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 Offered 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 Offered 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 Offered Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, and the Offered 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.

$502,000,000
LONG ISLAND POWER AUTHORITY
ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2012

Consisting of:

$250,000,000
LONG ISLAND POWER AUTHORITY
ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2012A

$252,000,000
LONG ISLAND POWER AUTHORITY
ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2012B

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

The Electric System General Revenue Bonds, Series 2012A (the "Series 2012A Bonds") and the Electric System General Revenue Bonds, Series 2012B (the "Series 2012B Bonds" and together with the Series 2012A Bonds, the "Offered 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 Offered Bonds under the book-entry-only system described herein. Individual purchases of beneficial ownership interests in the Offered Bonds may be made in the principal amount of $5,000 or any integral multiple thereof. Beneficial Owners of the Offered 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 2012A Bonds are being issued (i) to fund Authority capital expenditures and (ii) to pay costs relating to the issuance of the Series 2012A Bonds. The Series 2012B Bonds are being issued (i) to refund certain outstanding bonds of the Authority and (ii) to pay costs relating to the issuance of the Series 2012B Bonds.

Interest on the Offered Bonds is payable on each March 1 and September 1, beginning September 1, 2012. The Offered Bonds are subject to redemption prior to maturity as and to the extent described herein.

MATURITY SCHEDULE — See Inside Cover Page

The Offered 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 Offered 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 Offered Bonds. The Authority has no taxing power.

The Offered 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 (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 Offered Bonds will be available for delivery in book-entry-only form through The Depository Trust Company in New York, New York on or about July 16, 2012.

Morgan Stanley **Goldman, Sachs & Co.**

BofA Merrill Lynch	**Barclays**	**J.P. Morgan**	**Wells Fargo Securities**
BMO Capital Markets	**Citigroup**	**Jefferies**	**MR Beal & Company**
RBC Capital Markets	**Ramirez & Co. Inc.**	**Siebert Brandford Shank & Co. LLC**	**TD Securities**

Dated June 27, 2012

Maturity Schedule

LONG ISLAND POWER AUTHORITY
$250,000,000 ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2012A

Term Bonds

$90,800,000 5.000% Term Bonds due September 1, 2037 - Yield 3.970%[1]
(CUSIP* Number 542690Z70)

$159,200,000 5.000% Term Bonds due September 1, 2042 - Yield 4.030%[1]
(CUSIP* Number 542690Z62)

LONG ISLAND POWER AUTHORITY
$252,000,000 ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2012B

Serial Bonds

Maturity September 1	Principal Amount	Interest Rate	Yield	CUSIP*
2012	$ 2,000,000	2.000%	0.400%	542690Z88
2014	2,810,000	3.000	0.820	542690Z96
2015	610,000	4.000	0.930	5426902A9
2016	9,680,000	5.000	1.120	5426902B7
2021	3,285,000	5.000	2.630	5426902C5
2022	12,875,000	5.000	2.750	5426902D3
2023	13,870,000	5.000	2.970[1]	5426902E1
2024	9,705,000	5.000	3.150[1]	5426902F8
2025	15,805,000	5.000	3.310[1]	5426902G6
2026	86,410,000	5.000	3.400[1]	5426902H4
2027	47,705,000	5.000	3.470[1]	5426902J0
2029	47,245,000	5.000	3.620[1]	5426902K7

[1] Priced at the stated yield to the September 1, 2022 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 Offered 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 Offered Bonds or as indicated above.

LONG ISLAND POWER AUTHORITY

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

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 Gordon Ryan
Suzette C. Smookler
Peter K. Tully
Lawrence J. Waldman

AUTHORITY MANAGEMENT

Michael D. Hervey—*Chief Operating Officer*
Michael J. Taunton – *Vice President of Finance and 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 (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 Offered 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 Offered 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 or Keyspan Corporation since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party.

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

In connection with the offering of the Offered Bonds, the Underwriters may overallot or effect transactions that stabilize or maintain the market price of the Offered 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 (COLLECTIVELY, "PART 2"), AND THE INFORMATION INCLUDED BY SPECIFIC CROSS-REFERENCE HEREIN. 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 AND THE INFORMATION INCLUDED BY SPECIFIC CROSS-REFERENCE HEREIN CONSTITUTES THE AUTHORITY'S OFFICIAL STATEMENT RELATING TO THE OFFERED BONDS (AND ONLY SUCH OFFERED BONDS). BOTH PART 1 AND PART 2 (INCLUDING ALL THE INFORMATION INCLUDED BY SPECIFIC CROSS-REFERENCE HEREIN) 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 Offered 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 Offered Bonds.....	The Series 2012A Bonds are being issued (i) to fund Authority capital expenditures and (ii) to pay costs relating to the issuance of the Series 2012A Bonds. The Series 2012B Bonds are being issued (i) to refund certain outstanding bonds of the Authority and (ii) to pay costs relating to the issuance of the Series 2012B Bonds.
Outstanding Indebtedness	As of June 1, 2012, the Authority had senior lien Electric System General Revenue Bonds outstanding in the aggregate principal amount of $5,853,002,280, which amount reflects principal payments made through that date. The Offered Bonds are on a parity with all of these senior lien Bonds. The Authority also had outstanding, as of June 1, 2012, subordinate lien indebtedness in the aggregate principal amount of $725,000,000, which amount reflects principal payments made through that date. As of June 1, 2012, 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. See "PLAN OF FINANCE" in Part 1 of this Official Statement and "DEBT MANAGEMENT" in Part 2 of this Official Statement for recent developments relating to the Authority's outstanding indebtedness.
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. See "RATES AND CHARGES – Authority to Set Electric Rates" in Part 2 of this Official Statement. Legislation was recently enacted into law that requires LIPA to undergo an audit of its management and operations (the "2012 Legislation"). The 2012 Legislation does not impact the Authority's ability to set rates for electric service in its service area and does not require the approval of the PSC or any other State regulatory body in the setting of its rates. See "RATES AND CHARGES – Recent 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 5,771 MW in the summer of 2011. Approximately 54 percent of annual electric revenues are received from residential customers, with 44 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 14,000 circuit miles of overhead and underground line (9,000 overhead and 5,000 underground) and approximately 185,000 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.
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. In addition, LIPA currently purchases approximately 2,200 MW of capacity from generating facilities on Long Island and outside the service area 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. To assist management in the supervision of these principal agreements and to provide other functions requiring specific expertise, the Authority employs outside consultants.
Strategic Review	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 May 2010, the Trustees engaged the Brattle Group/M.J. Beck to review the existing corporate organizational and governance structure and alternatives available to LIPA as part of its long-term strategic planning. Based on that study, on October 27, 2011, the Board of Trustees approved a plan to restructure the way LIPA contracts for services currently provided largely under the MSA by adopting a business model, which includes a dedicated business unit providing services exclusively to LIPA. On December 15, 2011, the Board of Trustees approved the selection of Public Service Enterprise Group ("PSEG") and their subcontractor, Lockheed Martin Services Inc. ("Lockheed Martin," collectively with PSEG, "PSEG-Lockheed") to provide operations services for a period of ten years commencing January 1, 2014 and transition services beginning January 1, 2012. In addition, in connection with those expiration dates, the Authority has also issued requests for proposals and is currently evaluating its options with respect to the PSA, EMA and FMBSA. 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.

Security and Sources of Payment for Bonds..... The Offered 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.

TABLE OF CONTENTS FOR PART 1

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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

$502,000,000
ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2012

Consisting of:

$250,000,000
LONG ISLAND POWER AUTHORITY
ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2012A

$252,000,000
LONG ISLAND POWER AUTHORITY
ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2012B

INTRODUCTION

The $250,000,000 Electric System General Revenue Bonds, Series 2012A (the "Series 2012A Bonds") and the $252,000,000 Electric System General Revenue Bonds, Series 2012B (the "Series 2012B Bonds" and together with the Series 2012A Bonds, the "Offered 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 supplemented, including as supplemented by resolutions of the Authority authorizing the Offered Bonds (collectively, the "Supplemental Resolutions"). The Bond Resolution, as supplemented to the date hereof, including as supplemented by the Supplemental Resolutions and as it may be further supplemented or amended in the future, is herein called the "Resolution."

As of June 1, 2012, the Authority had outstanding $5,853,002,280 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 Offered 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 Offered Bonds. As used in this Official Statement, the term "Bonds" means the Outstanding Senior Lien Bonds, the Offered 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 June 1, 2012, 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. See "PLAN OF FINANCE" in Part 1 of this Official Statement and "DEBT MANAGEMENT" in Part 2 of this Official Statement for recent developments relating to the Authority's outstanding indebtedness.

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 the Glossary of Defined Terms, which is on file with EMMA and included by specific cross-reference herein.

INFORMATION INCLUDED BY SPECIFIC CROSS-REFERENCE

The following documents filed with the Electronic Municipal Market Access System (EMMA) of the Municipal Securities Rulemaking Board (MSRB) by the Authority are included by specific cross-reference in this Supplement:

- The Authority's Annual Report for the Fiscal Year 2011 (which includes the Authority's Basic Financial Statements December 31, 2011 and 2010 (With Independent Auditors' Report Thereon) and Management's Discussion and Analysis (Unaudited));
- Interim Financial Information of the Authority as of March 31, 2012 and March 31, 2011 (Unaudited);
- Document Summaries, including:
  - Glossary of Defined Terms;
  - Summary of Certain Provisions of the Resolution;
  - Summary of Certain Provisions of the Financing Agreement; and
  - Summary of Certain Provisions of the Operating Agreements.

For convenience, copies of these documents can be found on the Authority's website (www.lipower.org) under the caption "About LIPA – Financials." No statement on the Authority's website is included by specific cross-reference herein.

PLAN OF FINANCE

The proceeds of the Series 2012A Bonds will be used (i) to fund Authority capital expenditures and (ii) to pay costs (estimated to be $1,348,581.39) relating to the issuance of the Series 2012A Bonds, including underwriters' discount. The proceeds of the Series 2012B Bonds will be used (i) to refund certain outstanding bonds of the Authority listed on Appendix 2 hereto (the "Refunded Bonds") and (ii) to pay costs (estimated to be $1,342,490.51) relating to the issuance of the Series 2012B Bonds, including underwriters' discount.

On June 13, 2012, the Authority issued its variable rate $175,000,000 Electric System General Revenue Bonds, Series 2012C (the "Series 2012C Bonds") and its variable rate $149,000,000 Electric System General Revenue Bonds, Series 2012D (the "Series 2012D Bonds" and together with the Series 2012C Bonds, the "Variable Rate Series 2012 Bonds"). The Variable Rate Series 2012 Bonds were issued for the purpose of (i) refunding $25,000,000 principal amount of the Authority's Electric System Subordinated Revenue Bonds, Series 1A (the "Series 1A Bonds"), the entire outstanding principal amount of its Electric System Subordinated Revenue Bonds, Series 2A (the "Series 2A Bonds") in the aggregate principal amount of $50,000,000, and the entire outstanding principal amount of its Electric System Subordinated Revenue Bonds, Series 3B (the "Series 3B Bonds") in the aggregate principal amount of $100,000,000, (the Series 1A Bonds, Series 2A Bonds, and the Series 3B Bonds herein referred to collectively as the "Refunded Subordinate Variable Rate Bonds"), and (ii) refunding the entire outstanding principal amount of its Electric System General Revenue Bonds, Series 2003J (the "Series 2003J Bonds") in the aggregate principal amount of $47,000,000, the entire outstanding principal amount of its Electric System General Revenue Bonds, Series 2003N (the "Series 2003N Bonds") in the aggregate principal amount of $47,000,000, and the entire outstanding principal amount of its Electric System General Revenue Bonds, Series 2003H (the "Series 2003H Bonds" and together with the Series 2003J Bonds and the Series 2003N Bonds, the "Refunded Senior Variable Rate Bonds") in the aggregate principal amount of $55,000,000.

DEBT SERVICE

The following table shows information regarding the Authority's consolidated debt service requirements following the issuance of the Offered 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	Offered Bonds Principal	Offered Bonds Interest	Outstanding Senior Lien[7] Principal[1]	Outstanding Senior Lien[7] Interest[2], [3], [4]	Total Senior Lien Debt Service	Subordinate Lien[5] Principal	Subordinate Lien[5] Interest[3]	NYSERDA Debt Service	LESS: Keyspan Promissory Notes[6]	Net Total Debt Service
12/31/2012	$2,000,000	$3,122,213	$256,098,675	$294,498,476	$555,719,364	-	$13,530,830	$8,075,230	$8,075,230	$569,250,194
12/31/2013	-	24,937,700	152,130,106	287,318,976	464,386,782	-	18,463,261	8,075,230	8,075,230	482,850,043
12/31/2014	2,810,000	24,937,700	251,900,947	280,811,828	560,460,474	-	18,792,086	8,075,230	8,075,230	579,252,560
12/31/2015	610,000	24,853,400	261,671,199	271,234,072	558,368,670	-	19,135,853	8,075,230	8,075,230	577,504,524
12/31/2016	9,680,000	24,829,000	165,498,634	263,955,134	463,962,768	-	19,171,397	113,313,715	113,313,715	483,134,166
12/31/2017	-	24,345,000	182,693,651	258,356,682	465,395,333	-	19,158,403	2,512,200	2,512,200	484,553,736
12/31/2018	-	24,345,000	193,320,903	251,156,610	468,822,513	-	19,241,612	2,512,200	2,512,200	488,064,126
12/31/2019	-	24,345,000	208,099,395	243,302,013	475,746,408	-	19,109,405	2,512,200	2,512,200	494,855,812
12/31/2020	-	24,345,000	213,586,458	235,006,178	472,937,636	-	19,089,571	2,512,200	2,512,200	492,027,207
12/31/2021	3,285,000	24,345,000	219,039,641	225,997,935	472,667,576	-	19,086,878	2,512,200	2,512,200	491,754,454
12/31/2022	12,875,000	24,180,750	205,023,452	217,212,673	459,291,875	-	19,064,200	2,512,200	2,512,200	478,356,075
12/31/2023	13,870,000	23,537,000	213,658,523	209,033,774	460,099,296	-	19,033,694	32,112,200	32,112,200	479,132,990
12/31/2024	9,705,000	22,843,500	234,361,733	199,483,047	466,393,280	-	19,046,494	3,543,400	3,543,400	485,439,774
12/31/2025	15,805,000	22,358,250	227,132,169	189,750,327	455,045,746	-	18,923,284	16,005,600	16,005,600	473,969,031
12/31/2026	86,410,000	21,568,000	171,343,608	180,800,826	460,122,433	-	18,956,900	-	-	479,079,333
12/31/2027	47,705,000	17,247,500	147,245,137	174,215,331	386,412,967	-	18,956,900	-	-	405,369,867
12/31/2028	-	14,862,250	210,394,755	166,647,202	391,904,207	-	18,302,261	-	-	410,206,469
12/31/2029	47,245,000	14,862,250	177,330,237	147,297,407	386,734,895	-	17,668,387	-	-	404,403,281
12/31/2030	-	12,500,000	279,090,000	99,381,999	390,971,999	$81,300,000	16,824,144	-	-	489,096,143
12/31/2031	-	12,500,000	297,955,000	83,653,781	394,108,781	84,840,000	12,917,527	-	-	491,866,308
12/31/2032	-	12,500,000	309,755,000	67,282,468	389,537,468	88,660,000	8,860,763	-	-	487,058,231
12/31/2033	-	12,500,000	320,660,000	49,045,917	382,205,917	95,200,000	1,910,609	-	-	479,316,526
12/31/2034	-	12,500,000	154,755,000	39,561,013	206,816,013	-	-	-	-	206,816,013
12/31/2035	-	12,500,000	162,490,000	31,823,263	206,813,263	-	-	-	-	206,813,263
12/31/2036	44,295,000	12,500,000	63,360,000	22,135,963	142,290,963	-	-	-	-	142,290,963
12/31/2037	46,505,000	10,285,250	66,610,000	18,886,713	142,286,963	-	-	-	-	142,286,963
12/31/2038	48,825,000	7,960,000	70,030,000	15,470,713	142,285,713	-	-	-	-	142,285,713
12/31/2039	-	5,518,750	126,695,000	10,077,481	142,291,231	-	-	-	-	142,291,231
12/31/2040	51,810,000	5,518,750	-	6,435,000	63,763,750	-	-	-	-	63,763,750
12/31/2041	-	2,928,250	110,000,000	3,217,500	116,145,750	-	-	-	-	116,145,750
12/31/2042	58,565,000	2,928,250	-	-	61,493,250	-	-	-	-	61,493,250

(1) The Series 2010A Bonds mature in 2014 ($96,665,000) and 2015 ($96,660,000), however 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 2.00% for 2012, 3.00% for 2013, 3.50% for 2014, and 4% for 2015 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 included.

(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 June 1, 2012, 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.

(7) Amounts shown reflect the issuance of the Offered Bonds and the results of the refunding of the Refunded Bonds.

DESCRIPTION OF THE OFFERED BONDS

General

The Offered 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 Offered Bonds is payable on each March 1 and September 1, beginning September 1, 2012. The Offered Bonds will be offered in authorized denominations of $5,000 and integral multiples thereof.

Securities Depository

Upon initial issuance, the Offered 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 Offered Bonds, and the ownership of one fully registered bond for each maturity of Offered 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 4 to this Official Statement for a description of DTC and its book-entry-only system that will apply to the Offered Bonds.

As long as the book-entry system is used for the Offered 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 Offered 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 Offered Bonds maturing on or before September 1, 2022 are not subject to optional redemption prior to maturity. The Offered Bonds maturing after September 1, 2022 are subject to optional redemption prior to maturity on and after September 1, 2022 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 2012A Bonds are also subject to redemption in part on September 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 September 1 of each year the principal amount of such Series 2012A Bonds specified for each of the years shown below:

Series 2012A Bonds Due September 1, 2037

Year	Principal Amount
2036	$44,295,000
2037[1]	46,505,000

[1]Final Maturity

Series 2012A Bonds Due September 1, 2042

Year	Principal Amount
2038	$48,825,000
2040	51,810,000
2042[1]	58,565,000

[1]Final Maturity

Credit Against Sinking Fund Installments. In the event a principal amount of Series 2012A 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 2012A Bonds in such order and amounts as is determined by the Authority.

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

During such time as the Offered Bonds are registered in book-entry-only form in the name of Cede & Co. or other nominee of DTC, partial redemptions of the Offered 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 4 to this Official Statement.

If less than all of the Offered 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 Offered Bonds of such maturity to be redeemed in accordance with their procedures as from time to time in effect. If the Offered Bonds are not registered in book-entry only form, the particular Offered 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 Offered Bonds are to be redeemed, notice of such redemption is to be mailed by the Trustee to registered owners of such Offered 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 Offered 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 an Offered 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 Offered 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 4 to this Official Statement.

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 Offered 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 Offered 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 Offered 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 Offered 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 Offered Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, and the Offered 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 Offered 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 Offered 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 Offered Bonds in order that interest on the Offered 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 Offered 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 Offered 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 Offered 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 Offered Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of the Offered 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 Offered Bonds.

Prospective owners of the Offered 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 Offered 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 an Offered 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 Offered 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 Offered 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 Offered 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 Offered 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 an Offered 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 Offered 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 Offered 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 Offered 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 if the recipient is one of a limited class of exempt recipients. 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 an Offered 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 Offered 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.

Miscellaneous

Tax legislation, 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 Offered Bonds under Federal or state law or otherwise prevent beneficial owners of the Offered Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Offered Bonds.

Prospective purchasers of the Offered Bonds should consult their own tax advisors regarding the foregoing matters.

VERIFICATION

The accuracy of (i) the mathematical computations of the adequacy of the cash and the maturing principal of and interest earned on the government obligations to be held in escrow to pay principal, interest and redemption premiums, if any, on the Refunded Bonds and (ii) certain mathematical computations supporting the conclusion that the Offered Bonds are not "arbitrage bonds" under the Code, will be verified by Causey Demgen & Moore Inc.

UNDERWRITING

The Underwriters listed on the cover page of this Official Statement, for which Morgan Stanley & Co. LLC is acting as the lead book-running manager, have agreed, jointly and severally and subject to certain conditions, to purchase the Offered Bonds from the Authority at an underwriters' discount of $2,084,068.31. The initial public offering prices of the Offered Bonds may be changed from time to time by the Underwriters.

The issuance of the Series 2012A Bonds or the Series 2012B Bonds is not contingent upon the issuance of the other Series.

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

The following paragraphs under this heading were provided by certain of the Underwriters of the Offered Bonds.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. ("Citigroup") and Morgan Stanley & Co. LLC, each an Underwriter of the Offered Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup and Morgan Stanley & Co. LLC 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 Citigroup and Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Offered Bonds.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Offered Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase Offered Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Offered Bonds that such firm sells.

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 Offered 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 Offered Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Offered Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

In addition, certain of the other Underwriters have entered into distribution agreements with other broker-dealers for the distribution of the Offered Bonds at the initial public offering prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation or selling concession with such broker-dealers.

BMO Capital Markets is the trade name for certain capital markets and investment banking services of Bank of Montreal and its subsidiaries, including BMO Capital Markets GKST Inc., which is a direct, wholly-owned subsidiary of BMO Financial Corporation which is itself a wholly-owned subsidiary of Bank of Montreal.

CONTINUING DISCLOSURE UNDERTAKING

The Offered 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 3 to this Official Statement. Pursuant to the Continuing Disclosure Certificate, the Authority will provide for the benefit of the holders of the Offered 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 Offered 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 3. The Offered Bonds being made subject to the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriters to purchase the Offered 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 Offered 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 respective ratings by Fitch, Moody's and S&P of the Offered 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 Offered 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 Offered 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 Offered 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 Offered 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 Offered 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 (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 Offered Bonds, the Operating Agreements, the Resolution, the Continuing Disclosure Certificate and certain provisions of the Act, some of which are included herein by specific-cross reference. Such descriptions are not complete and all such descriptions and references thereto are qualified by reference to each such document, copies of which may be obtained from the Authority.

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

(July __, 2012)

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 $502,000,000 Electric System General Revenue Bonds, Series 2012 (the "Series 2012 A and B Bonds") of the Long Island Power Authority (the "Authority"), a corporate municipal instrumentality of the State of New York (the "State") constituting a body corporate and politic and a political subdivision of the State.

The Series 2012 A and B 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 resolutions adopted by the Trustees of the Authority authorizing the Series 2012 A and B Bonds (collectively, the "Resolution").

The Authority has heretofore issued bonds (the "Outstanding Bonds") under the Resolution. The Resolution provides that the Authority may issue additional Bonds (as defined in the Resolution), and incur Parity Obligations (as defined in the Resolution), thereunder from time to time on the terms and conditions and for the purposes stated therein. The Outstanding Bonds, the Series 2012 A and B Bonds, such additional Bonds, if issued, and such Parity Obligations, if incurred, will be equally and ratably secured under the Resolution, except as otherwise provided therein.

The Series 2012 A and B 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 Series 2012 A and B Bonds have been duly and validly authorized and issued in accordance with the laws of the State, including the Constitution of the State and the Act, and in accordance with the Resolution, and are valid and binding special obligations of the Authority, enforceable in accordance with their terms and the terms of the Resolution, payable solely from the Trust Estate as provided in the Resolution. The Authority has no taxing power, the Series 2012 A and B Bonds are not debts of the State or of any municipality thereof, and the Series 2012 A and B Bonds will not constitute a pledge of the credit, revenues or taxing power of the State or of any municipality thereof. The Authority reserves the right to issue additional Bonds and to

incur Parity Obligations on the terms and conditions, and for the purposes, provided in the Resolution, on a parity of security and payment with the Series 2012 A and B Bonds and the Outstanding Bonds.

5. Any registration with, consent of, or approval by, any governmental agency, board, or commission that is necessary for the execution and delivery and the issuance of the Series 2012 A and B Bonds has been obtained.

6. The adoption of the Resolution, compliance with all of the terms and conditions of the Resolution and the Series 2012 A and B Bonds, and the execution and delivery of the Series 2012 A and B 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 Series 2012 A and B 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 2012 A and B 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 Series 2012 A and B 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 Series 2012 A and B Bonds from gross income under Section 103 of the Code.

9. Under existing statutes, interest on the Series 2012 A and B Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof, and the Series 2012 A and B 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 Series 2012 A and B 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 Series 2012 A and B Bonds, or under state and local tax law.

We express no opinion as to the accuracy, adequacy or sufficiency of any financial or other information, which has been or will be supplied to purchasers of the Series 2012 A and B 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

List of Refunded Bonds

The Authority expects to redeem the Bonds listed below (the "Refunded Bonds") at par on the dates and in the amounts shown below and to apply a portion of the proceeds of the Series 2012B Bonds to provide for the payment of the principal amount and the interest payable on such bonds on the applicable redemption dates. The refunding is contingent upon the delivery of the Series 2012B Bonds.

Series	Interest Rate	Maturity Date	Principal Amount Outstanding	Principal Amount Refunded	CUSIP Number*	Redemption Date
Series 2001A	4.600%	9/1/2013	$ 435,000	$ 435,000	542690QK1	7/27/2012
Series 2001A	4.700	9/1/2014	310,000	310,000	542690QL9	7/27/2012
Series 2001A	5.000	9/1/2027[1]	112,035,000	112,035,000	542690QZ8	7/27/2012
Series 2001A	5.125	9/1/2029[1]	52,395,000	52,395,000	542690QU9	7/27/2012
Series 2003C	4.375%	9/1/2014	$ 3,475,000	$ 3,475,000	542690UJ9	9/1/2013
Series 2003C	4.500	9/1/2015	1,345,000	1,345,000	542690UL4	9/1/2013
Series 2003C	4.500	9/1/2016	1,715,000	1,715,000	542690UN0	9/1/2013
Series 2003C	5.000	9/1/2016	8,620,000	8,620,000	542690UP5	9/1/2013
Series 2003C	5.000	9/1/2021	4,080,000	4,080,000	542690UU4	9/1/2013
Series 2003C	5.000	9/1/2022	13,710,000	13,710,000	542690UW0	9/1/2013
Series 2003C	5.000	9/1/2023	14,745,000	14,745,000	542690UX8	9/1/2013
Series 2003C	5.000	9/1/2024	10,625,000	10,625,000	542690UH3	9/1/2013
Series 2003C	5.000	9/1/2027[1]	35,580,000	35,580,000	542690VA7	9/1/2013
Series 2003C	5.000	9/1/2028[1]	17,740,000	14,930,000[2]	542690VC3	9/1/2013

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* CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for convenience. 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 Refunded Bonds or as indicated above.

1 Term Bond, final maturity.

2 Refunded principal will be applied to the sinking fund installment due on 9/1/2027.

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APPENDIX 3

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 2012A and Series 2012B (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 2012 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 included by specific cross-reference in 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, 2011 and 2010 included by specific cross-reference in 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;

Note to clause (12): 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:[ ] __ , 2012

LONG ISLAND POWER AUTHORITY

By: _____

APPENDIX 4

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Offered Bonds. The Offered Bonds will be issued as fully-registered bonds 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 note certificate will be issued for the Offered Bonds in the aggregate principal amount of the maturity of such Notes, 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 DTC Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's Rating of 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.

Purchases of Offered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Offered Bonds on DTC's records. The ownership interest of each actual purchaser of Offered 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, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Offered Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Offered Bonds, except in the event that use of the book-entry system for a Series of the Offered Bonds is discontinued.

To facilitate subsequent transfers, all Offered 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 Offered 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 Offered Bonds; DTC's records reflect only the identity of the Direct DTC Participants to whose accounts such Offered Bonds are credited, which may or may not be the Beneficial Owners. The Direct or 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.

Redemption notices shall be sent to DTC. If less than all of the Offered 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. (or any other DTC nominee) will consent or vote with respect to Offered 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 Offered 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 Offered 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 DTC Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. 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 shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to a Series of the Offered 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, the Offered Bonds are required to be printed and delivered.

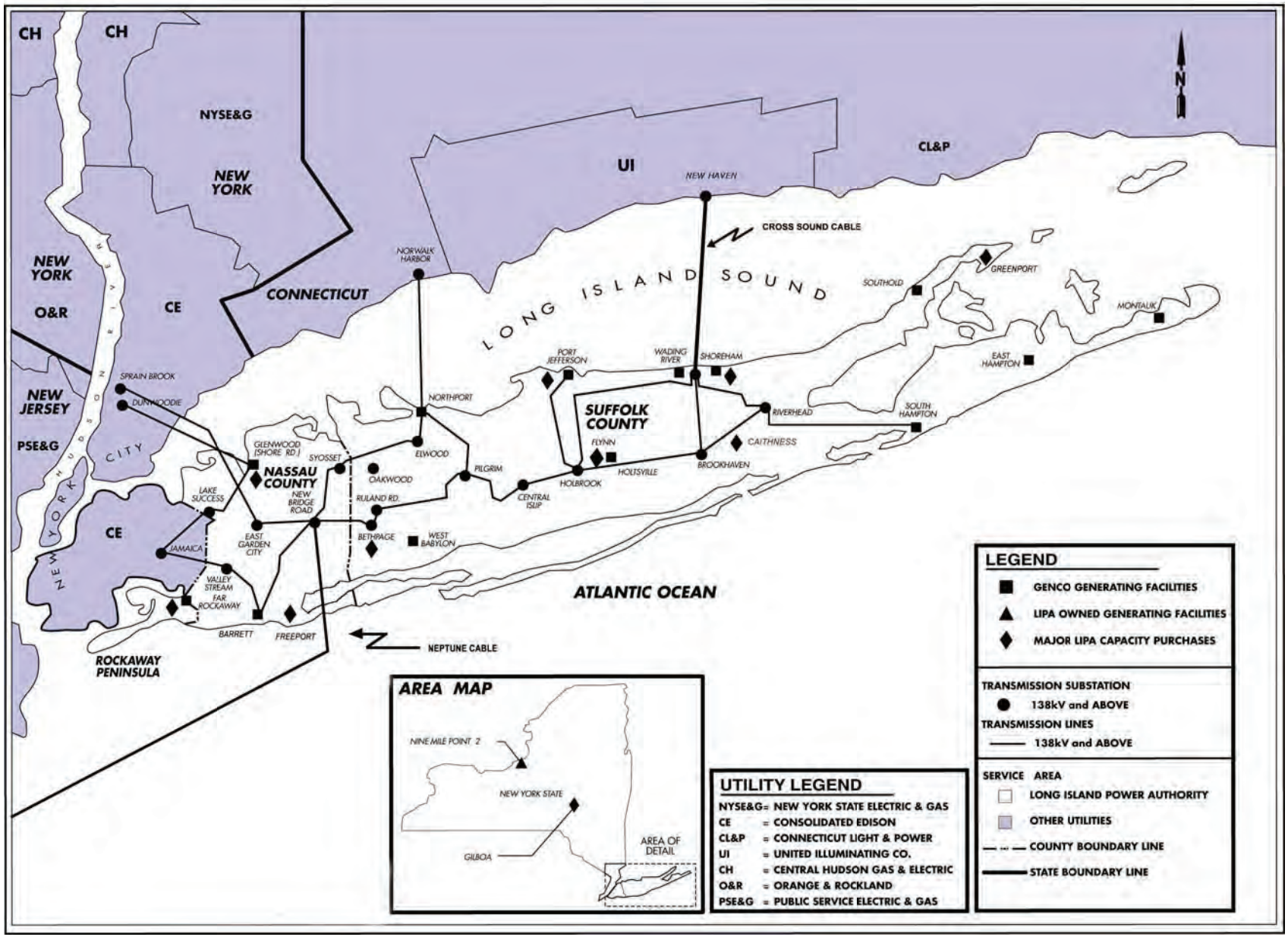
The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Offered Bonds registered in its name for the purposes of payment of the redemption proceeds and principal and interest on the Offered Bonds, giving any notice permitted or required to be given to registered owners under the Subordinated Resolution, registering the transfer of the Offered 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 Offered 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 Offered 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, the Offered Bonds will be printed and delivered to DTC.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this Appendix has been extracted from information given by DTC. Neither the Authority, the Trustee nor the dealers 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 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 PARTICIPANTS, INDIRECT DTC 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.

LONG ISLAND POWER AUTHORITY SERVICE AREA



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PART 2

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OFFICIAL STATEMENT

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LONG ISLAND POWER AUTHORITY

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PART 2

of the

OFFICIAL STATEMENT

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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 the Glossary of Defined Terms, which is on file with EMMA and included by specific cross-reference herein.

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, a summary of which is included herein by specific cross-reference.

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 98 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.

On October 27, 2011, the Board of Trustees approved a plan to restructure the way LIPA contracts for services to operate its electric utility business, which services are generally provided currently under the MSA. Beginning in 2014, LIPA will adopt a business model, which includes a dedicated business unit providing services exclusively to LIPA. The new business model is designed to enhance the quality of customer service, provide long-term workforce stability and allow LIPA to more effectively manage costs. The decision was based on a year-long independent and comprehensive study of LIPA's strategic organizational options conducted by Brattle Group/M.J. Beck. The strategic organizational study analyzed additional options including selling LIPA's electric system to a private entity (privatization) or bringing the entire workforce currently serving LIPA into LIPA's internal organization (full municipalization). LIPA proactively solicited comments from government officials and the public by conducting multiple governmental briefings, informational sessions and public input sessions regarding the analysis. The study concluded that contracting for the operation of LIPA's electric system under an improved public/private business model would provide the best combination of low-cost and transition risk.

The adoption of the enhanced business model led to a further decision by the Trustees to select a service provider as part of a competitive procurement to contract for the operation, customer service, maintenance, repair and expansion of LIPA's electric transmission and distribution business beginning on January 1, 2014. On December 15, 2011, the Board of Trustees approved the selection of Public Service Enterprise Group ('PSEG") and their subcontractor, Lockheed Martin Services Inc. ("Lockheed Martin," and collectively with PSEG, "PSEG-Lockheed") to provide operations services for a period of ten years commencing January 1, 2014 and transition services beginning January 1, 2012. Pursuant to that selection, LIPA and PSEG executed a Transition Services Agreement ("TSA") and an Operations Services Agreement ("OSA"). Both the TSA and OSA received the approval of the New York State Comptroller on June 27, 2012.

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.

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. A summary of the MSA has been filed with EMMA and is included herein by specific cross-reference.

The MSA has an expiration date of December 31, 2013. As noted above under "Strategic Review," the Authority conducted a competitive procurement in order to select a new service provider to provide operation and management services related to the T&D System beginning January 1, 2014, with transition services beginning as early as January 2012. As a result of that competitive procurement, LIPA selected PSEG-Lockheed to provide operations services for a period of ten years, commencing January 1, 2014 and transition services beginning January 1, 2012. Pursuant to that selection, LIPA and PSEG-Lockheed executed the TSA and OSA, which were approved by the New York State Comptroller on June 27, 2012. Thus far, the transition is proceeding on schedule and generally consistent with LIPA's expectations.

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 24, 2011, LIPA and GENCO executed an amendment to the PSA, under which the parties agreed to ramp-down 334 MW of generating capacity under the PSA being provided by the Far Rockaway Unit 4 and Glenwood Units 4 & 5. This amendment 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 during the original term of the PSA.

The Authority has initiated a review process for the PSA and alternatives thereto, including its right to extend the term of the PSA, potential exercise of its remaining ramp down option with respect to Northport Unit 1, allowing the PSA to expire and purchase the capacity and energy from GENCO through the market, and negotiating a new agreement with GENCO. In connection with that review, LIPA issued a request for proposals in August 2010 seeking proposals for the supply of capacity and energy. LIPA is currently reviewing all of these options to determine how best to meet its projected needs of future capacity and energy providing the best value for its customers. See "THE SYSTEM – Power Supply" in this Part 2 for further discussion regarding the request for proposals. A summary of the PSA has been filed with EMMA and is included herein by specific cross-reference.

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. On April 6, 2012, LIPA issued a Request for Proposals for Fuel Management Services to provide for fuel management services currently provided pursuant to the EMA, as well as those provided pursuant to the FMBSA described below. Under the EMA, 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. A summary of the EMA has been filed with EMMA and is included herein by specific cross-reference.

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. On April 6, 2012, LIPA issued a Request for Proposals for Fuel Management Services to provide for fuel management services currently provided pursuant to the FMBSA, as well as those provided pursuant to the EMA described above. Under the current FMBSA, 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. A summary of the FMBSA has been filed with EMMA and is included herein by specific cross-reference.

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 included by specific cross-reference herein 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, 2011, the balance of the Acquisition Adjustment, net of accumulated amortization was approximately $2.4 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 December 31, 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. As of December 31, 2011, a total of approximately $2.3 billion Authority debt has been so retired since 1998. In addition, the Authority funded approximately $1.2 billion of capital expenditures with revenues rather than with borrowings through December 31, 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 $1.8 billion of bonds to finance capital expenditures for projects (of which, as of December 31, 2011, approximately $100 million has been retired), 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 $393 million at December 31, 2011. Therefore, as of December 31, 2011, a total of approximately $6.5 billion in long-term debt is outstanding (which includes the original $6.7 billion indebtedness issued in 1998, less the approximately $2.3 billion of debt retired, plus the approximately $1.7 billion of debt issued and outstanding to finance capital expenditures, plus the approximately $393 million of Shoreham Property Tax Settlement debt, but which excludes the $155 million NYSERDA Financing Notes and $200 million of outstanding commercial paper notes). The Authority currently expects to issue additional bonds to finance capital expenditures.

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 $674 million of short-term variable rate bonds supported by letters of credit, (ii) approximately $226 million (after the July 2, 2012 redemption described below) 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. In January 2012, the Authority replaced letters-of-credit supporting certain of its variable rate bonds and a portion of its commercial paper notes (an aggregate principal amount of $325 million) which were scheduled to expire. In addition, the Authority replaced another $125 million of letters of credit which were set to expire in June 2012. These new letters of credit (in the aggregate principal amount of $450 million) are scheduled to expire in January 2015. In addition, on June 13, 2012, the Authority issued the $324 million Variable Rate Series 2012 Bonds, which are federally tax-exempt variable rate senior lien bonds. $175 million of the proceeds of those bonds were used to refund certain outstanding variable rate subordinate lien bonds of the Authority on June 13, 2012. $149 million of the proceeds of those bonds will be used to redeem certain outstanding variable rate senior lien bonds of the Authority on or about July 2, 2012. After that refunding is completed, of the approximately $1.1 billion of outstanding variable rate bonds and commercial paper notes, approximately $550 million will be senior lien and approximately $550 million will be subordinate lien. See "PLAN OF FINANCE" in Part 1 of this Official Statement.

FINANCIAL INFORMATION

The Authority's Audited Basic Financial Statements for the years ended December 31, 2011 and 2010 are on file with EMMA and included herein by specific cross-reference. The Authority's Audited Basic Financial Statements contain Management's Discussion and Analysis of the Results of Operations for the year ended

December 31, 2011. Certain prior period amounts have been reclassified in the financial information to conform to the current year presentation. In addition, the Authority has filed with EMMA certain interim financial information (Unaudited) for the period ended March 31, 2012 and 2011, which is included herein by specific cross-reference.

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 Director of Regulatory, Rates and Pricing 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 March 31, 2012, the Authority had $9.3 million of collateral posted to its counterparties in connection with its energy commodity hedge positions and did not hold any collateral posted by its counterparties (mark-to-market value at March 31, 2012 for the Authority's commodity hedge positions was negative $196.6 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 March 31, 2012, negative $48 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 March 31, 2012, negative $62 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 March 31, 2012, negative $266 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.

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.

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 three 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. 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 (67) 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 (54) 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.

Michael Taunton (56) is the Vice President of Finance and Chief Financial Officer of the Authority. He was appointed to the position in January 2012. Mr. Taunton has over 30 years of experience in utility finance. Prior to joining LIPA, Mr. Taunton was Vice President and Treasurer for Arrow Electronics, a $20 billion plus global distributor of electronic components and enterprise computing solutions. In addition, he has over 30 years of business experience in the energy industry with KeySpan Corporation, where he last served as Senior Vice President, Treasurer and Chief Risk Officer. Mr. Taunton earned his Bachelor of Science Degree in Accounting at St. Francis College and an MBA in Finance at Adelphi University. He also completed the Advanced Management Program at the Harvard Business School and the Public Utility Executive Program at the University of Michigan.

Lynda Nicolino (47) 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 (60) 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 (56) 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 (52) 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, 2011, 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, 2011, 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. According to New York State Department of Labor statistics, the unemployment rate was approximately 7.1 percent in April 2012 as compared to 6.6 percent in April 2011, and 6.9 in December 2011 and 7.0 in December 2010. Overall, however, according to statistics compiled by the New York State Department of Labor, those rates compare favorably with those for the State and the entire country, which were, respectively, 8.1 and 7.7 percent in April 2012, 7.7 and 8.7 percent in April 2011, and 8.0 and 8.3 percent in December 2011 and 8.0 and 9.1 percent in December 2010.

In the year ending December 31, 2011, approximately 54% of LIPA's annual retail revenues were received from residential customers and 44% 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, 2011, 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 168 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, 2011, the distribution system also includes approximately 14,000 circuit miles of overhead and underground line (9,000 overhead and 5,000 underground), and approximately 185,000 line transformers with a total capacity of approximately 12,275 MVA. Approximately 43.5 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 2011 period indicate that LIPA's system-wide frequency and duration of outages were better than average for similar overhead 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 2011 was approximately 15.9 months. For those LIPA customers affected by an interruption during 2011, the average length of interruption was approximately 68 minutes. These statistics compare to an average time between interruption of 16.5 months and an average interruption of 67 minutes for a LIPA customer during 2010.

Over the five-year period 2007 through 2011, LIPA's customers experienced an average of 15.5 months between interruptions and average interruption times of 72 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 12.1 months and the average duration of an interruption was 120 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 challenging years in 2010 and 2011 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, 2011, LIPA's Storm CAIDI (Customer Average Interruption Duration Index during storms) metric was approximately 112 minutes.

Hurricane Irene. The United States east coast (from the Carolinas to Maine) was impacted by "Hurricane Irene," which 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, worked to restore service to all affected customers. The restoration costs were approximately $171 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 receive reimbursement from the federal government (through the Federal Emergency Management Agency ("FEMA")) of approximately 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, the costs, net of the anticipated FEMA recovery, have not had a direct material negative impact on LIPA's operations or its financial condition.

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 2007 through 2011 were $300 million, $297 million, $278 million, $249 million and $303 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 2012 in the approved budget are approximately $321 million. The 2012 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 2007 through 2011 averaged approximately $24.2 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
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
2011	12.7	25.8	38.5

* Year of a refueling or fuel purchase.

The table below shows estimated capital expenditures for the period 2012 through 2016.

Capital Expenditures
(in millions)

	2012	2013	2014	2015	2016
T&D System[1]:					
System Enhancements	$ 257	$ 274	$ 260	$ 246	$ 255
Interconnections	6	5	10	10	10
New Customers	25	26	24	24	24
Public Works	8	8	3	3	3
Total T&D System	$ 296	$ 313	$ 297	$ 283	$ 292
NMP2[2]	19	40	9	46	11
LIPA Internal[3]	6	20	5	5	5
Total Capital Expenditures	$ 321	$ 373	$ 311	$ 334	$ 308

1 Values for 2012 and 2013 reflect amounts included in LIPA's approved capital budget. Values for 2014 through 2016 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 2011 reached approximately 5,915 megawatts ("MW") for the Long Island Control Area (the Service Area together with three municipalities within the Service Area served by their own utilities) on July 22, 2011, of which LIPA accounted for 5,771 MW. This was a new all-time record peak for the Long Island Control Area.

The table below shows LIPA's peak demand and weather-normalized peak load for the period 2007 through 2011.

Year	Peak Demand (MW)	Weather Normalized (MW)
2007	5,247	5,239
2008	5,130	5,284
2009	5,034	5,208
2010	5,719	5,303
2011	5,771	5,285

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 2.1 percent over the five year period 2012 to 2016. 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 6,107 MW in 2016 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 2012 through 2016 period. See Part 2 under the heading "Operating Agreements" for a description of LIPA's ongoing review of the PSA in connection with its 2013 expiration and current request for proposals pertaining thereto.

During 2011, LIPA's 18% interest in NMP2 and its rights to the capacity of the GENCO Generating Facilities provided approximately 4,256 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 2,092 MW of additional capacity. In aggregate, these resources provided approximately 6,348 MW in 2011.

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 99.0 percent of its projected summer 2012 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, 2011, the ELI program is somewhat behind its goals for the first three years, but has revised its goals for the next few years to attempt to make up any shortfalls. 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 late 2012.

Existing Capacity and Energy Resources

Pending the results of the competitive solicitation issued in August 2010, which is expected later this year, 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

	2007	2008	2009	2010	2011
Annual Peak Demand (Summer) (MW)[1]	5,247	5,130	5,034	5,719	5,771
Capacity (MW)[2]					
Nuclear[3]	205	205	206	206	225
Purchased Capacity:					
GENCO					
Steam[4]	2,669	2,685	2,707	2,707	2,699
Other[4]	1,372	1,375	1,371	1,367	1,311
Other Purchased Capacity[5]	1,446	1,357	1,618	2,055	2,092
Total Purchased Capacity	5,487	5,417	5,696	6,128	6,102
Total Capacity	5,692	5,622	5,902	6,334	6,327
Annual Reserve Margin:					
MW[6]	445	492	868	615	556
Percent	8.5	9.6	17.2	10.8	9.6
Energy (MWh)					
Total Energy Requirements[7]	21,609,275	21,389,895	20,727,286	21,806,828	21,583,426
Generating Resources:					
Nuclear[3]	1,635,958	1,536,078	1,785,593	1,590,821	1,707,140
Purchased Energy:					
GENCO					
Steam	8,626,630	6,748,379	4,900,602	5,883,018	5,472,453
Other	261,139	261,035	192,397	234,331	189,461
Other Purchased Energy	11,085,548	12,844,403	13,848,694	14,098,658	14,214,372
Total Purchased Energy	19,973,317	19,853,817	18,941,693	20,216,007	19,876,286
Total Energy	21,609,275	21,389,895	20,727,286	21,806,828	21,583,246

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. See Part 2 under the heading "Operating Agreements" for a description of LIPA's ongoing review of the PSA in connection with its 2013 expiration and current request for proposals pertaining thereto. 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 2007 through 2011 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	396	Gas, Oil	1956, 1963	Nassau
Far Rockaway 4[3]	100	107	Gas, Oil	1953	Queens
Glenwood 4,5	200	224	Gas	1952, 1954	Nassau
Northport 1,2,3, 4	1,500	1,580	Gas, Oil	1967, 1968, 1972, 1977	Suffolk
Port Jefferson 3,4	350	392	Gas, Oil	1958, 1960	Suffolk
Subtotal	2,500	2,699			
Combustion Turbine:					
E.F. Barrett 1-12	311	280	Gas, Oil	1970-1971	Nassau
Wading River[4]	242	236	Oil	1989	Suffolk
East Hampton 1	21	19	Oil	1970	Suffolk
Glenwood 1-3[4]	126	100	Oil	1967-1972	Nassau
Holtsville 1-10[4]	567	515	Oil	1974-1975	Suffolk
Northport G-1	16	13	Oil	1967	Suffolk
Port Jefferson GT	16	12	Oil	1966	Suffolk
Shoreham 1-2	72	58	Oil	1966, 1971	Suffolk
Southampton 1	12	9	Oil	1963	Suffolk
Southhold 1	14	9	Oil	1964	Suffolk
West Babylon 4	52	49	Oil	1971	Suffolk
Subtotal	1,449	1,299			
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	4,010			

1 Source: National Grid Corporate Services.
2 Dependable Maximum Net Capability ("DMNC") values applicable for the 2011 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)

Calendar Year

Generating Facility	2007	2008	2009	2010	2011
Steam Turbine:					
E.F. Barrett 1,2	1,384	1,115	916	1,081	971
Far Rockaway 4	249	138	101	190	344
Glenwood 4,5	210	95	65	152	270
Northport 1-4	5,510	4,494	3,263	4,030	3,470
Port Jefferson 3,4	1,274	907	556	430	418
Total Steam Turbine	8,627	6,749	4,901	5,883	5,472
Combustion Turbine:					
E.F. Barrett 1-12	43	72	78	68	93
Wading River	100	93	45	65	35
East Hampton 1	16	20	13	13	8
Glenwood 1-3	3	2	1	2	1
Holtsville 1-10	84	59	46	75	42
Northport G-1	**	**	**	**	**
Port Jefferson GT	**	**	**	**	**
Shoreham 1-2	2	1	1	3	1
Southampton 1	3	6	2	3	2
Southhold 1	3	-	2	2	1
West Babylon 4	1	2	-	1	4
Total Combustion Turbine	255	255	188	231	187
Internal Combustion:					
East Hampton 2-4	3	3	2	2	1
Montauk 2-4	3	2	3	2	1
Total Internal Combustion	6	5	5	4	2
Total	8,888	7,009	5,094	6,117	5,662

* 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 2007 through 2011 the actual generation attributable to LIPA's 18% ownership interest in NMP2.

NMP2 Energy Generation

	2007	2008	2009	2010	2011
Energy (GWh)	1,636.0	1,536.1	1,785.6	1,591.0	1,707.1

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 2007 through 2011 the energy output from such agreements.

Summary of Power Supply Agreements (Excluding GENCO)

Unit Name	Capacity (MW)[1]	Contract Expiration	Unit Type[2]	Primary Fuel Type
NYPA Flynn	134.9	2020	CC	Natural Gas[3]
Suez Nassau Energy Combined Cycle	43.2	2016	CC/Cogen	Natural Gas[4]
Huntington Resource Recovery	24.4	2012	ST	Refuse
Babylon Resource Recovery	14.6	2013	ST	Refuse
Hempstead Resource Recovery	72.4	2034	ST	Refuse
Islip Resource Recovery	9.2	2035	ST	Refuse
Shoreham Energy	86.6	2017	SC	Kerosene[5]
National Grid Glenwood Landing	79.9	2027	SC	Natural Gas[5]
National Grid Port Jefferson	82.3	2027	SC	Natural Gas[5]
NextEra Bayswater	53.7	2020	SC	Natural Gas[5]
NextEra Jamaica Bay	54.3	2018	SC	Kerosene[5]
Global Common Greenport	52.0	2018	SC	Kerosene[5]
Equus	47.7	2017	SC	Natural Gas[4,5]
NYPA Power-for-Jobs	11.6	2012	N/A	N/A
Gilboa	50.0	2015	PS	Water
Village of Freeport	10.0	2034	SC	Natural Gas
Pinelawn Power	74.6	2025	CC	Natural Gas[4,5]
Calpine Bethpage 3	76.6	2025	CC	Natural Gas[5]
Bear Swamp Power	100.0[6]	2021	PS/Hydro	Water
Edgewood Energy	86.6	2018	SC	Natural Gas[5]
Caithness	309.6[7]	2029	CC	Natural Gas[4,5]
Brookfield	N/A[8]	2019	HY	Water
Fitzpatrick	124.4	2014	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	2031	PV	Solar
Eastern Long Island Solar Project (ELISP)	15.5[10]	[11]	PV	Solar

1 Summer capacity based upon summer 2011 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 ELISP PPA expiration date will be 20 years from the COD of the project. Final ELISP COD is anticipated by the end of 2012.

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

Calendar Year

Type of Resource	2007	2008	2009	2010	2011
Independent Power Producers					
NYPA Flynn	821.7	1,227.6	1,228.2	958.2	1,061.2
Other Power Supply Agreements	1,353.2	1,124.4	1,724.5	3,069.3	3,175.8
Other[2]	1,677.9	1,668.1	1,544.3	1,772.1	1,616.0
Subtotal IPPs	3,852.8	4,020.1	4,497.0	5,799.6	5,853.0
Entergy Fitzpatrick (off-Island)	1,169.7	1,100.4	1,237.1	1,067.8	1,225.2
Off-Island Purchases[3]	4,599.7	6,000.4	6,424.1	5,633.9	5,627.2
Other Purchases[4]	1,463.3	1,723.5	1,690.5	1,597.4	1,509.0
Total Purchases	11,085.5	12,844.4	13,848.7	14,098.7	14,214.4

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.

Certain 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. LIPA has also entered into an agreement with Long Island Solar Farm LLC (a BP Solar International Inc. affiliate) to purchase approximately 31.5 MW of power from an array of 164,312 photovoltaic solar panels located at Brookhaven National Laboratory, which began full commercial operation in November 2011. In addition, LIPA has entered into an agreement with Eastern Long Island Solar Project, LLC (an enXco Development Corporation affiliate) to purchase up to 15.5 MW of power from solar generating facilities under construction on Long Island that are expected to be fully operational by the end of 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 additional 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 by LIPA for its planning purposes. 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)

	2012	2013	2014	2015	2016
System Demand					
Net LIPA Load[1]	5,390	5,505	5,526	5,569	5,582
NYCA Coincidence Factor[2]	98.4%	98.4%	98.4%	98.4%	98.4%
Net: LIPA Load Coincident with NYCA Load	5,304	5,417	5,438	5,480	5,493
Off Island Transmission Losses[3]	67	68	68	69	69
Net: LIPA Load Coincident with NYCA Load Plus Off Island Losses	5,370	5,485	5,507	5,549	5,562
Total Required Reserve Margin[4]	329	336	337	340	340
Total Capacity Requirement	5,699	5,820	5,844	5,889	5,902
Resources (UCAP)					
Nine Mile Point 2	205	205	205	205	207
GENCO[5]	3,523	3,523	3,523	3,523	3,312
Resource Additions[6]	942	942	942	942	958
Non-Dispatchable IPP's[6]	156	133	119	119	114
NYPA (Flynn)[7]	134	134	134	134	135
NYPA (Gilboa)	50	50	50	0	0
Future Resource Additions[8]	10	10	10	10	25
UCAP Net Purchases/(Sales)[9]	681	825	862	957	1,151
Total Capability	5,699	5,820	5,844	5,889	5,902
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 New York Control Area ("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. Current projections assume LIPA exercises its unilateral option to extend the PSA.
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), the 2009 Resource Additions (Caithness Long Island, LLC - Caithness), and the 2011 Resource Addition (BP Solar Project).
7 NYPA Holtsville Facility.
8 Includes enXco (10 Mw) Solar Project.
9 Short term UCAP purchases net of short term UCAP sales (Includes Bear Swamp & Marcus Hook Resources).

Estimated Energy Requirements and Resources
(GWH)

	2012	2013	2014	2015	2016
Energy Requirements					
Total Energy Requirements[1]	21,987	22,171	22,250	22,305	22,394
Resources[2]					
NMP2	1,656	1,856	1,755	1,859	1,852
GENCO[3]	4,927	3,616	3,762	2,952	2,291
Resource Additions[4]	3,932	4,106	3,985	4,079	3,435
Non-Dispatchable IPP Resources	1,326	1,321	1,321	1,323	1,327
NYPA (Flynn)[5]	1,054	1,066	1,065	1,070	1,018
NYPA (Power for Jobs/BNL)	132	131	131	131	132
Future Resource Additions[6]	70	70	70	69	66
Net Economy[7]	8,890	10,005	10,162	10,821	12,273
Total Resources	21,987	22,171	22,250	22,305	22,394

1 LIPA's estimated Total Energy Requirements including Long Island Choice customers. Source: LIPA Forecast of Electric Requirements, Sales and Peak Loads: 2012 – 2016 as of December 15, 2011, Approved Budget for 2012.

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 2012 Operating Budget and 5-Year Financial Projections (2012 - 2016).

3 Generating units covered under the PSA. Current projections assume that LIPA exercises its unilateral right to extend the PSA for a 15-year period under substantially similar terms and conditions.

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 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).

7 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 considering 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.

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. 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, 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.

Recent Legislation

In February 2012 a bill requiring LIPA to undergo an audit of its management and operations was introduced and passed in both houses, and signed into law by Governor Cuomo (the "2012 Legislation"). The 2012 Legislation provides for the Department of Public Service to comprehensively and regularly audit the management and operations of the Authority. Such audit will entail review and evaluation of the Authority's overall operations and management, including the Authority's operations and management in the context of its duty to set rates at the lowest level consistent with standards and procedures provided for in the Act. The 2012 Legislation further provides that the Department of Public Service shall provide any such audit and any findings and recommendations to the Authority and various designated State officials. The Authority is obligated to implement the findings and recommendations specified in such audit, unless the Authority's Trustees determine that any particular finding or recommendation is inconsistent with the Authority's sound fiscal operating practices, any existing contractual or operating obligation or the provision of safe and adequate service. The 2012 Legislation does not impact the Authority's ability to set rates for electric service in its service area and does not require the approval of the PSC or any other State regulatory body in the setting of its rates.

At the time the Governor signed the 2012 Legislation into law, legislation that was passed by the New York State Legislature in June 2011 (the "2011 Legislation") was repealed. That 2011 Legislation amended 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%. 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.

It is not currently expected that a rate regulation bill will be proposed during this session, or at any point in the near future, based on public comments made by the bill sponsors of both the 2011 and 2012 Legislation; however, the Authority cannot predict with certainty that other similar legislation will not be introduced an acted upon at some point in the future.

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. Effective April 1, 2012, the Board of Trustees approved an increase to the base rates for delivery service, which caused an increase to the average residential customer's bill of approximately 1.8%.

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. Over the past few years, LIPA has regularly modified the FPPCA in response to changes in fuel and purchased power prices. LIPA is currently considering eliminating the $50 million variance described above. LIPA is also considering modifying its review of the FPPCA from the current quarterly basis to a monthly review in order to provide for more timely pass-through of its fuel and purchased power costs.

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 has responded to various requests for information. The Authority believes that the Inspector General has substantially completed its fieldwork. However, at this time, the Authority is uncertain as to the timing of any report that may be issued by the Inspector General.

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.

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, 2011, the Authority served approximately 1.1 million customers in its Service Area. For the 12-month periods ended, December 31, 2007, December 31, 2008, December 31, 2009 December 31, 2010 and December 31, 2011, the 12-month write-off rates for uncollectible revenues were 0.47%, 0.51%, 0.77%, 0.71%, and 0.68%, 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. 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. With respect to utilities such as LIPA that are not directly subject to the FERC's rate regulation authority as "public utilities" under Sections 205 and 206 of the Federal Power Act, 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 Offered 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.

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 April 30, 2012, other suppliers were selling electricity to 2,760 commercial and industrial customers in the Service Area representing a total load of 229 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.

Clean Air Interstate Rule

On March 10, 2005, the EPA issued the final Clean Air Interstate Rule ("CAIR"). CAIR caps SO_2 emissions from power plants in 28 states and the District of Columbia at 3.6 million tons in 2010 and 2.5 million tons in 2015. NO_x emissions are capped at 1.5 million tons in 2009 and 1.3 million tons in 2015.

The validity of CAIR was challenged. On July 11, 2008, the United States Court of Appeals for the D.C. Circuit ("D.C. Circuit") ruled on a number of petitions for review of CAIR and associated Federal Implementation Plans ("FIPs"), and issued an opinion vacating and remanding the rule. In a subsequent decision in response to petitions for rehearing, however, the court in December 2008 decided to remand CAIR to the EPA without vacating it. This has the effect of reinstating CAIR, including the trading programs, until the EPA issues a new rule consistent with the court's decision.

On August 8, 2011, the EPA published a final replacement rule for CAIR referred to as the "Cross-State Air Pollution Rule" ("CSAPR"). The validity of CSAPR was also challenged. Although the D.C. Circuit has not yet ruled on the merits of the legal challenge, the court did grant a stay of CSAPR pending completion of the court's review of the rule's validity. Notably, the stay of CSAPR was granted on December 30, 2011, just two days prior to the start date for the implementation of the CSAPR reduction requirements. In its *per curiam* order granting the stay, the court makes clear that it expects EPA to continue administering the CAIR program until completion of the court review of CSAPR. Oral arguments on legal challenges to CSAPR were held on April 13, 2012 and the court is expected to issue final decision on the merits by early summer, if not sooner. The stay order suggests that the court has at least some concerns about the legal validity of the CSAPR. Though the court did not explain reasons for its decision, one of the requirements to obtain a stay is a showing of "substantial likelihood of succeeding on the merits."

The CSAPR requires affected fossil-fueled electric utility power plants to reduce SO_2 by 73 percent and NO_x by 54 percent over 2005 emissions by 2014; however, the EPA made slight adjustment to these reduction levels in rule revision adopted on February 21, 2012. Subject to the use of banked allowances in a future year, this places absolute limits on annual SO_2 emissions at approximately 2.4 million tons and NO_x emissions at 1.2 million tons, somewhat lower and one year earlier than second phase of CAIR.

Climate Change

In recent years, there has been growing concern in the scientific community and among the public about climate change, and the potential contributions to climate change made by fossil-fueled electric generating plants. Any legislation or regulation that addresses global warming is likely to have an adverse impact on fossil fuel-fired generation, particularly operation of older, less efficient units.

In the last few years, however Congress has been unable to enact into law legislation to control CO_2 and other GHGs from power plants and other major sources of GHG emissions. Furthermore, given that the prospect of Congress passing such climate change legislation appears to be quite low, the regulatory focus has shifted from Congress to the EPA. EPA's authority to regulate GHG emissions stems from a 2007 decision in which the United States Supreme Court held GHG emissions are "air pollutants" under the federal Clean Air Act and thereby required the EPA to determine whether GHGs pose a threat to health and welfare. On December 15, 2009, the EPA published the final rule for the "endangerment finding" under the Clean Air Act. In the finding, the EPA declared that the six identified GHGs – CO_2, methane, NO_x, hydro-fluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause or contribute to global warming, and that the effects of climate change endanger public health and welfare by increasing the likelihood of severe weather events and the other related consequences of climate change. The issuance of the "endangerment finding" triggered the statutory requirement that the EPA regulate emissions of GHGs as air pollutants from motor vehicles under Title II of the Clean Air Act and major stationary sources under Title I of the Clean Air Act.

The first major set of air regulatory requirements applied to major stationary sources of GHG emissions starting on January 2, 2011. These new GHG requirements include the obligation for fossil-fueled power plants and certain other major stationary sources of GHG emissions to obtain a construction permit under the New Source Review ("NSR") program and an operating permit under Title V of the Clean Air Act. Stationary sources that are subject to the NSR and/or Title V permits due to their non-GHG emissions (such as fossil-fuel based electric generating facilities emitting NO_x, SO_2 and other pollutants) will have to address GHG emissions in new permit applications or renewals. Construction or modification of major sources will become subject to NSR requirements for their GHG emissions if the construction or modification results in a net increase in the overall mass of GHG emissions

exceeding 75,000 tons per year on a CO_2e basis. New and modified major sources required to obtain a NSR permit would be required to conduct a BACT review for their GHG emissions. The EPA issued general, non-binding, guidance in November 2010 on the technologies or operations that would constitute BACT for GHGs. With respect to Title V requirements, as of January 2, 2011, sources that are required to have Title V permits for non-GHG pollutants are now required to address GHGs as part of their Title V permitting. The 75,000 tons per year CO_2e applicability threshold does not apply, so when any source applies for, renews, or revises a Title V permit, then Clean Air Act requirements for monitoring, recordkeeping and reporting will be included. On February 24, 2012, EPA proposed maintaining the same GHG permitting thresholds at current levels and building additional flexibility into the permitting regulations to ease permitting burdens. In doing so, EPA rejected calls to reduce the threshold and capture more sources under the NSR permitting program. The proposal remains under EPA review, and is expected to be challenged when it is finalized.

Industry and several States have challenged the validity of the EPA requirements for major stationary sources to obtain NSR construction permits and Title V operating permits for GHG emissions, as described above. The D.C. Circuit held oral arguments on those legal challenges over a two-day period in late February, 2012. A final decision on the merits of the legal challenge is expected to be issued by the court by this summer, if not earlier.

On April 13, 2012, the EPA proposed to set a nationwide new source performance standard ("NSPS") for CO_2 emissions from new fossil-fueled EGUs. Under this proposal, new fossil-fueled EGUs would be subject to a maximum CO_2 emissions rate of 1,000 pounds per megawatt-hour (lb/MWh) − a rate that a new coal-fired EGU likely cannot meet without installing carbon dioxide capture technology. The proposed NSPS also includes a narrowly drawn "alternative compliance option" allowing the construction of certain new coal-fired EGUs that commit to later install CCS equipment to capture and sequester CO_2. The proposed performance standard does not apply to existing EGUs. EPA will regulate existing EGUs under a separate rulemaking that will be initiated at some future, but undetermined, point in time. In addition, the stated-intention of EPA is for the proposed standard not to apply to any modification or reconstruction of existing EGUs – although some question remains as to whether EPA has the authority to establish a CO_2 NSPS that strictly applies only to new EGUs based on plain reading of the statute. There is not a clear time frame when EPA will issue a final rule establishing the CO_2 NSPS for EGUs. EPA will be accepting comments on the proposed rule until June 25, 2012.

Mercury and Air Toxics Standards

On December 16, 2011, EPA finalized mercury and air toxics standards ("MATS") for new and existing coal and oil-fired EGUs. The standards for oil-fired units set numeric emission limits for filterable particulate matter (as a surrogate for metals), hydrogen chloride (HCl) and hydrogen flouride (HF). Both coal and oil-fired plants must also meet work practices that ensure optimal combustion to reduce emissions of organic pollutants such as dioxins/furans. The rule is expected to affect approximately 1400 units at about 600 power plants, potentially including those with whom LIPA has business arrangements. The MATS rule (also known as the Utility MACT rule) became effective April 16, 2012, which started a 3-year compliance clock that may be extended by an additional year. It is expected that many facilities, particularly those with older units, will require significant investments in control upgrades to comply with the new standards. The stringency of the rule has been challenged in the D.C. Circuit, and ongoing efforts continue at the congressional level to amend or defer the rule.

National Ambient Air Quality Standards

EPA has been engaged in an ongoing effort to tighten existing National Ambient Air Quality Standards ("NAAQS") for pollutants such as sulfur dioxide (SO_2), nitrogen dioxide (NO_2) and fine particulate matter (PM2.5). In 2010, EPA issued new 1-hour standards for SO_2 and NO_2, and on June 15, 2012 announced plans to increase the stringency of the PM2.5 standard in December 2012. Areas not meeting these standards must create plans to bring the areas into attainment, and areas meeting the standards must create plans to ensure the area continues to meet the NAAQS. These plans may include control requirements, operating restrictions, or other methods to reduce emissions, with more stringent requirements for nonattainment areas. The NAAQS will also affect permitting for new sources and modifications to existing sources under the NSR program. Several industrial areas (including those where large power generation sources operate) are expected to have difficulty demonstrating attainment with the new standards. Legal challenges are expected to EPA's final PM2.5 standards and to the methods EPA is using to classify areas under the SO_2 standards.

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. In March 2012, based on the earlier prioritized task force recommendations, the NRC issued the first regulatory requirements for the nation's 104 operating reactors based on the lessons learned at Fukushima Daiichi. The NRC also sought public comment on its recommendations. The NRC continues to evaluate and act on the lessons learned to ensure that appropriate safety enhancements are implemented at nuclear power plants in the U.S.

LIPA is uncertain as to the extent of any changes in the final regulations, programs and processes of the NRC as a result of the recommendations of the task force. LIPA, together with Constellation, continues to monitor the NRC's task force and its recommendations. 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, 2011 and 2010, which are included herein by specific cross-reference.

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 "RATES AND CHARGES – Recent 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 Offered 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 Offered 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 Offered Bonds or the validity of the Offered 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, 2011 and 2010, included herein by specific cross-reference 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.

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Long Island Power Authority

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