



PSEG Long Island LLC
111 Eighth Avenue, 13th Floor
New York, NY 10011

December 31, 2013

Mr. John D. McMahon
Chief Operating Officer
Long Island Lighting Company d/b/a LIPA
333 Earle Ovington Boulevard, Suite 403
Uniondale, NY 11553

Dear Mr. McMahon:

Reference is made to the Amended and Restated Operations Services Agreement dated as of the date hereof (the "Amended and Restated OSA"), between the Long Island Lighting Company d/b/a LIPA ("LIPA") and PSEG Long Island LLC (the "Service Provider" and, together with LIPA, the "Parties"). Capitalized terms used but not defined in this letter agreement shall have the meanings defined in the Amended and Restated OSA unless otherwise indicated. Section references herein shall be to Sections of the Amended and Restated OSA. Section 2.2(A)(2) provides that a condition precedent to the effectiveness of the Amended and Restated OSA is the "approval by the LIPA Board of Trustees of an agreement by the Service Provider to the Operating Budgets and Capital Budgets for 2014 and 2015." The purpose of this letter is to memorialize the agreement reached between LIPA and the Service Provider with respect to this condition precedent and the 2015 Consolidated LIPA Budget.

This letter agreement confirms that LIPA and the Service Provider have agreed to the following:

1. The Parties hereby confirm the satisfaction of the condition precedent set forth in Section 2.2(A)(2) with respect to the Operating Budget for 2014 and the Capital Budgets for 2014 and 2015.
2. The Parties hereby waive the condition precedent set forth in Section 2.2(A)(2) with respect to the Operating Budget for 2015 and agree to the following:
 - A. the Consolidated LIPA Budget for 2015 shall be prepared and agreed upon by the Parties in 2014 in accordance with the requirements set forth in Section 5.2(B)(3) and applicable to Budgets for the Contract Years starting with Contract Year 2019, other than the dispute resolution

provisions set forth in the last sentence of Section 5.2(B)(3) and Section 8.6, which shall not apply;

- B. (i) the 2015 Consolidated LIPA Budget and any subsequent proposed amendment thereto and (ii) any proposed reduction to the 2015 Capital Budget approved by LIPA on November 26, 2013 (the “approved 2015 Capital Budget”) or to the 2014 Consolidated LIPA Budget approved by LIPA on November 26, 2013 (the “approved 2014 Consolidated LIPA Budget”) shall be subject, in each case, to mutual agreement by the Parties and any disagreement between the Parties relating thereto shall not be subject to dispute resolution under Section 8.6 or other provision of the Amended and Restated OSA; and
 - C. if the 2015 Consolidated LIPA Budget is not agreed upon by the Parties by the beginning of the 2015 Contract Year, unless and until the 2015 Consolidated LIPA Budget is approved by mutual agreement of the Parties subject to paragraph B above, the “Default Budget” applicable to the 2015 Contract Year pursuant to Section 5.2(B)(6) shall be the proposed 2015 Consolidated LIPA Budget, consisting of the approved 2015 Capital Budget (as amended by the Parties subject to paragraph B above) and the proposed 2015 Operating Budget submitted to LIPA by the Service Provider on November 7, 2013 and attached hereto as Appendix A, as adjusted for inflation.
- 3. The Parties hereby confirm that Substantial Completion of the Front End Transition Plan as defined under the Transition Services Agreement has been achieved.
 - 4. The Amended and Restated OSA shall continue in full force and effect subject to the above waiver and agreement and nothing in this letter agreement shall be construed as a consent to approval of any modification or amendment to, or any other waiver of, any provision of the Amended and Restated OSA.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has caused this letter agreement to be duly executed on its behalf as of the date first above written.

PSEG LONG ISLAND LLC,

by



Name:

Title:

Accepted and agreed to as of
the date first above written:

LONG ISLAND LIGHTING COMPANY
D/B/A LIPA,

by

Name:

Title:

[Signature Page to Waiver Agreement]

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LONG ISLAND LIGHTING COMPANY
D/B/A LIPA,

by



Name:

Title:

[Signature Page to Waiver Agreement]

PROPOSED 2015 OPERATING BUDGET

2014 Proposed and 2015 Preliminary Operating Budget

Total PSEG-LI Operating Expenses
(Thousands of Dollars)

	2012 <u>Actual</u>	2013		Proposed 2014	% Chg. From Approved 2013	Preliminary 2015	% Chg. From Proposed 2014
		<u>Approved</u>	<u>Projected ^(a)</u>				
Transmission & Distribution	\$ -	\$ -	\$ -	\$ 154,943	#DIV/0!	\$ 133,754	(13.7%)
Customer Services	-	-	-	100,112	#DIV/0!	104,407	4.3%
Business Services	-	-	-	146,491	#DIV/0!	119,183	(18.6%)
Management Fee	-	-	-	44,500	#DIV/0!	45,000	1.1%
Total PSEG-LI Operating Expenses	\$ -	\$ -	\$ -	\$ 446,046	#DIV/0!	\$ 402,344	(9.8%)
National Grid Management Services Agreement	275,152	304,292					

2014 Proposed and 2015 Preliminary Operating Budget

PSEG-LI - Transmission & Distribution
(Thousands of Dollars)

	2012 <u>Actual</u>	2013		Proposed 2014	% Chg. From Approved 2013	Preliminary 2015	% Chg. From Proposed 2014
		<u>Approved</u>	<u>Projected</u> ^(a)				
Asset Management	\$ -	\$ -	\$ -	\$ 22,570	#VALUE!	\$ 23,049	2.1%
Overhead / Underground	-	-	-	18,020	#VALUE!	19,066	5.8%
T&D Operations	-	-	-	35,241	#VALUE!	37,491	6.4%
Projects & Construction	-	-	-	43,084	#VALUE!	18,788	(56.4%)
Substation / Protective / Telecom	-	-	-	32,180	#VALUE!	31,233	(2.9%)
T&D Services	-	-	-	3,848	#VALUE!	4,127	7.3%
Total Transmission & Distribution Operating Expenses	\$ -	\$ -	\$ -	\$ 154,943	#VALUE!	\$ 133,754	(13.7%)

Note: (a) Reflects \$20M decrease in vegetation management

2014 Proposed and 2015 Preliminary Operating Budget

PSEG-LI - Customer Services
(Thousands of Dollars)

	2012	2013		Proposed	% Chg. From Approved	Preliminary	% Chg. From Proposed
	<u>Actual</u>	<u>Approved</u>	<u>Projected ^(a)</u>	2014	<u>2013</u>	2015	<u>2014</u>
Revenue Operations	\$ -	\$ -	\$ -	\$ 20,618	#VALUE!	\$ 21,576	4.7%
Meter Services	-	-	-	30,837	#VALUE!	32,165	4.3%
Customer Contact and Billing	-	-	-	31,962	#VALUE!	33,491	4.8%
Customer Experience and Utility Marketing	-	-	-	16,696	#VALUE!	17,175	2.9%
Total Customer Services Operating Expenses	\$ -	\$ -	\$ -	\$ 100,112	#VALUE!	\$ 104,407	4.3%

2014 Proposed and 2015 Preliminary Operating Budget

PSEG-LI - Business Services
(Thousands of Dollars)

	2012	2013		Proposed	% Chg. From Approved	Preliminary	% Chg. From Proposed
	<u>Actual</u>	<u>Approved</u>	<u>Projected ^(a)</u>	2014	<u>2013</u>	2015	<u>2014</u>
Business Performance Excellence		\$ -	\$ -	\$ 3,574	#VALUE!	\$ 3,785	5.9%
Communications & Public Affairs		-	-	2,553	#VALUE!	2,688	5.3%
Finance & Accounting		-	-	32,141	#VALUE!	31,532	(1.9%)
Human Resources		-	-	7,491	#VALUE!	7,848	4.8%
Information Management		-	-	55,173	#VALUE!	51,137	(7.3%)
Procurement		-	-	5,317	#VALUE!	5,469	2.9%
Legal	-	-	-	16,569	#VALUE!	17,276	4.3%
Records		-	-	1,164	#VALUE!	1,220	4.8%
Internal Audit	-	-	-	2,160	#VALUE!	2,316	7.2%
NMP-2 Oversight		-	-	516	#VALUE!	553	7.2%
Facilities Management	-	-	-	26,221	#VALUE!	26,474	1.0%
Security	-	-	-	4,769	#VALUE!	5,349	12.1%
Capitalized A&G		-	-	(11,158)		(11,465)	2.8%
Recapture Synergies		-	-	-		(25,000)	
Total Business Services Operating Expenses	\$ -	\$ -	\$ -	\$ 146,491	#VALUE!	\$ 119,183	(18.6%)

PSEG-LI - Energy Efficiency & Renewable Energy Programs
(Thousands of Dollars)

	2012 Actual	2013 Approved Projected ^(a)		Proposed 2014	% Chg. From Approved 2013	Preliminary 2015	% Chg. From Proposed 2014
Expenses Recoverable Under ELI Tariff and RGGI Funding							
Efficient Products	\$ 13,926	\$ 15,323	\$ 16,934	\$ 14,664	(4.3%)	\$ 14,514	(1.0%)
HPwES	4,357	3,154	1,661	986	(68.7%)	937	(5.0%)
HPD	2,090	2,859	2,575	3,370	17.9%	3,033	(10.0%)
Cool Homes	5,299	7,952	7,684	7,407	(6.9%)	7,037	(5.0%)
REAP	3,144	5,846	3,085	2,820	(51.8%)	2,820	0.0%
Residential New	1,832	3,031	1,068	520	(82.9%)	395	(24.0%)
Commercial	47,396	44,961	45,961	42,705	(5.0%)	41,705	(2.3%)
Renewables	20,358	30,473	31,884	11,149	(63.4%)	8,975	(19.5%)
Residential Demand Response	-	-	-	-		1,250	
Commercial Demand Response	-	-	-	-		1,000	
Total Efficiency and Renewables O&M Expenses	\$ 98,403	\$ 113,599	\$ 110,851	\$ 83,620	(26.4%)	\$ 81,665	(2.3%)
Consulting	323	400	429	250	(37.5%)	200	(20.0%)
G&A	95	521	216	498	(4.3%)	513	3.0%
Information Technology	576	450	450	350	(22.2%)	350	0.0%
Labor	1,187	1,271	1,183	7,260	471.0%	7,478	3.0%
Total Expenses Recoverable Under ELI Tariff and RGGI Funding	\$ 100,583	\$ 116,241	\$ 113,129	\$ 91,978	(20.9%)	\$ 90,206	(1.9%)
Expenses Not Recoverable Under ELI Tariff or RGGI Funding							
LIPA Edge	1,448	2,005	2,112	1,532	(23.6%)	1,532	0.0%
R&D	1,806	1,794	1,785	500	(72.1%)	500	0.0%
Total Expenses Not Recoverable Under ELI Tariff or RGGI Funding	\$ 3,254	\$ 3,799	\$ 3,897	\$ 2,032	(46.5%)	\$ 2,032	0.0%
Total Efficiency & Renewables Program Expenses	\$ 103,837	\$ 120,040	\$ 117,026	\$ 94,010	(21.7%)	\$ 92,237	(1.9%)

PSEG-LI - Energy Efficiency & Renewable Energy Programs

Capital Expenditures

(Thousands of Dollars)

external financing

	Actual 2012	Approved 2013	Projected 2013	Proposed 2014	% Chg. From Approved 2013	Preliminary 2015	% Chg. From Proposed 2014
Transmission Projects							
Transmission Interconnections-New Power Plants (Major Capital)	\$ 1,465	\$ 25	\$ 128	\$ 26,128	104412.4%	\$ 21,761	(16.7%)
Nassau Substations and Lines (Major Capital)	30,862	34,887	31,676	40,083	14.9%	53,291	33.0%
Western Suffolk Substations and Lines (Major Capital)	16,773	4,254	7,956	6,007	41.2%	28,527	374.9%
Eastern Suffolk Substation and Lines (Major Capital)	17,588	37,984	55,796	26,298	-0.31%	4,300	(83.6%)
Other Transmission (Routine Capital)	18,703	12,291	14,646	4,741	-61.4%	6,744	42.2%
Other Transmission (Major Capital)	-	-	-	-		-	
Total Transmission Projects	\$ 85,391	\$ 89,441	\$ 110,203	\$ 103,257	15.4%	\$ 114,623	11.0%
Distribution Projects							
Substations (Major Capital)	\$ 6,850	\$ 9,932	\$ 9,469	\$ 13,359	34.5%	\$ 17,127	28.2%
Substations (Routine Capital)	13,670	9,999	27,739	12,247	22.5%	9,909	(19.1%)
Electric Lines-New Customer Load (Routine Capital)	20,131	22,794	17,874	24,578	7.8%	24,998	1.7%
Electric Lines-Other (Routine Capital)	70,898	85,999	87,458	81,245	-5.5%	92,212	13.5%
Storm Hardening Initiative (Routine Capital)	7,027	3,000	3,541	5,800	93.3%	6,120	5.5%
Purchase and Install Meters/Transformers (Routine Capital)	34,223	33,985	32,321	26,535	-21.9%	29,588	11.5%
Public Works	7,298	6,688	4,155	5,736	-14.2%	7,891	37.6%
Other Distribution (Routine Capital)	851	1,280	665	617	-51.8%	629	2.0%
Total Distribution Projects	\$ 160,947	\$ 173,677	\$ 183,222	\$ 170,117	-2.0%	\$ 188,472	10.8%
Project Funding for Emerging Work and Land Acquisitions	787	5,394	614	5,414	0.4%	1,000	(81.5%)
Cost-Sharing and Other Contributions	(7,214)	(6,482)	(22,675)	(6,367)	-1.8%	(6,495)	2.0%
Total Transmission and Distribution Projects	\$ 266,684	\$ 262,030	\$ 271,364	\$ 272,421	4.0%	\$ 297,600	9.2%
Customer Operations Projects				8,192	#DIV/0!	9,905	20.9%
Information Technology Projects	19,559	14,281	2,428	94,436	561.3%	47,462	(49.7%)
Other General Plant Projects				7,554	#DIV/0!	3,338	(55.8%)
Capitalized G&A Costs				11,158	#DIV/0!	11,560	3.6%
Total Capital Expenditures	\$ 259,470	\$ 269,988	\$ 273,793	\$ 393,761	45.8%	\$ 369,866	(6.1%)
Power Supply Management	\$ 71	\$ 745	\$ 44	-		\$ 503	

Note:

Projected 2013 is based on 8+4 forecast data provided by NGrid. They have indicated that they expect material changes when the September forecast is completed

PSEG-LI - Energy Efficiency & Renewable Energy Programs
Capital Expenditures
 (Thousands of Dollars)

No External Financing

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31.07 MW Commercial
16.05 MW Efficient Products
2.58 MW Other Residential
6.27 MW Renewables
4.36 MW Cool Homes

