431
Net value of capital assets, being depreciated	5,402,029	819,276	3,318	6,217,987
Net value of all capital assets	$ 5,725,010	1,082,730	348,022	6,459,718

In 2009, depreciation expense related to capital assets was approximately $142 million.

(7) Nine Mile Point Nuclear Power Station, Unit 2 (NMP2)

The Authority has an undivided 18% interest in Nine Mile Point 2 Nuclear Power Station (NMP2), located in Scriba, New York, operated by Constellation Energy Nuclear Group, LLC (Constellation) a division of Constellation Energy Group, Inc. (CEG).

The Authority's share of the rated capability of NMP2 is approximately 207 megawatts (MW). The net utility plant investment, excluding nuclear fuel, was approximately $444 million and $457 million as of December 31, 2010 and 2009, respectively. Generation from NMP2 and operating expenses incurred by NMP2 are shared by the Authority at its 18% ownership interest. The Authority 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.

The Authority has an operating agreement for NMP2 with Constellation, which provides for a management committee comprised of one representative from each co-tenant. Constellation controls the operating and maintenance decisions of NMP2 in its role as operator. The Authority and Constellation have joint approval rights for the annual business plan, the annual budget and material changes to the budget. In addition to its involvement through the management committee, the Authority maintains on-site nuclear oversight representation to provide additional support to protect the Authority's interests.

The Nuclear Regulatory Commission (NRC) granted a license extension for the Nine Mile Point 2 facility extending the license through October 2046.

(a) Nuclear Plant Decommissioning

Provisions for decommissioning costs for NMP2 are based on the most current site-specific study prepared by Constellation in 2010. As a result of that study, the Authority's share of the total decommissioning costs for both the contaminated and noncontaminated portions is $67 million as of December 31, 2010 and is included in the balance sheet as a component of the asset retirement obligation. Reduction in the asset retirement obligation from the 2009 position was attributable primarily to the lengthening of the expected dormancy period prior to the commencement of decommissioning activities, partially offset by additional costs associated with the expected delay by the DOE in providing a permanent centralized repository for spent nuclear fuel and the reduction in the credit-adjusted risk-free interest rate. The Authority maintains a nuclear decommissioning trust fund (NDT) for its share of the decommissioning costs of NMP2, which as of December 31, 2010 and 2009 had an approximate value of $81 million and $75 million, respectively. Based on assumptions on deposits and investment returns being maintained within these funds, the Authority believes that the value of these trusts will be sufficient to meet the Authority's expected decommissioning obligations.

(b) NMP2 Radioactive Waste

Constellation 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 not forecasted the start of operations of

its high-level radioactive waste repository. The Authority has been advised by Constellation that the NMP2 spent fuel storage pool has a capacity for spent fuel that is adequate until 2012. A drywell fuel storage facility is being constructed for NMP2 spent fuel at the plant. The Authority reimburses Constellation for its 18% share of the disposal costs of spent fuel 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 purchased power.

(c) Nuclear Plant Insurance

Constellation procures public liability and property insurance for NMP2 and the Authority reimburses Constellation for its 18% share of those costs.

The Terrorism Risk Insurance Act (TRIA) of 2002 was signed into law in 2002, which was then extended by the Terrorism Risk Insurance Extension Act of 2005 and the Terrorism Risk Insurance Program Reauthorization Act of 2007. Under the TRIA, property and casualty insurance companies are required to offer insurance for losses resulting from certified acts of terrorism. Certified acts of terrorism are determined by the Secretary of the Treasury, in concurrence with the Secretary of State and Attorney General, and primarily are based upon the occurrence of significant acts of terrorism as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion. The nuclear property and accidental outage insurance programs, as discussed later in this section provide coverage for certified acts of terrorism.

Losses resulting from noncertified acts of terrorism are covered as a common occurrence, meaning that if noncertified terrorist acts occur against one or more commercial nuclear power plants insured by the insurer's of NMP2 within a 12-month period, such acts would be treated as one event and the owners of the currently licensed nuclear power plants in the United States would share one full limit of liability (currently $3.24 billion).

The Price Anderson Amendments Act mandates that nuclear power generators 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 $375 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 104 presently licensed nuclear reactors in the United States to a retrospective assessment of up to $117.5 million for each nuclear incident, payable at a rate not to exceed $17.5 million per year. The Authority's interest in NMP2 could expose it to a maximum potential loss of $21.2 million per incident, through assessments of up to $3.2 million per year in the event of a serious nuclear accident at NMP2 or another licensed U.S. commercial nuclear reactor.

Constellation participates in the American Nuclear Insurers Master Worker Program that provides coverage for worker tort claims filed for radiation injuries. The policy provides a single industry aggregate limit of $200 million for occurrences of radiation injury claims against all those insured by this policy prior to January 1, 2003; $300 million for occurrences of radiation injury claims against all those insured by this policy between January 1, 2001 and January 1, 2010; and $375 million for

occurrences of radiation injury claims against all those insured by this policy on or before January 1, 2010.

Constellation has also procured $500 million of primary nuclear property insurance and additional protection (including decontamination costs) of $1.25 billion of stand alone excess property insurance and a $1.0 billion shared excess policy for Nine Mile Point through the Nuclear Electric Insurance Limited (NEIL). Each member of NEIL, including the Authority, is also subject to retrospective premium adjustments in the event losses at other member facilities exceed accumulated reserves. For its share of NMP2, the Authority could be assessed up to approximately $3.3 million per loss.

The Authority has obtained insurance coverage from NEIL for the expense incurred in purchasing replacement power during prolonged accidental outages. Under this program, coverage would commence twelve weeks after any accidental outage, with reimbursement from NEIL at the rate of approximately $630,000 per week for the first 52 weeks, reduced to $504,000 per week for an additional 110 weeks for the purchase of replacement power, with a maximum limit of $88.2 million over a three-year period.

(8) Cash, and Cash Equivalents and Investments

(a) Authority

The Authority's investments are managed by an external investment manager and consist of three accounts; the Operating Fund, the Rate Stabilization Fund and the Construction Fund. The Operating Fund is managed to meet the liquidity needs of the Authority, the Rate Stabilization Fund is managed to maximize the return on investment and the Construction Fund is used to fund capital expenditures from the proceeds of the bonds. The Authority must maintain in the Rate Stabilization Fund an amount determined by the Authority from time to time in accordance with the Authority's bond resolution. In accordance with its agreements with the banks issuing letters of credit to secure the Authority's bonds, the Authority has agreed that such amount will not be less than $150 million. Additionally, the Authority is required to maintain compensating balances of $1.2 million.

The Authority's investment policy places limits on investments by issuer and by security type and addresses various risks described below. The Board of Trustees of the Authority may also specifically authorize, as it deems appropriate, other investments that are consistent with the Authority's investment objective. The Authority reviews its investment policy on an annual basis to ensure continued effectiveness.

Credit Risk: The Authority's permissible investments and related minimum credit ratings include U.S. Treasury and Federal Agency obligations (AAA), repurchase agreements (A-1), bankers' acceptances (AA- or Aa3), commercial paper (A1 or P-1), corporate notes (AA- or Aa3), master notes (AA- or Aa3) and asset backed securities (AAA), certificates of deposit (AA- or Aa3), mutual funds (AAAm or AAAm-G), investment contracts (AA- or Aa3), municipal obligations (AA- or Aa3), and variable rate notes (no credit rating limit). The Authority's investment policy prohibits investments involving complex derivatives, reverse repurchase agreements, auction rate securities and short selling and arbitrage related investment activity.

Concentration of Credit Risk: To address concentration of credit risk, the Authority's investment policies have established limits such that no more than 5% of the investment portfolio may be invested in the securities of any one issuer except as follows: (i) U.S. Treasury Obligations up to 100%; (ii) each Federal agency up to 35%; (iii) repurchase agreements up to 10% or $50 million; (iv) mutual funds up to 50% maximum; and, (v) investment contracts up to 10%.

Custodial Credit Risk: The Authority believes that custodial credit risk related to its investments is minimal, as it is the Authority's policy and practice, as stipulated in its Investment Guidelines, that investments be held by a third-party custodian who may not otherwise be a counter-party to the transactions, and that all securities are free and clear of any lien and held in a separate account, in the name of the Authority.

Custodial credit risk for cash deposits (including demand deposits, time deposits and certificates of deposit issued by a commercial bank) is the risk that in the event of a bank failure, the Authority's deposits may not be returned, either in part or in whole. The Authority's policy to address this risk requires that all demand deposits, time deposits and certificates of deposits issued by a commercial bank not having a long-term credit rating of Aa3/AA- or higher, be fully collateralized above the Federal Deposit Insurance Corporation coverage. Commercial banks with long-term credit ratings of Aa3/AA- or higher do not require collateralization unless otherwise required by the Chief Financial Officer.

As of December 31, 2010 and 2009, the Authority had deposits of $3 million and $12 million, of which approximately $2 million and $6 million, respectively, were not collateralized or were uninsured. Uncollateralized balances were primarily the result of amounts temporarily held pending investment or disbursement and changes to FDIC limits. Collateral on the remaining deposits was held in an account for the Authority at 102% of the available deposit balance.

Interest Rate Risk: The Authority's investment policy states that investments have maturities of 12 months or less, generally. Investment maturities may exceed 12 months provided that the maturity does not exceed the expected disbursement date of those funds, the total average portfolio maturity is one year or less and no individual maturity exceeds three years, with the exception of U.S. government obligations and investment contracts. As of December 31, 2010 and 2009, all of the Authority's investments had maturities of less than 12 months. The Authority's investment maturities are detailed in the chart below.

As of December 31, 2010, and 2009, the Authority had the following investments and maturities (amounts in thousands):

			2010	
			Investment maturities	
Deposit/investment type	2010 Fair value	Percent of portfolio	Less than 3 months	3 months to 1 year
Short-term discount notes:				
Commercial paper	$ 267,038	56%	$ 156,830	110,208
Federal agencies	6,499	1	1,000	5,499
Money markets	202,003	42	202,003	—
Cash and collateralized deposits	3,486	1	3,486	—
Total	$ 479,026	100%	$ 363,319	115,707

			2009	
			Investment maturities	
Deposit/investment type	2009 Fair value	Percent of portfolio	Less than 3 months	3 months to 1 year
Short-term discount notes:				
Commercial paper	$ 257,856	52%	$ 142,572	115,284
Federal agencies	9,399	2	400	8,999
Master notes/money markets	214,793	43	214,793	—
Cash and collateralized deposits	13,499	3	13,499	—
Total	$ 495,547	100%	$ 371,264	124,283

(b) LIPA

LIPA maintains a separate investment policy applicable to the long-term investments in the Nuclear Decommissioning Trusts (NDT) which is held to meet LIPA's obligation with respect to the eventual decommission of LIPA's 18% interest in the Nine Mile Point 2 nuclear facility. LIPA guidelines detail permissible investments and portfolio restrictions. LIPA reviews its investment policy at least annually to ensure that the value in the trusts in 2046, (the year in which decommissioning activities are scheduled to begin) will be sufficient to meet its decommissioning obligations.

(c) Credit Risk

LIPA's guidelines attempt to minimize risk by limiting permissible investments to include: obligations of the U.S. government and its agencies; corporate or other obligations with an A or better rating; mortgage obligations rated AA or higher; commercial paper with a rating of A1 or P1; certificates of deposit; Eurodollar certificates of deposit and bankers acceptances of domestic banks with A+ rating or better, short-term money market investment accounts that conform to the aforementioned permissible investments; and with respect to the LIPA's long-term NDT investment

portfolio only, equity investments limited to portfolio funds of securities designed to replicate the overall market measured by the S&P 500 Index, and futures contracts on the S&P 500 Index. Within the NDT investment portfolio, the use of equity investments as a permissible investment is limited to a target exposure of 35% with a quarterly rebalancing within plus or minus 5%. The fixed income portion of the NDT investment portfolio must maintain an average credit rating of AA or better with no more than 30% of the portfolio invested in notes and bonds rated A and no more than 20% of the portfolio invested in municipal securities.

Concentration of Credit Risk: To address this risk, LIPA's investment policies have established limits such that no more than 5% of the portfolio may be invested in the securities of any one issuer with the exception of U.S. government and its agencies securities. In addition, no more than 25% of the portfolio may be invested in securities of issuers in the same industry.

Custodial Credit Risk: LIPA does not have a policy relative to custodial credit risk of its deposits, however, as a practical matter, LIPA defers to the policies of the Authority, as discussed above.

Interest Rate Risk: Due to the long-term nature of the NDT asset, interest rate risk is managed to track the Barclays Capital U.S. government/Credit Bond Index. The portfolio's duration is required to fall within a range of 20% below the duration of the index and 10% above the duration of the index.

As of December 31, 2010, and 2009, LIPA had the following investments (amounts in thousands):

Investment type		2010 Fair value	Percent of portfolio
Corporate notes and bonds	$	17,297	21%
Mortgage obligations		2,608	3
U.S. government and its agencies obligations		29,791	37
Money market		502	1
Commingled equity fund		30,374	38
Total	$	80,572	100%

Investment type		2009 Fair value	Percent of portfolio
Corporate notes and bonds	$	21,346	29%
Mortgage obligations		1,629	2
U.S. government and its agencies obligations		39,960	54
Money market		300	—
Commingled equity fund		11,313	15
Total	$	74,548	100%

The overall duration of the three individual accounts averaged 5.6 and 5.4 years at December 31, 2010 and 2009, respectively, and is within the limits described by LIPA's investment guidelines.

(9) Long-Term and Short-Term Debt

The Authority financed the cost of acquiring the T&D system and the refinancing of certain of LILCO's outstanding debt by issuing approximately $6.73 billion aggregate principal amount of Electric System General Revenue Bonds and Electric System Subordinated Revenue Bonds (collectively, the Bonds). In conjunction 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.

All of the Authority's 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 has been pledged by LIPA to the Authority.

The Authority's bond and note indebtedness and other long-term liabilities as of December 31, 2010 are comprised of the following obligations (amounts in thousands):

	Beginning balance	Accretion/ additions	Maturities	Refundings	Ending balance	Due within one year
Authority debt:						
Electric system general revenue bonds:						
Series 1998A	$ 288,389	6,861 (a)	77,620	—	217,630	81,800
Series 1998B	82,125	—	78,380	—	3,745	3,745
Series 2000A	409,780	22,819 (a)	30,825	—	401,774	31,260
Series 2001A	165,175	—	—	—	165,175	—
Series 2003B	262,510	—	12,245	—	250,265	12,800
Series 2003C	256,000	—	—	—	256,000	—
Series 2003 D	73,625	—	—	—	73,625	—
Series 2003 E-G	165,000	—	—	165,000	—	—
Series 2003 H-J	167,600	—	—	—	167,600	—
Series 2003 K	47,000	—	—	47,000	—	—
Series 2003 L-O	134,000	—	—	—	134,000	—
Series 2004A	200,000	—	—	—	200,000	—
Series 2006A	839,245	—	—	—	839,245	—
Series 2006B	96,955	—	—	—	96,955	—
Series 2006C	198,020	—	—	—	198,020	—
Series 2006D	326,925	—	665	—	326,260	690
Series 2006E	507,600	—	—	—	507,600	—
Series 2006F	514,495	—	—	—	514,495	81,325
Series 2008A	605,055	—	—	—	605,055	—
Series 2008B	149,340	—	—	—	149,340	—
Series 2009A	435,825	—	—	—	435,825	—
Series 2010A	—	193,325	—	—	193,325	—
Series 2010B	—	210,000	—	—	210,000	—
Subtotal	5,924,664	433,005	199,735	212,000	5,945,934	211,620
Electric system subordinate revenue bonds:						
Series 1-3	525,000	—	—	—	525,000	—
Series 8	51,705	—	25,225	—	26,480	26,480
Subtotal	576,705	—	25,225	—	551,480	26,480
LIPA debt:						
NYSERDA notes	155,420	—	—	—	155,420	—
Net unamortized discounts/ premiums and deferred amortization	(36,880)	(15,594)	—	(984)	(51,490)	—
Total bonds and notes, net of unamortized discounts /premiums	$ 6,619,909	417,411	224,960	211,016	6,601,344	238,100

	Beginning balance	Accretion/ additions	Maturities	Refundings	Ending balance	Due within one year
Other long-term liabilities:						
Deferred credits	$ 203,637	8,700	79,313	—	133,024	—
Borrowings	114,520	—	4,223	—	110,297	—
Claims and damages	20,207	2,268	827	—	21,648	—
Capital lease obligations	3,098,079	—	127,953	—	2,970,126	135,710
Total other long-term liabilities	$ 3,436,443	10,968	212,316	—	3,235,095	135,710

(a) Represents accretion of capital appreciation bonds

The Authority's bond and note indebtedness and other long-term liabilities as of December 31, 2009 are comprised of the following obligations (amounts in thousands):

	Beginning balance	Accretion/ additions	Maturities	Refundings	Ending balance	Due within one year
Authority debt:						
Electric system general revenue bonds:						
Series 1998A	$ 367,921	7,078 (a)	86,610	—	288,389	77,620
Series 1998B	154,485	—	72,360	—	82,125	78,380
Series 2000A	387,302	22,478 (a)	—	—	409,780	30,825
Series 2001A	165,175	—	—	—	165,175	—
Series 2001B-K	75,000	—	—	75,000	—	—
Series 2003A	19,895	—	19,895	—	—	—
Series 2003B	271,355	—	8,845	—	262,510	12,245
Series 2003C	256,000	—	—	—	256,000	—
Series 2003D-O	587,225	—	—	—	587,225	—
Series 2004A	200,000	—	—	—	200,000	—
Series 2006A	839,245	—	—	—	839,245	—
Series 2006B	96,955	—	—	—	96,955	—
Series 2006C	198,020	—	—	—	198,020	—
Series 2006D	327,565	—	640	—	326,925	665
Series 2006E	507,600	—	—	—	507,600	—
Series 2006F	514,495	—	—	—	514,495	—
Series 2008A	605,055	—	—	—	605,055	—
Series 2008B	149,340	—	—	—	149,340	—
Series 2009A	—	435,825	—	—	435,825	—
Subtotal	5,722,633	465,381	188,350	75,000	5,924,664	199,735
Electric system subordinate revenue bonds:						
Series 1-3	525,000	—	—	—	525,000	—
Series 7	156,100	—	—	156,100	—	—
Series 8	104,725	—	53,020	—	51,705	25,225
Subtotal	785,825	—	53,020	156,100	576,705	25,225

	Beginning balance	Accretion/ additions	Maturities	Refundings	Ending balance	Due within one year
LIPA debt:						
NYSERDA notes	$ 155,420	—	—	—	155,420	—
Net unamortized discounts/ premiums and deferred amortization	(41,745)	(1,672)	—	(6,537)	(36,880)	—
Total bonds and notes, net of unamortized discounts /premiums	$ 6,622,133	463,709	241,370	224,563	6,619,909	224,960
Other long-term liabilities:						
Deferred credits	$ 299,072	21,955	117,390	—	203,637	—
Borrowings	118,959	—	4,439	—	114,520	—
Claims and damages	19,089	2,800	1,682	—	20,207	—
Capital lease obligations	2,472,012	736,077	110,010	—	3,098,079	127,953
Total other long-term liabilities	$ 2,909,132	760,832	233,521	—	3,436,443	127,953

(a) Represents accretion of capital appreciation bonds

The Authority's schedule of capitalization for the years ended December 31, 2010 and 2009 is as follows (amounts in thousands):

Electric system	Maturity	Interest rate		Series		December 31, 2010	December 31, 2009
Electric system general revenue bonds:							
Serial bonds	December 1, 2011	5.500%	a	1998 A	$	81,800	159,420
Capital appreciation bonds	December 1, 2012 to 2028	5.100% to 5.300%	a	1998 A		135,830	128,968
Serial bonds	April 1, 2011	4.500%	a	1998 B		3,745	82,125
Capital appreciation bonds	June 1, 2011 to 2029	5.420% to 5.950%	a	2000 A		401,774	409,781
Serial bonds	September 1, 2013 to 2014	4.600% to 4.700%	a, c	2001 A		745	745
Term bonds	September 1, 2027 to 2029	5.000% to 5.125%	a, c	2001 A		164,430	164,430
Serial bonds	June 1, 2011 to 2014	4.20% to 5.25%	a, c	2003 B		250,265	262,510
Serial bonds	September 1, 2013 to 2028	4.25% to 5.00%	a, c	2003 C		70,480	70,480
Term bonds	September 1, 2027 to 2033	5.00% to 5.25%	a, c	2003 C		185,520	185,520
Term bonds	December 1, 2029	0.25% to 0.40%	b, c	2003 D		73,625	73,625
Term bonds	December 1, 2029	0.25% to 0.28%	b, c	2003 E-G		—	165,000
Term bonds	December 1, 2029	0.28% to 0.43%	b, c	2003 H-J		167,600	167,600
Term bonds	December 1, 2029	0.330%	b, c	2003 K		—	47,000
Term bonds	December 1, 2029	0.25% to 0.39%	b, c	2003 L-O		134,000	134,000
Serial bonds	September 1, 2013 to 2025	3.80% to 4.875%	a, c	2004 A		33,900	33,900
Term bonds	September 1, 2029 to 2034	5.00% to 5.10%	a	2004 A		166,100	166,100
Serial bonds	December 1, 2016 to 2026	4.00% to 5.25%	a, c	2006A		839,245	839,245
Serial bonds	December 1, 2035	4.500%	a, c	2006B		4,240	4,240
Term bonds	December 1, 2035	5.000%	a	2006B		92,715	92,715
Term bonds	September 1, 2035	5.000%	a	2006C		198,020	198,020
Serial bonds	September 1, 2011 to 2025	4.00% to 5.00%	a, c	2006D		326,260	326,925
Serial bonds	December 1, 2017 to 2022	4.00% to 5.00%	a, c	2006E		507,600	507,600
Serial bonds	May 1, 2011 to 2028	4.00% to 5.00%	a, c	2006F		401,915	401,915
Term bonds	May 1, 2030 to 2033	4.250%	a	2006F	$	112,580	112,580
Term bonds	May 1, 2031 to 2033	5.50% to 6.00%	a	2008A		605,055	605,055
Term bonds	April 1, 2019 to 2033	5.25% to 5.75%	a	2008B		149,340	149,340
Term bonds	April 1, 2014 to 2039	3.00% to 5.75%	a	2009A		435,825	435,825
Serial bonds	May 1, 2014 to 2015	2.50% to 5.00%	a	2010A		193,325	—
Term bonds	May 1, 2020 to 2041	4.85% to 5.85%	a	2010B		210,000	—
Electric system subordinated:							
Revenue bonds	May 1, 2033	0.34% to 0.36%	b, c	Series 1A-3A		275,000	275,000
	May 1, 2033	0.26% to 0.31%	b, c	Series 1B-3B		250,000	250,000
	April 1, 2011	4.00% to 5.00%	a	Series 8		26,480	51,705
Total general and subordinated revenue bonds						6,497,414	6,501,369
Commercial paper notes		0.29% to 0.35%	b	CP-1		100,000	100,000
		0.26% to 0.32%	b	CP-3		100,000	100,000
						200,000	200,000
NYSERDA Financing notes:							
Pollution control revenue bonds	March 1, 2016	5.150%	a	1985 A,B		108,020	108,020
Electric facilities revenue bonds	November 1, 2023	5.300%	a	1993 B		29,600	29,600
	October 1, 2024	5.300%	a	1994 A		2,600	2,600
	August 1, 2025	5.300%	a	1995 A		15,200	15,200
Total NYSERDA financing notes						155,420	155,420
Unamortized premium and deferred amortization						(51,490)	(36,880)
Total long-term debt						6,801,344	6,819,909
Less current maturities and short-term debt						438,100	424,960
Long-term debt						6,363,244	6,394,949
Net assets						377,169	319,720
Total capitalization					$	6,740,413	6,714,669

a Fixed rate.
b Variable rate (rate presented is as of December 31, 2010).
c Certain bonds of this series are subject to interest rate exchange agreements – see note 4.

The debt service requirements for the Authority's bonds (excluding commercial paper notes) as of December 31, 2010, are as follows (amounts in thousands):

Due	Principal	Interest	Net swap payments	Total
2011	$ 238,100	277,463	28,028	543,591
2012	278,025	278,749	16,516	573,290
2013	176,060	277,988	7,795	461,843
2014	280,720	270,666	7,097	558,483
2015	289,585	259,431	7,097	556,113
2016 – 2020	1,194,355	1,171,754	15,116	2,381,225
2021 – 2025	1,381,130	927,980	16,882	2,325,992
2026 – 2030	1,421,010	644,456	11,052	2,076,518
2031 – 2035	1,514,315	242,743	—	1,757,058
2036 – 2040	126,695	57,672	—	184,367
2041	110,000	3,218	—	113,218
	7,009,995	4,412,120	109,583	11,531,698
Unamortized discounts/premiums	(51,490)	—	—	(51,490)
Unaccreted interest on capital appreciation bonds	(357,161)	—	—	(357,161)
Total	$ 6,601,344	4,412,120	109,583	11,123,047

Future debt service on the variable rate bonds and floating rate portion of any floating-to-fixed rate swaps use an assumed rate of 1.50% for 2011; 3.00% for 2012; 4.00% for 2013 through 2015; and 4.50% thereafter. For bonds subject to floating to fixed rate swap agreements, the "net swap payments" represent the fixed swap rate payment net of the assumed future variable rate swap receipts for each agreement.

(a) Electric System General Revenue Bonds

2010

In May 2010, the Authority issued $193 million of its Electric System General Revenue Bonds, Series 2010A. The proceeds of these fixed rate bonds, including the premium of $20 million, were used to redeem $212 million of outstanding insured variable rate securities in a current refunding and to pay bond issuance costs. The refunding produced an approximate $28 million net present value savings. The 2010A bonds have an average life of 4.5 years and an all-in cost of 2.50%. The refunding produced an approximate $28 million net present value savings.

Also, in May 2010, the Authority issued $210 million of its Electric System General Revenue Bonds, Series 2010B. The 2010B bonds are taxable Build America Bonds and the Authority receives an interest subsidy from the federal government equal to 35% of the interest paid. The proceeds of these fixed rate bonds outstanding are used to finance the on-going capital program. The 2010B bonds have an average life of 22 years and an all-in cost of 3.75%.

2009

In January 2009, the Authority issued $436 million of its Electric System General Revenue Bonds, Series 2009A. The proceeds of these fixed rate bonds, including the premium of $9 million, were used to redeem approximately $231 million of outstanding insured variable rate securities in a current refunding and to pay bond issuance costs totaling $3 million. The remaining proceeds were used to finance the on-going capital program. The refunding produced an approximate $45 million net present value savings. The 2009A bonds have an average life of 20 years and an all-in cost of 5.50%.

(b) Interest Rate Swap Agreements

The Authority has entered into several interest rate swap agreements with various counterparties to modify the effective interest rate on outstanding debt. For a further discussion, see note 4.

(c) Commercial Paper Notes

The Supplemental Bond Resolution authorizes the issuance of Commercial Paper Notes, Series CP-l through CP-3 (Notes) up to a maximum amount of $300 million. The aggregate principal amount of the Notes outstanding at any time may not exceed $300 million. In connection with the issuance of the Notes, the Authority has entered into a Letter of Credit and Reimbursement Agreement which was renegotiated in 2006. Under the terms of the renegotiated Letter of Credit and Reimbursement Agreement, $250 million expires June 15, 2011 and the remaining $50 million expires on December 15, 2015, subject to the right of early termination by the bank on June 15, 2012. The Notes do not have maturity dates of longer than 270 days from their date of issuance and as Notes mature, the Authority continually replaces them with additional Notes.

The Authority's short-term indebtedness as of December 31, 2010 and 2009 is comprised of the following obligations (amounts in thousands):

	2010			
	Beginning balance	Issuances	Retirements	Ending balance
Short-term debt – CP-1	$ 100,000	210,200	(210,200)	100,000
Short-term debt – CP-3	100,000	608,100	(608,100)	100,000
	$ 200,000	818,300	(818,300)	200,000

	2009			
	Beginning balance	Issuances	Retirements	Ending balance
Short-term debt – CP-1	$ 100,000	230,600	(230,600)	100,000
Short-term debt – CP-3	100,000	617,000	(617,000)	100,000
	$ 200,000	847,600	(847,600)	200,000

(d) Fair Values of Long-Term Debt

The fair values of the Authority's long-term debt as of December 31, 2010 and 2009 were as follows (amounts in thousands):

	December 31,	
	2010	**2009**
Electric System General Revenue Bonds, Series 1998 A	$ 233,769	313,580
Electric System General Revenue Bonds, Series 1998 B	3,781	83,002
Electric System General Revenue Bonds, Series 2000 A	455,237	475,915
Electric System General Revenue Bonds, Series 2001 A	165,236	166,488
Electric System General Revenue Bonds, Series 2003 B	271,566	290,276
Electric System General Revenue Bonds, Series 2003 C	253,990	262,348
Electric System General Revenue Bonds, Series 2003 D	73,625	73,625
Electric System General Revenue Bonds, Series 2003 E-G	—	165,000
Electric System General Revenue Bonds, Series 2003 H-J	167,600	167,600
Electric System General Revenue Bonds, Series 2003 K	—	47,000
Electric System General Revenue Bonds, Series 2003 L-O	134,000	134,000
Electric System General Revenue Bonds, Series 2004 A	195,432	202,288
Electric System General Revenue Bonds, Series 2006 A	862,530	871,972
Electric System General Revenue Bonds, Series 2006 B	91,131	95,674
Electric System General Revenue Bonds, Series 2006 C	186,856	196,262
Electric System General Revenue Bonds, Series 2006 D	336,821	336,568
Electric System General Revenue Bonds, Series 2006 E	536,783	537,783
Electric System General Revenue Bonds, Series 2006 F	517,784	530,211
Electric System General Revenue Bonds, Series 2008 A	626,876	649,220
Electric System General Revenue Bonds, Series 2008 B	159,235	162,409
Electric System General Revenue Bonds, Series 2009 A	459,240	468,094
Electric System General Revenue Bonds, Series 2010A	212,238	—
Electric System General Revenue Bonds, Series 2010B	185,891	—
Electric System Subordinated Revenue Bonds, Series 1-3 and 1-6	525,000	525,000
Electric System Subordinated Revenue Bonds, Series 8C	—	25,487
Electric System Subordinated Revenue Bonds, Series 8F	26,735	27,595
NYSERDA Notes	156,430	156,368
Total	$ 6,837,786	6,963,765

(10) Retirement Plans

The Authority participates in the New York State Employees' Retirement System (the System), which is a cost-sharing, multi-employer, and public employee retirement system. The plan benefits are provided under the provisions of the New York State Retirement and Social Security Law that are guaranteed by the State Constitution and may be amended only by the State Legislature. For full time employees, membership in and annual contributions to the System are required by the New York State Retirement and Social Security Law. The System offers plans and benefits related to years of service and final average

salary, and, effective January 1, 2010 benefits for new members vest after ten years of accredited service, all others generally vested after five years.

Members of the System with less than 10 years of service or 10 years of membership contribute 3% of their gross salaries and the Authority pays the balance of the annual contributions for these employees. Effective October 1, 2000, members of the System with at least 10 years of service or membership no longer contribute 3% of their gross salaries. The Authority pays the entire amount of the annual contributions of these employees. Effective January 1, 2010, all new members contribute 3% of their gross salaries for their entire career.

Under this plan, the Authority's required contributions and payments made to the System were approximately $1.1 million, $572,000, and $713,000, for the years ended December 31, 2010, 2009, and 2008, respectively. Contributions are made in accordance with funding requirements determined by the actuary of the System using the aggregate cost method.

The State of New York and the various local governmental units and agencies which participate in the Retirement System are jointly represented, and benefits for Authority employees are not separately computed. 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, 110 State Street, Albany, New York 12244.

(11) Postemployment Healthcare Plan

(a) Plan Description

The Authority is a participating employer in the New York State Health Insurance Program (NYSHIP) which is administered by the State of New York as an agent multiple employer defined benefit plan. Under the plan, the Authority provides certain health care for eligible retired employees and their dependents. Article XI of the New York State Civil Service Law assigns the authority to NYSHIP to establish and amend the benefit provisions of the plans and to establish maximum obligations of the plan members to contribute to the plan. The Authority's Board is authorized to establish the contribution rates of its employees and retirees below those set by Civil Service Law. Participation in the NYSHIP program provides for employees and/or their dependents to become eligible for these benefits at 55 years of age when the employee has five years of State service. In calculating the five year service requirement, all of the employee's service need not be with the Authority, but may be a composite of New York State service elsewhere, with a minimum of one year with the Authority. Employees with no prior State service must work a minimum of five years before they and their dependents are eligible for the retirement medical benefits. Eligible retirees contribute 10% of the cost of single coverage and 25% the cost of dependent coverage for health insurance benefits. Participants include approximately 96 employees and retired and/or spouses of retired employees who were eligible to receive these benefits at December 31, 2010. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State of New York.

The Authority accounts for its OPEB obligations, in accordance with GASB Statement No. 45, *Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions. Actuarial*

valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment mortality and the healthcare cost trend. Amounts determined regarding the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The Authority's annual OPEB cost for the plan is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. GASB 45 does not require that an employer actually fund its ARC, but allows for the financing of these benefits on a pay-as-you-go basis. Since the Authority expensed the entire prior service cost in 2007, the ARC in future periods represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year, actuarial assumptions and plan changes, and interest on the unfunded actuarial liability. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the Net OPEB Obligation (which was $18 million at December 31, 2010), and as the Authority has not actually funded the "required" amount, future valuations may produce larger ARCs. The current period ARC is approximately $2.2 million as detailed in the chart.

(b) Funding

The contribution requirements (funding) of the Authority's Net OPEB obligation are at the discretion of management and the Board of Trustees. The Net OPEB obligation is paid on a pay-as-you-go basis. The Authority has not funded a qualified trust or its equivalent.

(c) Actuarial Methods and Assumption

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10% (net of administrative expenses) including inflation, declining 1% each year to an ultimate trend rate of 5%. Both rates include a 3% inflation assumption.

(d) OPEB Status and Funding Progress

The OPEB obligation, which is included in deferred credits, and the funded status of the plan as of December 31, 2010 and 2009 is as follows (amounts in thousands):

		2010	2009
Annual OPEB cost:			
Annual required contribution (ARC):			
Normal cost	$	1,482	1,412
Amortization payment		15,718	13,854
Interest to the end of the year		642	570
Total		17,842	15,836
ARC adjustment		(16,190)	(14,245)
Interest on net OPEB obligation		590	515
Annual OPEB cost	$	2,242	2,106
Net OPEB obligation:			
Net OPEB obligation at beginning of fiscal year	$	15,714	13,731
Annual required contribution:			
Annual OPEB cost		2,242	2,106
Employer contribution:			
Payments for retirees during the year		(131)	(123)
to a trust		—	—
Net OPEB obligation at end of fiscal year	$	17,825	15,714

Actuarial valuation date		2010	2009
Actuarial value of assets	$	—	—
Accrued actuarial liability (AAL)		18,688	16,680
Unfunded AAL		18,688	16,680
Funded ratio		—%	—%
Covered payroll	$	10,576	10,980
UAAL as % covered payroll		176.7%	151.9%

(12) Commitments and Contingencies

(a) Power Supply Agreement (PSA)

The PSA provides for the sales to the Authority by KeySpan of all of the capacity, energy and, ancillary service output from the oil and gas-fired generating plants on Long Island formerly owned by LILCO. Such sales of capacity and energy are made at cost-based wholesale rates regulated by

the Federal Energy Regulatory Commission (FERC). The rates may be modified 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 return on net capital additions, which require approval by the Authority; and (iii) reasonably incurred expenses that are outside of the control of KeySpan. The PSA rates were reset in 2009, in accordance with the PSA agreement and as approved by FERC, and will continue through May 2013 at which time the Authority has the option to extend the PSA at newly negotiated terms for a period of up to 15 years. The rates are adjusted annually in accordance with the formula established in the PSA. The annual capacity charge in 2010 and 2009 was approximately $431 million and $422 million, respectively, and the variable charge remained unchanged at $0.90/Mwh of electric power generated by the plants.

The PSA provides incentives and penalties for up to $4 million annually to maintain the output capability of the facilities, as measured by annual industry-standard tests of operating capability, and to maintain/or make capital improvements which benefit plant availability. The performance incentives averaged approximately $3 million in 2010 and 2009.

(b) Purchased Power and Transmission Agreements Assumed from LILCO

As a result of the merger with LILCO, the Authority became party to power purchase agreements (PPAs) with Independent Power Producers (IPPs) and the New York Power Authority (NYPA) for electric generating capacity. Certain of these agreements have been renegotiated by the Authority or modified to comply with market rules instituted by the New York Independent System Operator (NYISO).

Under the terms of a 1989 agreement with NYPA, which will expire in 2015, the Authority purchases power from a pumped storage plant in upstate New York at tariff rates established by NYPA. Under the terms of a 1994 agreement with NYPA which will expire in April 2020, the Authority purchases the electric energy produced at the NYPA facility located within the service territory at Holtsville, New York. The Authority is required to reimburse NYPA for the minimum debt service payments and to make fixed nonenergy payments associated with operating and maintaining the plant.

The Authority also became party to contracts with NYPA and Con Edison for firm transmission (wheeling) capacity in connection with the pumped storage PPA, as well as a contract with NYPA associated with a transmission cable that was constructed, in part, for the benefit of the Authority. With the inception of the NYISO on November 18, 1999, these transmission contracts were provided with “grandfathered rights” status. The Authority was provided with the opportunity to convert its grandfathered rights for Existing Transmission Agreements (ETAs) into Transmission Congestion Contracts (TCCs). Although the Authority has converted its ETA’s into TCCs, the Authority will continue to pay all transmission charges per the ETAs. In return, the Authority receives revenues from congestion charges collected by the NYISO. All such charges and revenue are considered components of or reductions to fuel and purchased power costs.

With respect to PPAs entered into with the IPPs, the Authority is obligated to purchase all the energy they make available to the Authority. However, LIPA has no obligation to the IPPs if they fail to deliver energy.

As provided by the Authority's tariff, the costs of all of the facilities noted above except for those subject to the PSA will be includable in the calculation of Fuel and Purchased Power Cost. As such, these costs will be recoverable through the FPPCA.

The following table represents the Authority's commitments under the PPAs and transmission contracts assumed from LILCO, as renegotiated or modified (amounts in thousands):

	PPA	Firm transmission	IPPs*	Total
Years ended:				
2011	$ 32,826	21,160	64,800	118,786
2012	33,062	22,310	65,400	120,772
2013	33,682	23,290	53,600	110,572
2014	33,225	23,390	53,400	110,015
2015	33,453	23,070	57,400	113,923
2016 through 2020	149,890	10,580	15,000	175,470
2021 through 2025	—	33,880	—	33,880
2026 through 2030	—	28,080	—	28,080
2031 through 2035	—	29,270	—	29,270
Subtotal	316,138	215,030	309,600	840,768
Less imputed interest	69,281	5,619	42,300	117,200
Total	$ 246,857	209,411	267,300	957,968

* Assumes full performance by NYPA and the IPPs.

(c) Additional Power Purchase Agreements

The Authority has entered into power purchase agreements (PPAs) with several private companies to develop and operate generating units at sites throughout Long Island. Generally, the PPAs provide for the Authority to purchase 100% of the capacity (and associated energy as needed), for the term of each contract, which vary in duration up to 30 years from contract initiation date.

In accordance with the provisions of FASB ASC 840 *Leases* (previously FASB Emerging Issues Task Force Issue No. 01-08, *Determining Whether an Arrangements is a Lease* and SFAS No. 13, *Accounting for Leases*), certain generating units have been accounted for as capitalized lease obligations. Other units which do not meet the criteria for capitalization under FASB ASC 840 are being accounted for as operating leases.

During 2010, the Authority also entered into an agreement with the owners of a facility located in PJM-ISO for a long-term capacity purchase which commenced on June 1, 2010.

During 2009, the Authority began to acquire 286 MW from a 326MW plant that was constructed on Long Island. The Authority also purchases up to 345 MW of capacity and varying amounts of energy

from a portfolio of facilities located in New England. This power is transmitted to Long Island via an undersea high voltage cable running between Connecticut and Long Island pursuant to a long-term firm transmission capacity purchase agreement.

The Authority also entered into two contracts for the purchase of renewable energy from off-Island sources which commenced in 2009. There are two additional contracts for power to be produced by solar photovoltaic power plants to be constructed in 2011 at various sites on Long Island (these contracts are assumed completed in 2011 and are included in the table below).

The following table represents the minimum payments under these various capacity and/or energy contracts (amounts in thousands):

		Capitalized leases	Operating leases
Minimum lease/rental payments:			
2011	$	293,896	145,346
2012		295,282	157,562
2013		296,322	160,192
2014		297,852	162,775
2015		299,332	165,526
2016 through 2020		1,336,763	813,402
2021 through 2025		1,120,374	407,818
2026 through 2030		498,776	416,658
2031 through 2034		40,212	22,112
Total		4,478,809	2,451,391
Less imputed interest		1,508,683	884,227
Net present value	$	2,970,126	1,567,164

(d) Office Lease

The Authority's office lease agreement terminates April 30, 2011. The Authority has entered into a new office lease agreement which will commence upon approval from the Office of the New York State Comptroller (OSC). The termination date of the new lease is April 30, 2024. If this lease agreement does not receive OSC approval by May 1, 2011 the new lease agreement will expire and the Authority will become a hold over tenant whereby rent expense is paid on a monthly basis.

Rental expense for the office lease amounted to approximately $1.8 million and $1.7 million for the years ended December 31, 2010 and 2009, respectively.

(e) Insurance Programs

The Authority's insurance program is comprised of a combination of policies from major insurance companies, self-insurance and contractual transfer of liability, including naming the Authority as an additional insured and indemnification.

The Authority has purchased Workers' Compensation insurance from the New York State Insurance Fund to provide coverage for claims arising from employee injuries. Liability related to construction projects and similar risks is transferred through contractual indemnification and compliance with Authority insurance requirements. The Authority also has various insurance coverages on its interest in Nine Mile Point Nuclear Power Station, Unit 2 as disclosed in detail in note 7.

The Authority is self insured for property damage to its transmission and distribution system and up to $3 million for general liability, including automobile liability. The Authority purchased commercially available excess general liability insurance for claims above the $3 million self insurance provision.

(13) Legal Proceedings

(a) Authority to Set Rates

Under current State law, the Board of Trustees of 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, in connection with the approval of the LIPA/LILCO Merger by the PACB in 1997, the Authority agreed that it would comply with the condition imposed by the PACB and 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.

Legislation was unanimously passed by the New York State Legislature in June 2008, which would amend the LIPA Act and the State Public Service Law to require the approval by the PSC of an increase in LIPA's average customer rates exceeding 2.5% over a 12-month period or to extend or reestablish any portion of a temporary rate increase exceeding 2.5%. Were such legislation to become law, the Authority would have to notify the PSC of any proposed rate increase, extension or re-establishment exceeding 2.5% of average rates over a 12-month period. Approval of any such request by the PSC would require a full evidentiary hearing by the PSC. The proposed legislation was vetoed on September 4, 2008 by Governor Paterson and therefore has not been enacted into law. A revised version of the 2008 bill was introduced in both the Assembly and Senate in 2009. The Assembly passed the bill on June 16, 2009, however, the Senate did not take any further action in 2009 and the legislative session ended without the bill being passed. A further revised bill was introduced in both the Assembly and Senate in 2010. On March 10, 2010, the Assembly passed the bill. However, to date, the Senate has not taken any further action. The Authority cannot predict whether this bill will become law or whether other similar legislation may be introduced and acted upon in the future.

(b) Environmental

In connection with the LIPA/LILCO Merger (the Merger), KeySpan and the Authority entered into Liabilities Undertaking and Indemnification Agreements which, when taken together, provide, generally, that environmental liabilities will be divided between KeySpan and the Authority on the basis of whether they relate to assets transferred to KeySpan or retained by the Authority as part of the Merger. In addition, to clarify and supplement these agreements, KeySpan and the Authority 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 the Authority after the Merger (the Retained Business) and to the business and operations to be conducted by KeySpan after the Merger (the Transferred Business).

National Grid, who subsequently purchased KeySpan in 2007, is now responsible for all liabilities arising from all manufactured gas plant operations (MGP Sites), including those currently or formerly operated by National Grid or any of its predecessors, whether or not such MGP Sites related to the Transferred Business or the Retained Business. In addition, National Grid is liable for all environmental liabilities traceable to the Transferred Business and certain scheduled environmental liabilities. Environmental liabilities that arise from the nonnuclear generating business may be recoverable by National Grid as part of the capacity charge under the PSA. The Authority is responsible for all environmental liabilities traceable to the Retained Business and certain scheduled environmental liabilities.

Environmental liabilities other than those related to MGP sites that existed 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 National Grid, as provided for in the Merger.

(c) Environmental Matters Retained by the Authority

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) or others who are responding to a release or threat of release of the hazardous substances.

Port Washington Landfill – LILCO is a PRP at this 54-acre municipal solid waste landfill located in the Town of North Hempstead. The landfill operated from 1973 to 1983. Since January 2001, LILCO and 11 other parties have been signing tolling agreements with the New York State Attorney General to extend the statute of limitations under CERCLA. The current tolling agreement expires on June 25, 2011. Six of the 11 tolling agreement PRPs, including LILCO, have formed a Joint Defense Group (JDG) that acts as one with respect to dealing with the Attorney General. The Attorney General is seeking to recover Environmental Quality Bond Act funds advanced to the Town of North Hempstead so it could properly close out the site with oversight by the New York State Department of Environmental Conservation (DEC). The landfill has been remediated and this matter is only concerned with cost recovery. The JDG is in negotiations with the Attorney General to resolve this matter. The Authority does not believe that its share of any settlement agreement will have a material adverse effect on its financial position, cash flows or results of operations.

(d) Environmental Matters which may be Recoverable from the Authority 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). Although the Village's negligence claims were dismissed, the nuisance causes of action remained at issue. Specifically, the Village sought injunctive relief based upon allegations that the design and construction of the Northport Power Plant upset the littoral drift of sand in the area, thereby causing beach erosion. In a related matter, certain individual residents of the Village commenced an action in New York Supreme Court, Suffolk County seeking similar relief (Sbarro v. Long Island Lighting Company). The cases were tried jointly before a judge without a jury. The trial was completed in December 2002 and the parties filed post-trial briefs in March 2003. The judge dismissed the case after reviewing the existing and supplemental record. The Village subsequently filed a notice of appeal of this decision and, on December 22, 2008, the Appellate Division unanimously affirmed the judge's dismissal of the Village of Asharoken's lawsuit against LILCO.

Despite the decision of the Appellate Division, the U.S. Army Corps of Engineers, as a condition of an existing permit, required National Grid to deposit 45,000 cubic yards of sand every three years, starting in 2010, on beaches within the Village. The Authority and National Grid complied with this requirement in 2010 and intend to comply in 2013 and thereafter subject to future negotiations and potential relief. The Authority does not believe that this will have a material adverse effect on its financial position, cash flows or results of operations.

(e) Asbestos Proceedings

Litigation is pending in State Court against the Authority, LILCO, KeySpan and various other defendants, involving thousands of plaintiffs seeking damages for personal injuries or wrongful death allegedly caused by exposure to asbestos. The cases for which the Authority may have financial responsibility involve employees of various contractors and subcontractors engaged in the construction or renovation of one or more of LILCO's six major power plants. These cases include extraordinarily large damage claims, which have historically proven to be excessive. The actual aggregate amount paid to plaintiffs alleging exposure to asbestos at LILCO power plants over the years has not been material to the Authority. Due to the nature of how these cases are litigated, it is difficult to determine how many of the remaining cases that have been filed (or of those that will be filed in the future) involve plaintiffs who were exposed to asbestos at any of the LILCO power plants. Based upon experience, it is likely that the Authority will have financial responsibility in a significantly smaller percentage of cases than are currently pending (or which will be filed in the future) involving plaintiffs who allege exposure to asbestos at any of the LILCO power plants.

(f) Future Environmental Compliance Obligations

The Authority, through its contractual obligations to KeySpan under the PSA and the MSA, and other Independent Power Producers and transmission cable operators, under various power purchase agreements (PPAs), may be subject to the cost of compliance with various current and potential future environmental regulations as promulgated by the federal government and by state and local governments with respect to environmental matters, such as emission of air pollutants, greenhouse gases, cooling water for generation, electromagnetic fields, the handling and disposal of toxic substances and hazardous and solid wastes, the handling and use of chemical products, and the handling and storage of fossil fuels. Electric utility companies generally use or generate a range of pollutants, potentially hazardous products and by-products that are the focus of such regulation. The

Authority is also subject to state laws regarding environmental approval and certification of proposed major transmission facilities.

The Clean Air Act Amendments of 1990 (1990 Amendments) limit emissions of sulfur dioxide (SO2), nitrogen oxides (NOx), and other pollutants. The EPA allocates annual SO2 emissions allowances to each of the PSA units based on historical output. NOx emissions are regulated on a regional level through the NOx State Implementation Plan, and are also controlled through allowance allocations. Generating units under the various PPAs and the PSA units are expected to continue to achieve cost effective compliance with these emission control requirements through the use of allocated allowances, capital expenditures, the use of natural gas fuel, and/or the purchase of emission allowances as necessary. Generating units may be required to purchase additional allowances above their unit's allocations, or make other expenditures, based on changes in plant operation, fuel prices, or more restrictive regulations.

In March 2005, the Federal Clean Air Interstate Rule (CAIR) was promulgated, requiring further reductions of SO2 and NOx emissions to reduce ozone and fine particulate matter formation in the eastern United States. The State of New York has adopted rules to carry out this program in which compliance requirements for NOx reduction began in 2009. As part of the Agreement and Waiver with National Grid (the Agreement), National Grid, subject to the terms of the Agreement, is installing additional NOx controls, called Separated Over Fired Air (SOFA), on all the units at Northport and Port Jefferson, to reduce NOx emissions. Current projections of PSA unit operations indicate that the PSA units should be able to comply by using their existing annual allowance allocations and with these new controls. Subsequently, in 2008 the D.C. Circuit Court remanded without vacatur EPA's CAIR Rule. In response, on July 6, 2010, EPA proposed the Transport Rule which will replace CAIR when finalized. The planned SOFA installation on the four Northport and two Port Jefferson units, as well as a contemplated installation of water injection on additional Holtsville combustion turbines, is expected to make significant reductions to NOx emissions sufficient to comply with the new rules. Compliance with new SO2 limits will likely be achieved with the existing SO2 allowance bank and fuel switching. However, additional controls or allowance purchases may be needed depending on the level of reductions ultimately required in the final rule.

In 2009 the DEC, in compliance with the EPA's Regional Haze Rule, issued a State Implementation Plan that specified how reductions in visibility-impairing pollutants would improve visibility in certain designated areas in the Northeastern United States. While the EPA has stated that participation in the Transport Rule will meet requirements, the DEC has proposed its own regulations, including the Best Available Retrofit Technology (BART) requirements. The rule required affected sources to submit a plan to the DEC in October 2010, demonstrating how the sources would comply with the rule. The PSA units' plan documented that SOFA on these five units, as well as the consumption of low sulfur fuel, are BART technologies for these sources. The DEC is currently waiting for EPA approval. Another rule issued in 2005, the Clean Air Mercury Rule (CAMR) had set new limits for mercury emissions from coal-fueled plants; as such, it does not apply to the PSA units, although it may impact the pricing of purchased power. The rulemaking process also considered regulating nickel emissions from oil fired units which would have affected some PSA units and units under PPAs that burn oil, but ultimately did not. On February 8, 2008, the D.C. Circuit vacated the CAMR regulation and remanded the regulation back to EPA.

As a result of the D.C. Circuit's vacating the CAMR Rule, EPA is required to determine at what level to regulate Hazardous Air Pollutants from oil and coal fired electric generating units (the Utility MACT Rule), and required stack testing at two Northport units and one Port Jefferson unit to be completed by September 2010. EPA will evaluate data received from testing in order to set emission levels, therefore at this point it is not possible to determine what, if any, additional controls may be required at Northport and Port Jefferson, or other units.

In 2005, New York State joined the Regional Greenhouse Gas Initiative (RGGI) for the purpose of capping and then reducing greenhouse gas emissions from power plants. New York State adopted its final regulation in 2008 to implement the requirements of RGGI and to auction most of the CO2 allowances comprising the New York share of the regional cap. Regional auctions are being conducted on a quarterly basis. The majority of the power plants which are under long-term contract to the Authority and are in the RGGI region are participating in the auctions, with most having an agreement for cost recovery from the Authority. Several plants are not able to claim recovery of these costs from the Authority, but are still required to comply. The Authority includes such costs as a component of its fuel and purchased power, and as such these costs are subject to recovery as provided under the FPPCA. These costs totaled approximately $11 million and $16 million in 2010 and 2009, respectively.

Section 185 of the Clean Air Act requires states to collect fees from major sources in those areas defined as severe or extreme ozone nonattainment areas that fail to come into compliance with the ozone National Ambient Air Quality Standards (NAAQS) by the dates provided under the Clean Air Act. Based on EPA guidance, it is expected that the fees, initially set at $5,000 per ton of NOx and volatile organic compounds emissions (adjusted annually from 1991 by the consumer price index), will be based on those emissions that exceed 80% of a plant's baseline in year 2007 for sources located in the New York metropolitan area, including on Long Island, or possibly another period representative of a source's normal operations. Several of the PSA units have exceeded the threshold in past years; however, the DEC has not chosen enforcement. Instead, the DEC has submitted to the EPA a demonstration that the area has achieved attainment with the ozone standard and therefore collection of 185 fees is not required. The State of New York is also in the process of developing its fine particulate matter and 8-hr ozone State Implementation Plans. While not yet proposed, the State intends to revise its existing regulations to require that sources of particulate matter sized 2.5 microns or smaller (PM2.5) with the potential to emit 100 tons per year will be required to perform case by case Reasonable Available Control Technology (RACT) analyses, and the State might also develop more stringent NOx RACT requirements. In addition, in 2007, member states of the Ozone Transport Commission determined that additional NOx emission reductions would be required from electric generating facilities during High Electric Demand Days. DEC has revised its NOx RACT regulations, significantly reducing the target NOx emission rates for the steam units. This will greatly lower the compliance margin generated by the steam units that allow for the operation of the combustion turbines. The planned installation of SOFA on the four Northport and two Port Jefferson units, as well as the contemplated installation of water injection on additional Holtsville combustion turbines is expected to make significant reductions that should be sufficient to comply with the new rules.

In 2010, the EPA finalized the 1-hr NO2 National Ambient Air Quality Standard. Originally, the standard was focused on levels of NO2 found near major highways and roadways in urban areas. However, since this is an ambient air quality standard, regulatory agencies will be evaluating the impact of stationary sources. This will particularly impact diesel engines, with short stacks on small properties, such as the East Hampton and Montauk diesels, but other units may also be affected. Further, it is possible that, during Title V permit renewals for all of the other generating sites, the DEC will require a demonstration that the permitted sources do not cause violations of this standard. This will be determined on a case by case basis when permit modifications or renewals are submitted. The likelihood of this occurring during permit renewals, and the possible compliance cost obligations that may arise are uncertain at this time.

Also in 2010, the EPA finalized standards for the emissions of hazardous air pollutants from Reciprocating Internal Combustion Engines (RICE MACT Rule) that affects the East Hampton and Montauk diesels. This standard will require the installation of oxidation catalysts on the diesels, which will require modification to the Title V air permits. Upon reopening of the permit, the DEC will require that an evaluation of the impact of the diesels on the 1-hr NO2 standard be conducted. If there is a violation of the 1-hr NO2 standard, NYSDEC will not re-issue the permit. To address this, National Grid is currently working with the NYSDEC for approval of modeling protocol that would demonstrate that these units do not cause an exceedance of the standard. LIPA is also evaluating other compliance alternatives that may offer system and/or economic advantages.

The EPA has announced its intention to promulgate a New Source Performance Standard (NSPS) for Greenhouse Gases (GHG) from existing electric generating sources. The EPA has stated that they will take a “common sense” approach, based on cost effective and readily available strategies and that the GHG NSPS will not focus on achieving a single GHG reduction target. A proposed rule for existing generating units is expected in July of this year, at which point the potential impact will be evaluated.

National Grid and the DEC are parties to a 1998 Consent Order for opacity, for which certain fines are assessed for occasionally exceeding power plant stack opacity limits. Improvements in plant infrastructure and plant operating practices have significantly reduced such occurrences and the amount of fines in recent years.

The Clean Water Act (CWA) requires that electric generating stations hold State Pollutant Discharge Elimination System (SPDES) permits, which reflect water quality considerations for the protection of the environment. Additional capital expenditures will be required as a result of the CWA and DEC requirements to provide Best Technology Available (BTA) to protect marine life from possible impacts from the steam electric generators’ cooling water intake systems under Section 316 of the Act. As directed by DEC, National Grid has undertaken studies of the impact of its cooling water intake systems on aquatic resources and submitted engineering alternatives to DEC for mitigating such impacts. National Grid believes that in most cases implementing technologies and procedures to reduce cooling water flow during certain periods should be sufficient to meet the performance standards established by the DEC.

DEC has issued draft SPDES permits for the Glenwood, Port Jefferson and E.F. Barrett power stations. With respect to Glenwood, the DEC concurred with National Grid that cooling towers are not required and will allow the plant to operate at its projected low capacity factor until 2013 at which time it would need to install fish protection technologies if it were to operate beyond that date. For Port Jefferson, DEC also concurred that cooling towers would not be required but required additional fish protection technologies beyond those proposed by National Grid. In addition, two intervenors have requested that DEC impose cooling tower requirements at Glenwood and Port Jefferson. National Grid, LIPA, DEC, and the intervenors are negotiating an agreement to address the interveners'' concerns with alternate technologies and operational limitations. At present, no capital expenditures would be required at Glenwood unless the plant operates beyond May 2013 at which time approximately $7 million in controls would be required. At Port Jefferson, a suite of technologies at an approximate cost of $16.5 million would be required to be expended within three years of permit issuance.

For E.F. Barrett, DEC proposed cooling towers in the draft permit. National Grid filed comments on various aspects of the draft permit, including the selection of cooling towers as Best Technology Available and the need for an environmental review. DEC subsequently withdrew the draft permit to allow for a full environmental review of the potential impacts of cooling towers under the State Environmental Quality Review Act. DEC has not yet issued draft permits for Northport and Far Rockaway.

The final nature and extent of any fish protection expenditure cannot be fully determined until ongoing analysis of the impacts and mitigation options are completed by DEC, and permit conditions are negotiated, subjected to public comment, and the outcome of potentially litigation. At this time, estimates for compliance upgrades proposed by National Grid for all PSA units, covering a range of potential mitigation options, could be between $80 and $100 million. While detailed cost estimates have not yet been prepared, if cooling towers are required at E.F. Barrett, preliminary estimates indicate that costs would be approximately $120 million. The potential cost for installing cooling towers at all power stations could be on the order of $400 million, with additional maintenance and fuel costs, which may be passed through to the Authority depending on the timing of these requirements and the exercise of certain options that the Authority has under the PSA.

Recent changes to the SPCC regulations (40 CFR 112) effectively require the internal inspections of No. 6 oil tanks on a frequency and in a manner that is based on the criteria of the American Petroleum Institute's guidelines. Over the past ten years, eight tanks were internally inspected and no significant corrosion was found. Over the next 15 years, the remaining ten additional tanks will be scheduled for internal inspections at an estimated cost of $9 million which may be passed through to the Authority depending on the timing of these requirements and the exercise of certain options that the Authority has under the PSA. Any subsequent repairs that may be indicated by these inspections cannot be estimated at this time. The Authority does not believe that its share of these costs will have a material adverse effect on its financial position, cash flows or results of operations.

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Long Island Power Authority:

We have audited the basic financial statements of the Long Island Power Authority (Authority) as of and for the year ended December 31, 2010, and have issued our report thereon dated March 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Authority management, the Authority's Board of Trustees, the New York State Division of the Budget and the New York State Office of the State Comptroller and is not intended to be and should not be used by anyone other than those specified parties.

KPMG LLP

March 31, 2010

Appendix B

Projected Operating Results

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Appendix B

Projected Operating Results

Set forth below are projected financial results for LIPA for the years 2011 through 2015. Such projections are based on various assumptions, which are described below.

Statements of Revenues and Expenses
(Thousands of Dollars)

	2011[1]	2012[2]	2013[2]	2014[2]	2015[2]
Revenues	**$ 3,659,623**	**$ 3,770,270**	**$ 3,786,948**	**$ 3,983,693**	**$ 4,371,887**
Expenses					
Fuel and Purchased Power Costs	1,713,947	1,736,609	1,727,916	1,908,618	2,230,549
Operations and Maintenance Expenses	979,735	1,047,648	1,054,716	1,047,107	1,084,530
Salaries & Benefits Expense	19,514	20,240	20,948	21,891	22,876
Administrative and Professional Services Expense	26,790	24,543	25,402	26,545	27,740
Depreciation and Amortization	269,608	277,878	287,938	297,894	307,663
Revenue Taxes	58,946	62,575	64,316	66,504	71,416
Payments in Lieu of Taxes (PILOTS)	222,020	234,548	247,912	262,068	277,063
Total Operating Expenses	**3,290,560**	**3,404,041**	**3,429,147**	**3,630,626**	**4,021,836**
Operating Income	**369,063**	**366,229**	**357,801**	**353,067**	**350,051**
Other Income and Deductions	34,488	39,342	43,780	45,444	44,602
Grant Income	17,361	10,966	9,809	9,809	9,809
Interest Expense	345,912	341,537	336,391	333,321	329,463
Excess of Revenues Over Expenses	**$ 75,000**	**$ 75,000**	**$ 75,000**	**$ 75,000**	**$ 75,000**
Debt Service Coverage Ratios (x):					
Senior Lien Debt	2.21	2.40	2.92	2.43	2.41
Senior Lien and Subordinate Debt	2.01	2.28	2.73	2.30	2.28
Total Debt	1.98	2.25	2.69	2.27	2.25

(1) Approved Budget.

(2) Projections.

Statements of Sources and Uses of Funds
(Thousands of Dollars)

	2011[1]	2012[2]	2013[2]	2014[2]	2015[2]
FUNDS PROVIDED FROM:					
Excess of Revenues Over Expenses	**$ 75,000**	**$ 75,000**	**$ 75,000**	**$ 75,000**	**$ 75,000**
Plus (Minus) Non-Cash Items:					
Accrual/(Amortization) of Excess Fuel Cost Recovery	(141,699)	—	—	—	—
Benefit of Fuel Cost Protection Plan	(39,476)	—	—	—	—
Amortization of Deferred Shoreham Property Tax Settlement Credits	38,930	39,918	40,692	41,578	42,462
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	(30,254)	(29,525)	(28,816)	(27,968)	(27,021)
Deferred Fuel Cost Reconciliation	36,500	36,500	36,500	—	—
NMP2 Amortized Nuclear Fuel Expense	11,056	12,083	13,278	13,068	14,077
Amortization of Prepaid NMP2 Refueling Outage Costs	3,797	3,437	3,317	3,419	3,453
Amortization of Prepaid Fuel Hedging Program Costs	13,416	16,986	18,000	18,000	18,000
Asset Retirement Obligation Accretion – FASB 143	3,943	4,169	4,408	4,661	4,928
Depreciation and Amortization	269,608	277,878	287,938	297,894	307,663
PSA Plant and Property Tax True-Ups-Accruals	(387)	152	4,530	3,054	3,317
Power Supply Management Contract Transition	3,260	3,260	3,260	3,260	3,260
Accrual for Other Post Employment Benefits	2,673	3,050	3,203	3,363	3,531
Promissory Note Receipts from National Grid	8,075	8,075	8,075	8,075	8,075
Other	29,572	34,335	34,432	29,311	26,349
Debt Service Interest Expense	345,911	341,537	336,391	330,320	329,463
Proceeds of Bonds and Notes	—	150,000	35,000	110,000	155,000
Total Sources of Funds before Interest Expense	**$ 629,925**	**$ 976,855**	**$ 875,207**	**$ 916,034**	**$ 967,556**
FUNDS USED FOR:					
Prepaid Fuel Hedging Program Costs	12,086	14,312	18,000	18,000	18,000
Prepaid NMP2 Refueling Outage Costs	180	6,454	180	6,726	270
Funding for NMP2 Plant Decommissioning	350	350	350	350	350
Amortization of Rent Credit	105	158	158	158	158
Bank and Related Fees	8,028	9,640	9,640	9,640	9,640
Debt Service Payments	562,841	595,540	495,318	594,111	598,505
Capital Expenditures	284,386	300,305	305,508	278,227	294,528
Capitalized MSA Management Fees	10,000	10,000	10,000	10,000	10,000
Acquisition of Materials & Supplies Inventory	7,667	—	—	—	—
PSA Plant and Property Tax True-Ups-Payments	588	588	588	588	588
Prepaid NMP2 Fuel Expenditure	29,783	280	31,920	239	33,826
Interest on Customer Deposits and Overpayments	806	806	806	806	806
Change in Cash Position Due to Operating, Financing and Investing Activities	(286,895)	38,423	2,738	(2,810)	885
Total Uses of Funds	**$ 629,925**	**$ 976,855**	**$ 875,207**	**$ 916,034**	**$ 967,556**

(1) Approved Budget.
(2) Projections.

The projections set forth above were prepared in September 2010 based on the assumptions set forth below. These assumptions do not include the effects of the possible repowering of certain GENCO plants. These projections reflect the impact on debt service of the issuance of the Series 2011A Bonds and the debt that is estimated to be outstanding in each period, but assume that the Series 2011A Bonds were issued in the fourth quarter of 2010, which was the potential timing for such issuance as of September 2010. In addition, these assumptions do not include the change to the Authority's accounting methodology used to estimate unbilled energy deliveries and the related customer receivables described in Part 2 under "FINANCIAL INFORMATION." A change in either assumption would not have a materially negative impact on the projections contained in this Appendix B.

The projected debt service coverage ratios have been calculated in accordance with the provisions of the Resolution. The Resolution provides that the Authority's debt service coverage calculations are performed prior to accounting for, among other items, PILOT payments and payments with respect to Capitalized Leases (as defined in the Resolution) which, although they are power purchase agreements, are not payable as Operating Expenses under the terms of the Resolution. For the Projection Period, payments with respect to PILOTs and Capitalized Leases together average approximately $620 million per year.

THE PROJECTIONS CONTAINED IN THIS APPENDIX B ARE FORWARD LOOKING STATEMENTS PREDICATED UPON ASSUMPTIONS PRESENTED HEREIN. NEITHER THE AUTHORITY, LIPA 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 HEREIN, THE RESULTS THAT WILL BE ACHIEVED BY THE AUTHORITY WILL VARY FROM THOSE PROJECTED.

1. LIPA's load and energy forecast is prepared by National Grid Corporate Services, under LIPA's supervision, utilizing econometric regression models. These models are based on the relationship between the historical levels of electricity consumption and the variables that are considered to drive consumption including weather, changes in the number of customers, the effects of demand side management programs, changes in the level of employment, income levels, the size of homes and facilities and the price of electricity. The load and energy forecast reflects the projected effects of the implementation of Efficiency Long Island ("ELI") Program, a comprehensive energy efficiency program expected to result in lower energy and peak load requirements of 1,671 GWH and 498 MW, respectively, by 2018 than would have been the case had the program not been in effect. The sales forecast incorporates moderate sales and customer growth through the end of 2015. Residential sales are projected to decline by 299 GWH or 3.2% between 2011 and 2015 while residential customer growth is projected to be 19,778. However, commercial and industrial sales are projected to grow by 174 GWH, or 1.8% and customer growth in this market is projected to be 3,595. Employment numbers are based on projections from an independent forecasting company with adjustments made for current or anticipated changes in employment. Jobs are estimated to increase by 93,100 jobs over the Projection Period. The primary employment gains are projected to be in education & health services (about 32,500 jobs) followed by business services (20,400 jobs), government (15,000 jobs), leisure and hospitality (9,700 jobs), trade, transportation and utilities (5,700 jobs), construction (6,700 jobs), finance 3,700 jobs) and information (800 jobs). Job losses are projected only in the manufacturing sector (-1,400 jobs). Income per household is forecasted to increase by 5.9% (3.1% in real terms to exclude the effects of inflation) per year in the Projection Period.

2. The fuel and purchased power cost projections are prepared by National Grid Corporate Services utilizing a generation economic dispatch model that considers among other variables, the availability and heat rates of generating resources and delivered fuel prices. The delivered fuel price forecast was also prepared by National Grid Corporate Services based upon the 10-day average of the forward price curve as of September 28, 2010 for commodity prices for natural gas and fuel oil.

3. The projections assume that the proposed new power supply sources will be available at the times expected and that current power supply resources will remain available with no significant disruptions.

4. Non-contractual Operating and Administrative costs are projected to increase at an annual rate of between 3.5% and 4.5%.

5. The projections assume that electric rates, including the FPPCA, as well as the rates contained in the rider for the ELI program designed to cover program costs and lost revenues and a separate rider to recover the cost of the NYS Temporary Conservation Assessment will be set at a level sufficient to allow the Authority to earn a financial target of $75 million per year.

6. Capital expenditures are based on programs to maintain and/or improve reliability and quality of electric service, including hardening the system for major storms, provide for new customer growth and provide the upgrades necessary to accommodate new supply sources.

7. The projections assume that the Authority and LIPA stay as currently structured and continue to operate as currently operating. See "LIPA'S RETAIL ELECTRIC SERVICE BUSINESS – Strategic Review" in Part 2 of this Official Statement.

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, the EMA and the FMBSA, copies of which are on file with the Trustee.

"Account" means one of the special accounts created and established pursuant to the Resolution.

"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 NYISO from time to time to enable the NYISO 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.

"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 F to this Official Statement.

"Bond Counsel" means (i) Hawkins Delafield & Wood LLP, 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 Costs" as used in the MSA, means the costs associated with Capital Improvements. Such costs shall include all applicable direct and indirect costs required to be capitalized in accordance with LIPA's capitalization policy and GAAP, consistently applied. Such costs may also be capitalized in accordance with FERC's Uniform System of Accounts.

"Capital Improvement" as used in the MSA, means any repair, replacement, improvement, removal and retirement, alteration and addition to the T&D System which constitutes a capital property unit in accordance with LIPA's capitalization policy, consistently applied (other than any repair, replacement, improvement, removal and retirement, alteration and addition constituting repair or maintenance of the T&D System) contained in the approved Capital Plan and Budget, including all Public Works Improvements that have an expected useful service life of more than one (1) year from the date of installation.

"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.

"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 AMENDED AND RESTATED MANAGEMENT SERVICES AGREEMENT—Capital Improvements—Capital Plan and Budget").

"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 Fuel 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 Fuel Manager or the Guarantor, as the case may be; (iii) any merger, consolidation, combination or similar transaction of the Manager, the Fuel Manager or the Guarantor, as the case may be, with or into any other person, whether or not the Manager, the Fuel 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 Fuel Manager or the Guarantor, as the case may be; (v) a person other than the current shareholders of the Manager, the Fuel 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 Fuel 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 Fuel 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 Fuel Manager or the Guarantor, as the case may be; or (vii) any liquidation, dissolution or winding up of the Fuel 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 the term "Common Utility Plant" 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 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 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 NYSPSC from time to time that apply to the operation and maintenance of the T&D System, except to the extent otherwise directed by LIPA, (4) Prudent Utility Practice, (5) the Operation and Maintenance Manual, (6) applicable equipment manufacturer's specifications and reasonable recommendations, (7) applicable Insurance Requirements, (8) applicable provisions of LIPA's or the Authority's financing requirements relating to the tax exemption of the Authority's or LIPA's bonds under the Code, as in effect from time to time, copies of which shall be furnished by LIPA to the Manager, 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 Fuel 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 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.

"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.

"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 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 or the FMBSA Facilities, as applicable.

"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 Fuel Manager and LIPA, as amended and supplemented, pursuant to which the Fuel 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).

"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 AMENDED AND RESTATED 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, Inc., formerly known as Fitch Investors Services, L.P. and its successors and their assigns.

"FMBSA" or **"Fuel Management and Bidding Services Agreement"** means the Fuel Management and Bidding Services Agreement, dated as of November 24, 2004, between the FMBSA Manager and LIPA, as amended and supplemented, pursuant to which the FMBSA Manager, among other things, procures and manages fuel supplies for the FMBSA Facilities.

"FMBSA Facilities" means collectively (i) certain Fast Track Electric Generating Units as described in the FMBSA located in Nassau, Queens and Suffolk Counties from which LIPA has contracted to purchase output from various entities and (ii) the Caithness Long Island Energy Center.

"FMBSA Manager" means the National Grid Sub that is party to the FMBSA and that is responsible for providing to LIPA the energy management functions and services required by the FMBSA.

"Force Majeure" as used in the MSA, 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 this 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 this 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.

"Fuel" means the natural gas, oil, kerosene or other fossil fuel used for operating the GENCO Generating Facilities and the FMBSA Facilities.

"Fuel Management Fee" means, as applicable, (i) 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") and (ii) such fee as defined in the FMBSA (and as summarized in Appendix E under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE FUEL AND MANAGEMENT BIDDING SERVICES AGREEMENT—Fuel Management—Fuel Management Fee").

"Fuel Manager" means the National Grid 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.

"Fuel Purchase Performance Incentive/Disincentive" means the incentive payment to or disincentive payment from the Fuel 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, as applicable, (i) the GENCO Generating Facilities by the Fuel Manager pursuant to the EMA subsequent to May 28, 1998 or (ii) the FMBSA Facilities by the FMBSA Manager pursuant to the FMBSA. A reference to "Fuel Services" shall mean "any part and all of the Fuel Services" unless the context otherwise requires.

"GASB" means the Governmental Accounting Standards Board.

"GENCO" means the National Grid 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.

"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 Operating Agreements other than LIPA.

"Guarantor" means Keyspan Corporation 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 Corporation has guaranteed to the Authority payment when due of all amounts payable by the National Grid Subs under the Operating Agreements and the performance of the covenants and agreements of the National Grid Subs under the Operating Agreements.

"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 with respect to the Scope of Services under the MSA, 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-NE" means The New England Independent System Operator.

"Keyspan Corporation" means Keyspan Corporation, a New York corporation which is a wholly owned subsidiary of National Grid plc.

"KeySpan Promissory Notes" means the promissory notes evidencing the obligation of the Promissory Note Obligor to pay the LIPA amounts equal to the principal and interest when due on certain NYSERDA Financing Notes.

"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 LIPA 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 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 Fault" means any breach, failure of compliance, or nonperformance by LIPA with its obligations under an Agreement or any negligence or willful misconduct by LIPA under an Agreement (whether or not attributable to any officer, trustee, member, agent, employee, representative, contractor, subcontractor of any tier, or independent contractor of LIPA other than the Manager or Fuel Manager and its Subcontractors) that materially and adversely affects the Manager's or Fuel Manager's performance or the Manager's or Fuel Manager's rights or obligations under the Agreement.

"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.

"LIPA/LILCO Merger Agreement" means the Agreement and Plan of LIPA/LILCO Merger, dated as of June 26, 1997.

"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.

"Manager" means the National Grid 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, as applicable, (i) such payment 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—Monthly Fuel Payment") and (ii) such payment as defined in the FMBSA (and as summarized in Appendix E under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE FUEL AND MANAGEMENT BIDDING SERVICES AGREEMENT—Fuel Management—Monthly Fuel Payment").

"Moody's" means Moody's Investors Service and its successors and their assigns.

"MSA" or **"Management Services Agreement"** means the Amended and Restated Management Services Agreement, dated as of January 1, 2006, between the Manager and LIPA, as amended, pursuant to which the Manager operates and maintains the T&D System.

"National Grid plc" means National Grid plc, a company organized under the laws of England and Wales.

"National Grid Sub" means any particular subsidiary company of Keyspan Corporation that is a party to an Operating Agreement or another agreement with LIPA or the Authority.

"NERC" means the North American Electric Reliability Corporation.

"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.

"NPCC" means the Northeast Power Coordinating Council.

"NYISO" means the New York Independent System Operator and any successor thereto.

"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.

"NYSPSC" means the New York State Public Service Commission.

"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 May 28, 1998 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.

"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 Corporation, 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.

"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.

"PJM" means the Pennsylvania-New Jersey-Maryland Regional Transmission Organization.

"Power and Energy" means the electrical energy and capacity available from the System Power Supply.

"Prevalent Utility Services" means, those services, programs, practices and procedures provided or adopted by (a) 50 percent or more of the investor-owned electric utilities from a pool consisting of (i) the investor-owned electric utilities within the NYISO; and (ii) investor owned electric utilities within

the ISO-NE each serving more than 250,000 customers; and (iii) the PECO unit of Exelon Energy Delivery, or its successors (excluding companies owned or controlled by National Grid plc) or (b) any National Grid USA service, program, practice or procedure adopted for the benefit of 50 percent or more of National Grid USA's customers (but excluding any such service, program, practice or procedure for which a National Grid USA company is specifically ordered to provide in return for specific rate and/or tariff recovery by a public state utility regulatory agency), with respect to the provision of electric transmission and distribution services and associated customer service. With respect to underground transmission facilities of 128kB and higher only, "Prevalent Utility Services" means those services, programs, practices and procedures provided or adopted at such time by 50 percent or more of the utilities having at least 50 miles of such underground transmission facilities and which are members of the NPCC.

"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.

"Promissory Note Obligor" means Keyspan Corporation and one or more of its subsidiaries that are obligated to make payments to LIPA under the Promissory 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 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.

"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 NYISO, engaging in electric power transactions on the NYISO'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 Debt" means the indebtedness of LILCO retained by LIPA after the completion of the LIPA/LILCO Merger consisting of the outstanding unsecured debentures of LILCO retained by LIPA 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.

"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.

"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.

"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 Fuel Manager and a Subcontractor, or between two Subcontractors, as applicable.

"Subcontractor" means every person (other than employees of the Manager or the Fuel Manager) employed or engaged by the Manager or the Fuel Manager or any person directly or indirectly in privity with the Manager or the Fuel 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 Fuel 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.

"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 Fuel Manager.

"System Policies and Procedures" means the policies and procedures adopted from time to time by LIPA 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, the Power Supply Agreement, LIPA's rights and interests with respect to the NMP2 power plant, and LIPA's interest in any future generating facilities, spot market capacity and energy purchases made on behalf of LIPA, and any load control programs or measures adopted by LIPA.

"T&D System" means the electricity transmission and distribution system owned by LIPA from time to time and all other assets, facilities, equipment or contractual arrangements of LIPA used to provide the transmission and distribution of Power and Energy within or to the Service Area.

"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—Events of Default; Procedures for Termination," and as summarized, with respect to the MSA, in Appendix E under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE AMENDED AND RESTATED MANAGEMENT SERVICES AGREEMENT—Default, Termination for Cause and Dispute Resolution—Procedure for 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").

"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, The Bank of New York Mellon as successor to United States Trust Company of New York, New York, New York, as Trustee, 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.

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APPENDIX D

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. 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.

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 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").

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;

(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 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

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) 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 (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 Series 2011A Bonds, the Authority has covenanted not to take or omit to take any action which would cause interest on any Series 2011A Bond 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 Series 2011A Bonds (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 Series 2011A Bond 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, 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 which 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 but solely from amounts available 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 Fuel 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 the 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 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.

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; 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.

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.

APPENDIX E

SUMMARY OF OPERATING AGREEMENTS

SUMMARY OF CERTAIN PROVISIONS OF THE AMENDED AND RESTATED MANAGEMENT SERVICES AGREEMENT

The following is a brief summary of certain provisions of the Amended and Restated Management Services Agreement, as amended (the "MSA" or the "Agreement"). The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Agreement, a copy of which may be obtained from the Authority.

General

The Authority (acting through LIPA) and National Grid Electric Services LLC (the "Manager") have entered into an Amended and Restated Management Services Agreement (the "Agreement"), which became effective upon the approval of the New York State Attorney General (as to form) and the approval of the New York State Comptroller.

The Amended and Restated Management Services Agreement establishes the terms and conditions under which the Authority has contracted with 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 does not and 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.

The Agreement provides that the Manager will provide LIPA with unrestricted access to the T&D System. The Manager will provide LIPA and its consultants and designees with a dedicated on-site office space located at the Manager's current headquarters building or another mutually agreed site and a separate work space adequate to enable LIPA to exercise its oversight rights and responsibilities under the Agreement. LIPA has the right to designate up to four LIPA employees (each a "LIPA Designee") to be located at the Manager's offices. One such LIPA Designee will fully participate with the senior executives of the Manager and its Affiliates who are responsible for the provision of electric service, up to two LIPA Designees will fully participate with the senior management of the Manager's Electric Planning Organization for the T&D System and with respect to electric resource planning work performed by such organization, and one such LIPA Designee will fully participate with the Manager's combined Electric Sales and Marketing Organization.

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 the Manager will provide Operation and Maintenance Services and Construction Work for the T&D System on behalf of LIPA at all times in accordance with the Contract Standards (the "Scope of Services"). The Scope of Services to be provided by the Manager is subject to modification during the Term of the Agreement to reflect changes in Prevalent Utility Services. The Manager will be responsible for all electric transmission, distribution, and load serving activities 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) engineering activities; (c) asset management; (d) identification and assistance in the development and administration of third-party research and development; (e) contract administration of third party generation and transmission and interface with daily operation; (f) preparation of recommended, and monitoring of the approved, Capital Plan and Budget, load and energy forecasts and long and short range system and strategic plans; (g) preparation of long and short range transmission and distribution planning analyses and forecasts; (h) monitoring the regulatory environment for changes or trends that could impact LIPA and recommending appropriate courses of action; (i) performance of accounting, tax and payment in lieu of tax reporting functions; (j) representation of LIPA before FERC, NYSPSC, NERC, NYISO, NY State Reliability Council, ISO-NE, NPCC, PJM and North American Energy Standard Board or such other regulatory or governmental group or entity as the parties any mutually agree is appropriate and any working groups or committees of the foregoing; (k) administration and management, at the direction of LIPA, of LIPA's interest in NMP2; (1) 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; (m) under LIPA's direction, assistance in the administration, development and/or implementation of energy conservation and load management programs for the T&D System and its customers; (n) performance of Capital Improvements including customer connections and disconnections and supervision; (o) repair or modification activities required due to Public Works Improvements; (p) reasonable cooperation with third parties providing services to LIPA with respect to the provision of electric service; (q) other activities necessary, appropriate or advisable to safely, reliably and efficiently operate and maintain the T&D System in accordance with the Contract Standards and Prevalent Utility Services.

The Manager will be responsible for implementation of customer service functions related to the provision of electric service, including, but not limited to, the following: (a) maintaining customer contact through call centers with toll free service numbers, customer offices, authorized payment centers, maintaining and overseeing customer portion of LIPA's Web Site, co-management of customer loyalty and satisfaction programs, customer services field operations, and customer care and institutional communications and responding to customer inquiries regarding LIPA provided services; (b) development and maintenance of all necessary information and accounting systems and controls relating to the provision and reporting of customer services, and updating customer records in the financial and customer information system; (c) marketing and sales for retail system expansion, retail customer retention, and customer care and service programs, including all aspects of marketing, promotion and communications; market research; account relationship management; economic development, field sales; trade ally relations; demand response programs; and participating in and complying with LIPA's clean energy initiatives; (d) planning and managing the design of customer meter reading and billing systems, reading of customer meters, issuance of accurate and timely customer bills, and collection of customer payments and timely investigation of customer bill inquiries, all in accordance

with the Contract Standards and unusual or unmetered usage, unbilled revenues and theft of services; (e) auditing, on a timely basis, of adjustments for billing errors, and seeking refunds and interest payments from customers; (f) collection of reliability, meter reading, call answering, collection and customer satisfaction performance data; (g) inclusion of communications to customers requested and approved by LIPA in customer bills; (h) identification, assistance in the development of, and administration of third party produced research and development to provide solutions to fulfill customer needs and expectations, renewable technologies and clean energy initiatives; and (i) other activities necessary, appropriate or advisable to implement LIPA's customer service programs in accordance with the Contract Standards and Prevalent Utility Services.

The Manager is responsible for (a) the preparation of recommended revenue requirements for the management of the T&D System; (b) the preparation of recommended rate classification and designs for the T&D System; (c) at LIPA's request, public presentation of recommended rate and capital expenditure adjustments at LIPA rate hearings; (d) cost of service and planning; (e) tariff development, administration, and enforcement; (f) regulatory monitoring; and (vii) load research and forecasting.

The Manager is responsible for the following other activities with respect to the provision of electric service to customers of the T&D System: (a) assisting LIPA in developing and maintaining System Policies and Procedures and training the Manager's work force in accordance therewith; (b) assigning and supervising the Manager's and its Subcontractor's work force consistent with the day-to-day requirements of the Agreement; (c) assigning and allocating physical resources consistent with the day-to-day operational requirements of the Agreement; (d) recruiting, retaining, deploying, and supervising subcontract labor and resources; (e) determining, acquiring, deploying, and maintaining tools, equipment, and information systems necessary to perform all activities under the Agreement; (f) preparing and delivering cost and budget input data for LIPA's annual budgeting processes; (g) accounting for and documenting the costs and revenues resulting from the Manager's performance under the Agreement in accordance with GAAP, GASB, FERC and /or NYSPSC requirements as necessary; (h) developing safety programs, safety reports, and written procedures and practices for the Manager's staff; (i) producing and delivering information as may be necessary to determine the Manager's performance under the Agreement; (j) contracting for and maintaining services, including utilities, communication systems, and internet and intranet services, necessary for the Manager's office facilities and to fulfill the Manager's obligations under the Agreement; (k) monitoring industry advancements and technological changes in the provision of transmission and distribution services by electric utilities and recommending improvements in current programs and practices for LIPA's consideration; (1) in accordance with current practices of the Manager, staffing public events and presenting workshops, seminars, and similar activities during normal business hours, evenings, weekends, and holidays, as may be required from time to time by LIPA; and (m) providing vehicle and refueling operations.

The Manager is responsible for developing and implementing business continuity, disaster recovery and emergency response plans, and all necessary emergency response and reporting relating to the T&D System, and coordinating such plans with LIPA's plans and the plans of LIPA's other service providers for business continuity and disaster recovery.

If requested by LIPA, the Manager will perform additional services reasonably related to the T&D System and not included within the Manager's scope of services based upon terms and conditions (including compensation) agreed to by the parties. The Manager's scope of services does not include (a) operation, maintenance and repair of transmission or distribution facilities which are owned in whole or in part by third parties, other than certain specified cables or (b) operation, maintenance and repair of transmission or distribution facilities located outside of the Long Island Control Area owned by LIPA which are constructed or acquired after the date of delivery of the Agreement (the "Contract Date").

The Manager's responsibilities under the Agreement include the representation of LIPA before FERC, NYISO, NY State Reliability Council and ISO-NE among others, or such other regulatory or governmental group or entity as the parties may mutually agree is appropriate and any working groups or committee meetings of the foregoing. The employees of the Manager or its Affiliates acting on behalf of LIPA in such capacity are referred to herein as "LIPA Regulatory Representatives." LIPA Regulatory Representatives shall at all times comply with the rules and regulations of the FERC, NYISO, NY State Reliability Council and ISO-NE, among others, and LIPA's Standard of Conduct and Code of Conduct as in effect from time to time. Within a reasonable time after each working group or committee meeting, LIPA Regulatory Representatives present and representing LIPA at such working group or committee meeting will provide LIPA with summaries of the issues addressed and matters discussed at each working group or committee meeting and the outcome thereof. Prior to working group or committee meetings, LIPA Regulatory Representatives will coordinate with the appropriate LIPA representative with regard to the positions to be taken and the decisions and/or votes to be made on behalf of LIPA at such working group or committee meetings. No LIPA Regulatory Representative may represent the Manager or any of its Affiliates as long as the LIPA Regulatory Representative is representing LIPA.

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.

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 Metrics. The Agreement provides that the Manager will monitor and report to LIPA with respect to the Manager's performance during each month under the following operational and customer service performance metrics: Actual Meter Read Rate, Billing Accuracy, Customer Satisfaction Index, Days Sales Outstanding, Bad Debt Ratio, Expanded Electronic Transactions, Call Answer Rate & Average Speed of Call Answer, First Call Resolution, Workplan Completion Index, Capital Cost Per Customer, Multiple Customer Outages, System Average Interruption Duration Index, System Average Interruption Frequency Index, Customer Average Interruption Duration Index, Storm Customer Average Interruption Duration Index, Worker Safety, Planned Substation Maintenance, and Primary Cable Faults, as set forth in Appendix 5 to the Agreement (the "Performance Metrics"). The Manager's performance in meeting the Performance Metrics will determine the extent, if any, to which the Manager will be assessed performance penalties, which penalties shall in no event exceed either (i) Seven Million Dollars ($7,000,000) in the aggregate during any one Contract Year for such Performance Metrics, or (ii) an amount which would result in the Manager receiving less than the Minimum Compensation amount for such Contract Year. The deviation from the agreed upon level of performance with respect to the metrics, and the associated penalty amount, are set forth in Appendix 5 to the Agreement.

The Agreement establishes a Clean Energy Initiative ("CEI") performance metric with a maximum one million dollar per year penalty or performance bonus. The CEI performance metric has three parts: budget, cost-effectiveness, and collaboration.

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, consistent with Applicable Law, Prudent Utility Practices, Prevalent Utility Services, subject to the Agreement, 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; (c) the right to review, amend as appropriate and approve the annual Capital Plan and Budget 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 FERC, NERC, NPCC, the NYISO, the NY State Reliability Council, the NYSPSC, the ISO-NE, PJM, the North American Energy Standards Board 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 will perform normal and customary customer services, 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 will, 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 will, 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 formal 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 or 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.

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.

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 certain insurance policies relating to the Manager's duties (the "Required Operating Period Insurance") to the extent that such insurance remains available on commercially reasonable terms. If, as a result of material changes in the market for insurance products, one or more Required Operating Period Insurance policies is or are not generally available or available only on terms not considered to be commercially reasonable, the Manager will so notify LIPA. If such insurance is not generally available, LIPA will be entitled to an equitable adjustment in the Minimum Compensation for the Scope of Services. If such insurance is available, but only at a cost that Manager considers to be commercially

unreasonable, Manager will advise LIPA of such cost. If, after consultation, the parties are unable to agree on whether the Manager should procure such insurance at such additional cost, LIPA may either obtain such insurance at its own cost or determine to forego such insurance coverage. In either event, LIPA will be entitled to an equitable reduction in the Minimum Compensation for the Scope of Services. LIPA has the right, upon ninety days' notice to the Manager, at any time at its expense to cancel or replace and obtain independently all or any portion of the Required Operating Period Insurance, in which case LIPA will be entitled to an equitable reduction in the Minimum Compensation for the Scope of Services. If the Manager obtains additional insurance not set forth in the Agreement at LIPA's request, LIPA will reimburse the Manager for the costs thereof as an Additional Service.

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 (except for (i) item (1) below, which will be provided no later than 20 Business Days after the end of each month, provided that Manager agrees, not later than six months after the Contract Date, it will examine its reporting practices with an objective of accelerating the reporting of item (1) below so it can be provided no later than 15 Business Days after the end of each month, and (ii) item (3) below, which will be provided no later than 30 Business Days after the end of each month), including the following data: (1) on a monthly and year-to-date basis, the actual Capital Costs, pensions and OPEBs, and Storm Events (collectively, "Reported Costs") versus the budget for Reported Costs, with variance explanations, and the prior year's Reported Costs at such time; (2) a capital budget adjustment report; (3) a System Operating Report substantially in the form provided by the Manager as of the Contract Date, together with a report of the Manager's performance with respect to the Performance Metrics; (4) a reasonably detailed list of the results of any environmental or other tests or monitoring procedure conducted by or at the direction of any federal, State or local environmental or other regulatory agency during the prior monthly period, and at LIPA's request copies thereof and copies of any reports or other submittals made to or received from any such agency (it being understood that LIPA will in any event have complete access to the foregoing); (5) a description of partial or total shutdowns for maintenance and repairs during the prior month and anticipated during the current month, 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, the results of any regulatory or insurance inspections or tests conducted during the prior month, and identification of those costs which are classified as Capital Costs versus operating in sufficient detail in order to allow LIPA to determine which costs qualify for bonding under the Bond Resolution and which are to be recovered through T&D System rates; and (6) any other documents, reports, data, and other information or statement which LIPA may reasonably request (as to time and format) and which may be reasonably produced from records maintained by the Manager hereunder or pursuant to the original MSA in the normal course of business consistent with the provisions of the Agreement with respect to record retention.

The Manager will provide LIPA on a monthly basis updated year-end projections of Pass-Through Expenditures beginning in April of each Contract Year.

Annual Reports. The Manager will furnish LIPA and the Consulting Engineer with an annual settlement reconciling actual costs for Reported Costs and the budget for Reported Costs, certified by the Manager and the Guarantor's internal auditor and chief financial officer. The Manager will continue to have its independent auditors certify the Manager's internal controls in accordance with Section 404 of the Sarbanes-Oxley Act.

Books and Records. The Manager will prepare and maintain and make available to LIPA upon its reasonable (as to time and format) request, distinct, proper, accurate and complete books, records, and accounts regarding the operations and financial or other transactions related to the T&D System to the extent necessary: (1) to enable LIPA to prepare financial statements, regarding the operations of the T&D

System, certified in accordance with GAAP and GASB, (2) to verify data with respect to any operations or transactions in which LIPA has a financial or other material interest hereunder, (3) to prepare periodic performance reports and statements of the T&D System, which will be submitted by the Manager to LIPA, and (4) as may be required by Applicable Law or applicable regulatory authority.

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 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.

CEI/DSM Consulting Services. During the term of the Agreement, if requested by LIPA, the Manager will devote 100 hours to reviewing LIPA's energy efficiency programs in order to (i) identify potential enhancements to LIPA's energy efficiency programs, (ii) suggest new program and service options related to enhancing residential and commercial or industrial energy efficiency, (iii) explore the applicability and usefulness of retro-commissioning buildings, the national advanced buildings program, and the engagement of a project expediter to LIPA, and (iv) review and recommend certain improvements to LIPA's energy efficiency evaluation practices (the services in items (i) through (iv) above, collectively, the "CEI/DSM Consulting Services"). All CEI/DSM Consulting Services shall be within the Scope of Services.

Capital Improvements

Capital Improvements Generally. From time to time it will be necessary to make repairs and replacements to the T&D System which do not constitute routine maintenance and 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 Capital Improvements will be made in accordance with the Agreement and will be owned by LIPA. The Manager will not make a Capital Improvement without notifying LIPA and receiving written consent from LIPA unless such Capital Improvement is included in the then current annual Capital Plan and Budget. LIPA will have the right, when the Manager has materially exceeded the Capital Plan and Budget as of an interim date, to require the Manager to defer specific Capital Improvements planned for the remainder of the year.

Capital Plan and Budget. The Manager is obligated to prepare a proposed annual, two and five year Capital Plan and Budget concerning planned Capital Improvement projects.

The annual Capital Plan and Budget will be approved by LIPA prior to or contemporaneously with the adoption of any rate adjustment by LIPA, provided that in the event the Capital Plan and Budget has not been adopted by LIPA as of the beginning of a Contract Year, the Manager may undertake such Capital Improvements as reasonably approved by LIPA on a project-by-project basis.

Cost Determination. Capital Improvements will be performed at the cost of the service without any multiplier fee or mark-up. With respect to any Capital Improvement estimated to cost in excess of $2,000,000, after conferring with the Manager, LIPA, at its sole discretion, may (a) conduct an independent procurement, (b) direct the Manager to competitively bid the Capital Improvement, or (c) direct the Manager to complete the work. In that regard, LIPA will give due consideration to the efficient utilization of the Manager's workforce.

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 will promptly proceed to make or cause to be made all Capital Improvements reasonably necessary to permit the Manager to perform its obligations under the Agreement. All such Capital Improvements for which the Manager is responsible as described under the heading "Allocation of Risks of Certain Costs and Liabilities" will be made at the Manager's sole cost and expense, and the Manager will not be entitled to any compensation from LIPA as a result thereof.

Compensation and Budgets

Manager Compensation. Commencing with the first Contract Year and for each Contract Year during the term of the Agreement, LIPA will pay the Manager a fee for the Scope of Services provided by the Manager under the terms of the Agreement in an amount equal to the lesser of (i) the Minimum Compensation plus the Variable Compensation and (ii) the Minimum Compensation divided by 80%.

"Minimum Compensation" is equal to Two Hundred Twenty Four Million Dollars ($224,000,000.00) for the first three Contract Years. For each subsequent Contract Year, Minimum Compensation will be equal to the prior Contract Year Minimum Compensation multiplied by 1.017, multiplied by the change in the Consumer Price Index (all Urban Consumers) for the New York-Northern New Jersey-Long Island region (Series ID #CUURA101SA0) as published by the United States Department of Labor Bureau of Labor Statistics ("New York Region CPI") for the twelve month period ending September 30th of the prior Contract Year.

"Variable Compensation" is equal to the total kilowatt hours of LIPA's billed sales for the Contract Year less "Base Kilowatt Hours," multiplied by the "Variable Price Per KWh" for the Contract Year.

"Base Kilowatt Hours" is equal to 16,558,000,000 kilowatt hours for the Initial Contract Year. For each subsequent Contract Year, Base Kilowatt Hours will be set at the prior Contract Year's Base Kilowatt Hours multiplied by 1.017.

"Variable Price Per KWh" is equal to 1.3377 cents per kilowatt hour ($0.013377/KWh) for the Initial Contract Year. For the second Contract Year, the Variable Price Per KWh will be equal to 1.2870 cents per kilowatt hour ($0.012870/KWh) multiplied by the change in the New York Region CPI for the twelve month period ending September 30, 2006 as compared to September 30, 2005. For the third Contract Year, the Variable Price Per KWh will be equal to 1.2363 cents per kilowatt hour ($0.012363/KWh) multiplied by the change in the New York Region CPI for the twelve month period ended September 30, 2006 multiplied by the change in the New York Region CPI for the twelve month period ended September 30, 2007. For each subsequent Contract Year, the Variable Price Per KWh will be set at the Variable Price Per KWh for the prior Contract Year multiplied by the change in the New York Region CPI for the twelve month period ended on September 30th of the prior Contract Year.

Payment Schedule. LIPA will pay to the Manager the Minimum Compensation in monthly installments based on LIPA's forecasted sales pattern as set forth below:

January	8.4%
February	7.4%
March	7.9%
April	7.0%
May	7.6%
June	9.0%
July	10.5%
August	10.4%
September	8.5%
October	7.7%
November	7.4%
December	8.2%

Pass-Through Expenditures. The Agreement provides that LIPA will reimburse the Manager for all Pass-Through Expenditures in the manner set forth therein. "Pass-Through Expenditures" are those expenditures incurred by the Manager with respect to the following items: (1) Capital Costs; (2) claims, lawsuits, litigations, losses, costs and expenses, judgments, liens, settlement, disbursements and similar expense (including, without limitation, external attorney's fees) (collectively, "Claims"), incurred in connection with each such Claim or related Claims which exceeds $25,000 in the aggregate; (3) Storm Events; (4) LIPA's return postage; (5) real property taxes, special franchise taxes, other taxes and any payments in lieu of taxes (PILOTS) related to LIPA-owned assets or revenues (collectively, "Taxes"); (6) customer refunds; (7) completion of repairs and remediation related to E.F. Barrett to Valley Stream 138kV cable leak (circuit no 138-291) identified in the fall of 2005; (8) incremental substation maintenance for Contract Year 2006, in an amount up to $2,000,000; (9) third party conservation and third party research and development costs; (10) repair costs for any damage to the submerged portion of any marine cable; (11) increases in the annual cost of Long Island Railroad easements above $1,265,000 (which amount will be escalated annually by 1.017 multiplied by the change in the New York Region CPI for the twelve month period ending September 30th of the prior Contract Year) and (12) for Contract Years 2008 through 2013, LIPA-approved incremental funding or allocation of Capital Costs for storm hardening that exceed $1,000,000.

Exogenous Cost Adjustments. The Agreement provides that LIPA will reimburse the Manager. The Manager is required to credit to LIPA's account any Exogenous Costs which the Manager incurs during a Contract Year to the extent that the Manager incurs net Exogenous Costs for that Contract Year in excess of $3,000,000 in the aggregate. "Exogenous Costs" are those costs which result in either a positive or negative change in the Manager's costs of providing services hereunder within the Scope of Services which are (i) outside of the Manager's control and (ii) not otherwise reflected in the New York Region CPI, and which directly result from one or more of the following: (1) Change in Law (including tax law, except with respect to the Manager's income tax), regulation or GAAP, but only if and to the extent that such changes are applicable to electric utilities operating in New York State, (2) change in the New York Public Service Law or NYSPSC regulation, but only if and to the extent that such change

relates to the safety and reliability of the operation of the T&D System and are adopted as part of the System Policies and Procedures and (3) acts of terrorism.

Storm Costs. LIPA will reimburse the Manager, as a Pass-Through Expenditure, for costs incurred by the Manager in connection with a Storm Event. Such costs will be charged against the Storm Reserve which LIPA will establish and replenish from time to time in the amounts and in the manner set forth in the Agreement.

Mutual Aid Costs. The Manager must obtain authorization from LIPA prior to the release of any internal or third-party crews to assist a utility either within or outside New York State for storm recovery ("Mutual Aid"). The Manager will track all costs related to such Mutual Aid on a segregated basis and will prepare the documentation necessary for cost reimbursement by LIPA. Any and all reimbursement which the Manager receives from the Mutual Aid recipient or third party for such Mutual Aid assistance will accrue to LIPA's account.

LIPA Non-Performance. If due to the occurrence of an event for 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.

If at any time the T&D System is damaged or destroyed due to an event for which LIPA is responsible for as discussed below under the heading "Allocation of Risks of Certain Costs and Liabilities," LIPA will pay all 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.

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 LIPA 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,

1. due to any gross negligence or willful misconduct by the Manager during the term of the Agreement in carrying out its obligations thereunder,

2. due to any violation of or failure of compliance with Applicable Law by the Manager (except as provided below) which materially and adversely affects

    a. the condition or operations of the T&D System,

    b. the financial condition of LIPA,

c. the performance or ability of the Manager to perform its obligations under the Agreement, or

d. 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 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,

3. due to any criminal violation of Applicable Law by the Manager,

4. due to an event which gives rise to a cost incurred with respect to Capital Improvements that is incurred by reason of actions or omissions of the Manager not consistent with Prudent Utility Practice, or

5. due to any claim that (a) the Manager's use of any Manager Owned Property or Manager Licensed intellectual property in connection with the performance of its services under the Agreement or (b) LIPA's use of any Manager Owned Property, Manager Licensed IP, or LIPA Owned Property created or developed by the Manager or Manager's Related Parties and not provided by or on behalf of LIPA or LIPA's Related Parties, in each case in accordance with the Agreement, infringes or otherwise violates Intellectual Property Rights or other proprietary rights of any third party.

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 will 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 or the Guarantor.

b. *Bankruptcy*. Certain voluntary or involuntary events relating to bankruptcy affecting the Manager or the Guarantor.

c. *Credit Enhancement*. Failure of the Manager to supply, maintain, renew, extend or replace the credit enhancement required under the Agreement (see "Miscellaneous Provisions —Credit Enhancement in Certain Circumstances" below).

d. *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 "Miscellaneous Provisions — Credit Enhancement in Certain Circumstances" below) within 30 days following draws equal to, in the aggregate, 50% of the face value thereof.

e. *Performance Metrics*. Failure of the Manager to meet the minimum Performance Metrics for either (i) customer satisfaction for three (3) consecutive Contract Years, or (ii) SAIDI for two (2) out of three (3) consecutive Contract Years; provided, however, that such Event of Default by the Manager will be excused to the extent of a Force Majeure event, strike, work stoppage or other labor dispute with respect to the Manager's work force that prevents or delays the Manager's performance of such metric.

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. *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.

b. *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 a Force Majeure or LIPA Fault; except that no such failure or refusal in clause (a) or (b) 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 cures such default within 270 days from its receipt of such notice).

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:

1. *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.

2. *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 a Force Majeure 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 corrects such default within 270 days from its receipt of such notice).

3. *Change of Control*. A change of control of LIPA or the Authority which results in ownership control of LIPA or the Authority 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, a Change of Control or an Event of Default specified in clause (e) above under the heading "Default, Termination For Cause And Dispute Resolution—Events of Default by the Manager," simultaneously with, or, in the case of an Event of Default as discussed in clause (c) and (d) above under the heading "Default, Termination For Cause And Dispute Resolution—Events of Default by the Manager," 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 negotiation, 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.

Provisional Relief

Either party may, without prejudice to any negotiation, mediation, or arbitration procedures, proceed in the NY State Supreme Court, Nassau County, 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 such negotiation, mediation or arbitration.

LIPA Emergency Powers. The Agreement provides that if the Manager, due to a Force Majeure event 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 will continue in effect until December 31, 2013, unless earlier terminated in accordance with its terms.

Selection of Future Managers. LIPA may conduct a procurement for T&D System management services to be provided following the expiration or earlier termination of the Agreement. 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 will 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 Fuel 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 in form and substance satisfactory to LIPA securing GENCO's obligations under the Agreement, the Manager's obligations under the Management Services Agreement, and the Fuel 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 will 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.

Force Majeure 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, including any obligations with respect to the Performance Metrics, to the extent due to the occurrence of a Force Majeure event.

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, directors, 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 (i) any matter for which LIPA is responsible under the caption "Allocation of Risk of Certain Costs and Liabilities" in the Agreement and (ii) any claim that (a) LIPA's use of any LIPA Owned Property or any LIPA Licensed IP, (b) the Manager's use of any LIPA Owned Property provided by or on behalf of LIPA or LIPA's Related Parties or LIPA Licensed IP in accordance with the Agreement, or (c) the Manager's use of certain LIPA trademarks in accordance with the Agreement, infringes or otherwise violates Intellectual Property Rights or other proprietary rights of any third party. The foregoing indemnifications are subject to certain exceptions, including the negligence or other wrongful conduct of any indemnified party and any Force Majeure event.

Assignment and Transfer.

General. 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 Guarantor 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.

T&D System Sale or Transfer. During the term of the Agreement, LIPA may, without the Manager's consent, sell, assign or transfer in whole or in part the T&D System to a federal, state or municipal governmental entity; provided, however, that any such sale, assignment or transfer will be subject to the Manager's rights under the Agreement. LIPA may, during the term of the Agreement, also sell, assign or transfer the T&D System to a private entity, in which event LIPA will have the right to terminate (upon not less than 6 months prior written notice to the Manager) the Agreement effective upon the closing of such sale, assignment or transfer (the "Early Termination Date"); provided, however, that on the Early Termination Date, LIPA pays to the Manager (1) a termination fee of $20,000,000 and (2) the Manager's reasonable and actual transition costs related to activities directed by LIPA or the new T&D System owner. In addition, with respect to contracts in the Manager's name with a term extending for 3 years or more beyond the Early Termination Date that are not assigned (without material cost) to LIPA or the new T&D System owner, on the Early Termination Date LIPA will pay to the Manager its actual and reasonable cost to terminate such contracts up to $2,000,000 in the aggregate.

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 may be obtained from the Authority. Certain amendments to the Power Supply Agreement have been agreed upon, but are subject to certain approvals and are not summarized herein. See "LIPA's Retail Electric System – Operating Agreements – *Power Supply Agreement*" in Part 2 to this Official Statement.

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 "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 Fuel 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 Fuel 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 AMENDED AND RESTATED 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 may be obtained from the Authority.

General

The Energy Management Agreement establishes the terms and conditions for the management by the KeySpan subsidiary party thereto (the "Fuel Manager") of fuel supplies used at the GENCO Generating Facilities to produce electric energy for delivery to LIPA. Management and administration of System Power Supply is no longer governed by the Energy Management Agreement. See "LIPA's Retail Electric Business - Operating Agreements" in Part 2 of this Official Statement.

Scope of Energy Management Services

As described in the Agreement, the Fuel Manager is responsible for fuel procurement, delivery, storage, and management for GENCO Generating Facilities to meet the energy generation requirements 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 Fuel Manager is obligated to use best efforts to obtain the least-cost fuel for the benefit of the Electricity Customers.

Fuel Management

Fuel Management Services. The Agreement provides that the Fuel 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 Fuel 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 Fuel Manager will not contract for additional firm assets specifically for use in the GENCO Generating Facilities unless LIPA and the Fuel Manager agree to the contract.

Fuel Management Compensation. During the term of the Agreement, LIPA will make monthly payments to the Fuel 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 Fuel Manager will be paid an annual Fuel Management Fee in consideration for the Fuel 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 is indexed. LIPA is obligated to pay the Fuel Management Fee to the Fuel 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 Fuel 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 Fuel 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 Fuel 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 Fuel 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, Fuel 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) Fuel Manager's collective bargaining agreements and (v) Applicable Law.

Records; Information

Account Records; Collection of Monies; Availability of Fuel Manager

Account Records. The Fuel 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 under the Agreement requested by LIPA.

Compliance with Applicable Law. The Fuel Manager is obligated to perform all of its obligations under the Agreement in accordance with Applicable Law.

Information. The Agreement requires the Fuel 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 purchases and (ii) the performance by the Fuel 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 Fuel Manager will prepare and maintain proper, accurate and complete books, records and accounts regarding Fuel 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, which will be submitted by the Fuel Manager to LIPA and (4) to enable LIPA to administer any fuel adjustment clause or similar provision applicable to Electricity sales. The Fuel 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 Fuel Manager will maintain possession of equipment, materials and supplies, maps, plans and specifications, and Fuel billing records during the term of the Agreement and will duly account to LIPA for such items.

Bill Payments. The Fuel 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 Fuel 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 AMENDED AND RESTATED

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 a term of fifteen (15) years from such date with respect to the Fuel Services.

Events of Default; Procedures for Termination

The Agreement contains provisions relating to Events of Default by the Fuel 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 AMENDED AND RESTATED MANAGEMENT SERVICES AGREEMENT—Default, Termination For Cause And Dispute Resolution—Events of Default by the Manager—," "—Events of Default by LIPA" and "—Procedure for Termination for Cause."

LIPA Emergency Assumption of Fuel Management Services. Should the Fuel Manager, due to Uncontrollable Circumstances or any other reason whatsoever, fail, refuse or be unable to provide any or all Fuel 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 Fuel Manager, during the period of such emergency, to perform the services which the Fuel Manager would otherwise be obligated to perform under the Agreement. The Fuel Manager agrees that in such event it will fully cooperate with LIPA to effect such a temporary assumption. The Fuel Manager agrees that, in such event, LIPA may take and use any or all of the operating assets of the Fuel Manager necessary for the above-mentioned purposes without paying the Fuel 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 Fuel Manager for its Cost-Substantiated costs incurred due to such a transfer of the operating assets.

Fuel Manager's Reporting Requirements

Monthly Reports. The Fuel 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 as may reasonably be requested to be furnished by LIPA.

Annual Reports. The Fuel Manager will furnish LIPA 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 Fuel 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, Fuel 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 indemnification 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 AMENDED AND RESTATED MANAGEMENT SERVICES AGREEMENT—Miscellaneous Provisions—Indemnification."

Miscellaneous Provisions

Insurance. The Agreement provides that Fuel 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 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 AMENDED AND RESTATED 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 AMENDED AND RESTATED MANAGEMENT SERVICES AGREEMENT—Default, Termination for Cause and Dispute Resolution—Non-Binding Mediation; Arbitration."

Affiliate. Pursuant to the Agreement, the Fuel 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 AMENDED AND RESTATED MANAGEMENT SERVICES AGREEMENT—Miscellaneous Provisions—Credit Enhancement in Certain Circumstances."

Hedging Policies. The Fuel Manager agrees not to engage in any hedging activities relating to the Fuel Services without express approval from the Boards of Directors of the Fuel 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.

SUMMARY OF CERTAIN PROVISIONS OF THE FUEL MANAGEMENT AND BIDDING SERVICES AGREEMENT

The following is a brief summary of the Fuel Management and Bidding Services Agreement. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Fuel Management and Bidding Services Agreement, a copy of which may be obtained from the Authority.

General

The Fuel Management and Bidding Services Agreement establishes the terms and conditions for the management by the KeySpan subsidiary party thereto (the "FMBSA Manager") of fuel supplies used at the FMBSA Facilities to produce electric energy for delivery to LIPA. Power Supply Bidding Services are no longer governed by the Fuel Management and Bidding Services Agreement. See "LIPA's Retail Electric Business - Operating Agreements" in Part 2 of this Official Statement.

Scope of Fuel Management and Bidding Services

As described in the Agreement, the FMBSA Manager is responsible for fuel procurement, delivery, storage, and management for FMBSA Facilities to meet the energy generation requirements of the Electricity Customers. The Agreement provides that all such responsibilities will be discharged in a manner consistent with Applicable Law. In discharging all such functions, the FMBSA Manager is obligated to use commercially reasonable efforts to obtain fuel at market prices in a timely manner.

Fuel Management

Fuel Management Services. The Agreement provides that the FMBSA Manager will manage all aspects of the Fuel supply for the FMBSA Facilities, including determinations regarding the type of Fuel used for operating the FMBSA Facilities and the source of such Fuel supply taking into account the purchase of alternate sources of Electricity in lieu of Electricity from the FMBSA Facilities when economic. LIPA agrees to compensate the FMBSA Manager for such Fuel management services in accordance with the terms of the Agreement. The FMBSA Manager will not contract for additional firm assets specifically for use in the FMBSA Facilities unless LIPA and the FMBSA Manager agree to the contract.

Fuel Management Compensation. During the term of the Agreement, LIPA will make monthly payments to the FMBSA Manager consisting of an amount equal to the sum of: (i) the monthly Fuel Management Fee, plus (ii) the Monthly Fuel Payment.

Fuel Management Fee. The FMBSA Manager will be paid an annual Fuel Management Fee in consideration for the FMBSA 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 is indexed. LIPA is obligated to pay the Fuel Management Fee to the FMBSA 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 FMBSA Facilities that are under contract to LIPA, including but not limited to any current or future fuel related taxes or other fuel related fees or costs reasonably incurred by the FMBSA 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 FMBSA Facilities, (ii) any costs the FMBSA Manager incurs based on non-use of gas it has otherwise contracted to purchase for use in the operation of the FMBSA Facilities, and (b) the delivered cost of oil for use in FMBSA Facilities.

Payment. The FMBSA Manager will submit monthly invoices to LIPA for the monthly Fuel Management Fee by the tenth (10th) Business Day following the month of service. Payment of all invoiced amounts will be due and payable by LIPA within fifteen (15) Business Days of LIPA receiving such invoices.

Records; Information

Information. The Agreement requires the FMBSA Manager to maintain and provide LIPA with a summary of the fuel procured, unit settlement data as required by LIPA, and emissions tracking data for each FTU.

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 Energy Management Agreement described herein under the

caption "SUMMARY OF CERTAIN PROVISIONS OF THE ENERGY MANAGEMENT AGREEMENT—Allocation of Risks of Certain Costs and Liabilities."

Term; Events of Default

Term. The term of the Agreement commenced on April 1, 2002 and, except as otherwise provided therein, will remain in full force and effect through May 28, 2013.

Events of Default; Procedures for Termination

The Agreement contains provisions relating to Events of Default by the FMBSA Manager or LIPA and the procedures for termination that are substantially the same as the provisions of the Energy Management Agreement that are described herein under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE ENERGY MANAGEMENT AGREEMENT—Default, Termination For Cause And Dispute Resolution—Events of Default by the Fuel Manager—," "—Events of Default by LIPA" and "—Procedure for Termination for Cause."

Indemnification

The Agreement contains indemnification provisions that are substantially the same as the indemnification provisions of the Energy Management Agreement that are described herein under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE ENERGY MANAGEMENT AGREEMENT—Miscellaneous Provisions—Indemnification."

Non-Disclosure

The Agreement establishes procedures for protecting confidential information that LIPA and the FMBSA Manager may each provide to the other in furtherance of the services provided under the Agreement.

APPENDIX F

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 2011A (the "Bonds"). 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.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"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.

"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.

"Trustee" shall mean The Bank of New York Mellon, 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 2011 Fiscal Year, provide to the MSRB 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.

(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 MSRB an Annual Report by the date required in subsection (a), the Authority shall send a notice to the MSRB 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 the MSRB; 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 to the MSRB.

(d) All documents provided to the MSRB pursuant to this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 4. *Content of Annual Reports*. The Authority's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the Authority and its subsidiaries for the prior fiscal year, prepared in accordance with U.S. 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 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 financial statements and the audited 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 the Financial Statements of the Authority attached as Appendix A to Part 2 of the Official Statement.

3. Capital expenditures for the prior fiscal year of the type set forth in the Official Statement under the heading "The System—Capital Improvement Plan" in Part 2 of the Official Statement.

4 Service area loads for the prior fiscal year of the type set forth in the Official Statement under the heading "The System—Loads" in Part 2 of the Official Statement.

5. A discussion of the Authority's own rates and charges (but not regional comparisons) for the prior fiscal year of the type set forth in the Official Statement under the heading "Rates and Charges" in Part 2 of the Official Statement.

6. Billings and collections for the prior fiscal year of the type set forth in Part 2 of the 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 the audited Financial Statements for the years ended December 31, 2010 and 2009 attached as Appendix A to Part 2 of the Official Statement.

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 the MSRB or the Securities and Exchange Commission. The Authority shall clearly identify each such other document so included by reference.

SECTION 5. *Reporting of Listed 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, to the MSRB (with a copy to the Trustee), in a timely manner not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Bonds:

1. principal and interest payment delinquencies.
2. non-payment related defaults, if material.
3. modifications to rights of Bondholders, if material.
4. optional, contingent or unscheduled bond calls, if material, and tender offers.
5. defeasances.
6. rating changes.
7. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax 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, if material.
12. bankruptcy, insolvency, receivership or similar event of the Authority;

<u>Note to clause (12)</u>: For the purposes of the event identified in clause (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Authority in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority;

13. the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. appointment of a successor or additional trustee or the change of name of a trustee, if material.

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.

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. Notwithstanding any other provisions hereof, the Authority or the Dissemination Agent may make the filings required by this Disclosure Certificate either directly with the MSRB or through a central information repository approved in accordance with the Rule.

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, 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: [ ] __ , 2011

LONG ISLAND POWER AUTHORITY

By: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Authority: Long Island Power Authority

Name of Bond Issues: Long Island Power Authority Electric System General Revenue Bonds, Series 2011A.

Date of Issuance: [ ] __, 2011

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 [ ] __, 2011 of the Authority. The Authority anticipates that the Annual Report will be filed by _____.

Dated: _____, _____

LONG ISLAND POWER AUTHORITY

By: _____

cc: Trustee

APPENDIX G

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2011A Bonds. The Series 2011A Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for each maturity of the Series 2011A Bonds bearing interest at the same rate in the aggregate principal amount of such maturity of such Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, 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. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2011A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011A Bonds on DTC's records. The ownership interest of each actual purchaser of Series 2011A Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase; Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2011A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2011A Bonds, except in the event that use of the book-entry system for a Series of the Series 2011A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011A Bonds deposited by Direct Participants with DTC 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 Series 2011A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect 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 of Series 2011A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2011A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2011A Bond documents. For example, Beneficial Owners of Series 2011A Bonds may wish to ascertain that the nominee holding the Series 2011A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2011A Bonds within a maturity of a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2011A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy (the "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 Participants to whose accounts the Series 2011A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Series 2011A Bonds 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 Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by 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 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 redemption proceeds and principal and interest payments 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 Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to a Series of the Series 2011A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2011A Bonds are required to be printed and delivered.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2011A Bonds registered in its name for the purposes of payment of the redemption proceeds and principal and interest on the Series 2011A Bonds, giving any notice permitted or required to be given to registered owners under the Bond Resolution, registering the transfer of the Series 2011A Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Authority and the Trustee shall not have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Series 2011A Bonds under or through DTC or any Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Participant; the payment by DTC or any Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2011A Bonds; any notice which is

permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Authority; or other action taken by DTC as a registered owner.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2011A Bonds will be printed and delivered to DTC.

The information in this Appendix G concerning DTC and DTC's book-entry-only system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this Appendix G has been extracted from information given by DTC. Neither the Authority, the Trustee nor the Underwriters make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR SUCH DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS. PAYMENTS MADE TO DTC OR ITS NOMINEE SHALL SATISFY THE AUTHORITY'S OBLIGATION UNDER THE ACT AND THE BOND RESOLUTION TO THE EXTENT OF SUCH PAYMENTS.

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LONG ISLAND POWER AUTHORITY • ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2011A

Long Island Power Authority

MIX
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