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DISCUSSION MATERIALS

# New York Power Authority

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# I Situation Overview & Executive Summary

# Overview of Strategic Assessment Process to Date

| | |
|---|---|
| DEFINED OBJECTIVES | ■ Defined the principal objectives for the Strategic Assessment with respect to the Long Island electric T&D system (the "T&D System")<br>■ Identified "threshold requirements" for potential solutions to be deemed worth further study |
| GATHERED INFORMATION | ■ Requested and reviewed information relevant to the current situation impacting the T&D System<br>■ Reviewed precedent analyses of LIPA from NYPA, LIPA's consultants and others<br>■ Conducted interviews and working sessions with relevant parties and consultants (the representatives of New York State, NYPA, LIPA, Hawkins, Orrick, PFM, Brattle Group, etc.)<br>■ Synthesized relevant information relating to LIPA's business, assets and liabilities and the political, legislative and regulatory antecedents of potential solutions |
| ANALYZED STRATEGIC ALTERNATIVES | ■ Consulted with NYPA, its advisors (Hawkins, PFM, Orrick) and the representatives of New York State to identify the core issues impacting the T&D System and the universe of potential solutions<br>■ Conducted quantitative and qualitative analysis to evaluate the key drivers of, and their impact on, the T&D System<br>■ Distilled the universe of potential solutions for the T&D System to five specific alternatives<br>■ Evaluated the benefits, considerations and key implementation issues for each alternative |
| DEBT ANALYSIS | ■ Worked with PFM to identify outstanding debt amounts and schedules<br>■ Conducted bond defeasance/swap breakage analysis based on current market interest rates<br>■ Incorporated debt defeasance analysis into broader valuation/transaction structuring analysis |
| PRELIMINARY RECOMMENDATION | ■ Recommend the privatization of LIPA via a sale of the T&D System to a new owner as the preferred solution<br>▪ Recommend the complete outsourcing of management/operations of the T&D System to a third-party operator be considered as a contingency plan |
| CRITICAL PATH OPEN ISSUES | ■ Incorporate the feedback of NYPA, its advisors and the representatives of New York State<br>■ Evaluate the legal and structuring mechanics of the privatization solution, including identifying critical path items needed for successful execution<br>■ Understand the relevant political considerations and legislative requirements of a privatization<br>■ Further refine the economic cost/benefit analysis of privatization vs. other potential solutions |








# Objectives and Solutions for the T&D System

| | PROPOSED OBJECTIVES |
|---|---|
| ORGANIZATIONAL COHERENCE | ■ Deliver a structure/solution that provides for integrated management, planning and operations of the T&D System |
| ACCOUNTABILITY | ■ Deliver a structure/solution that holds the T&D System accountable in a manner that is consistent with other New York State utilities—i.e., via PSC regulation and oversight |
| ASSETS/RATES | ■ Determine a permanent ownership structure for the T&D System that enables the lowest costs possible given the need for safety, reliability and service levels consistent with those demanded of other utilities in New York State Balance |
| ALLOCATION OF COSTS/LIABILITIES | ■ Determine a fair allocation of the costs/liabilities necessary to achieve these objectives among the system's stakeholders, taking into account both existing obligations and expenditures necessary to achieve the objectives |
| ENVIRONMENTAL | ■ Planning and operation of the T&D System with the same environmental standards and objectives demanded of other utilities in New York State |
| ECONOMIC DEVELOPMENT & JOBS | ■ Provide a stable, high-quality T&D System as a critical component of the infrastructure needed for economic development and jobs growth on Long Island and for the broader benefit of New York State |
| STORM RECOVERY | ■ Facilitate medium-term recovery from Sandy |

# What are the Problems with the Current LIPA Situation?

**CURRENT LIPA**


**FUTURE LONG ISLAND ELECTRIC T&D SYSTEM**



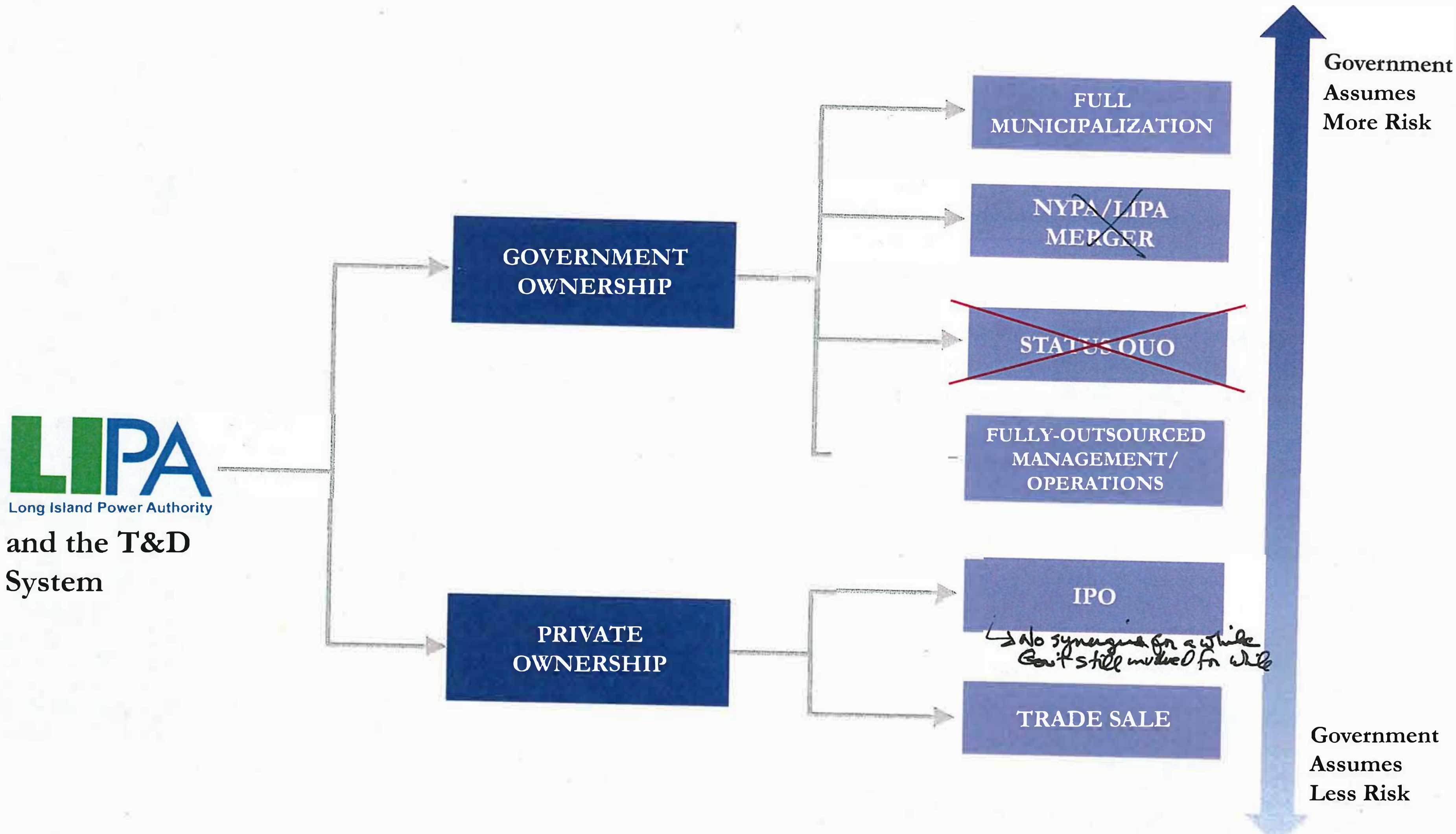




# How Does LIPA Compare to Other New York Investor-Owned Utilities?

| | LIPA | OTHER NY INVESTOR-OWNED UTILITIES |
|---|---|---|
| OWNERSHIP/ OPERATION | ■ Separation of ownership and operations<br>■ Limited expertise in managing large-scale utility | ■ Integrated ownership and operations<br>■ Substantial expertise in managing large-scale utilities |
| RATE-SETTING MECHANISM | ■ Authorized to set its own rates<br>■ Extensive body of jurisprudence<br>■ Any increase greater than 2.5% in a 12-month period requires PSC approval | ■ Rates set by PSC based on cost of service and well-established ratemaking process |
| POWER PROCUREMENT | ■ Power supply mix is a function of cost objectives and self-implemented, self-supervised policy objectives (e.g., reserve margins, renewables, energy efficiency)<br>■ Limited to no expertise in power procurement— procurement essentially managed by external consultants | ■ Power supply mix is a function of least-cost objectives and State/PSC-defined policies<br>■ Expertise in power procurement—procurement managed by in-house professionals |
| CAPITAL STRUCTURE | ■ 100% tax-exempt debt financed<br>■ Absence of equity/ownership provides little incentive for efficiencies<br>■ Approximately $3 billion of liabilities in excess of its net PP&E—would be insolvent absent ratemaking authority<br>■ Shoreham debt burden driving rate pressure | ■ Financed by taxable debt and shareholder equity<br>■ Presence of equity/ownership provides incentives for efficiencies<br>■ Sustainable, investment-grade capital structure |
| RESOURCE/ CAPITAL ALLOCATION | ■ Resource/capital planning separate from operations<br>■ Resource/capital allocation decisions made by LIPA staff, with dependence on external consultants<br>■ Limited control or integration of capital/resource planning | ■ Resource planning functions are integrated with operational functions and capital allocation decisions<br>■ Resource/capital allocation decisions made and implemented by in-house professionals |
| CUSTOMER SERVICE | ■ Provided by third party; limited control/flexibility<br>■ Customer dissatisfaction peaking post Sandy | ■ Core function of integrated utilities—generally managed by in-house professionals; full control/flexibility |
| MANAGEMENT/ GOVERNANCE | ■ Politically-appointed Board of Trustees<br>■ Employee recruitment/retention challenges related to compensation limits and other factors<br>■ Complex decision-making/implementation process, burdened by myriad oversight procedures (e.g., Attorney General approvals, Comptroller, etc.) | ■ Shareholder-elected Board of Directors with relevant utility and/or business expertise<br>■ Freedom to compensate employees and Board members at competitive levels<br>■ Decision-making ultimately subject to PSC oversight |

# Strategic Organizational Alternatives for LIPA and the T&D System[(a)]




(a) Alternatives are not mutually exclusive in all respects.







# Executive Summary and Principal Initial Recommendations

1. **The status quo is untenable**

2. **LIPA's fundamental organizational and accountability issues should be resolved by placing the T&D System under PSC regulation and oversight, ensuring that it is held accountable in the same manner as all other utilities in New York State**

3. **Further governmental consolidation—through full municipalization, a NYPA/LIPA merger or otherwise—would not address key objectives for the T&D System**
   - No integration of management, planning and operations
   - Accountability issue unresolved

4. **Privatization via sale of the T&D System to a new owner would address the key objectives**
   - Importantly, a unique window of opportunity (supported by historically-low interest rates) may exist to implement a privatization as a permanent solution to the T&D System with a moderate benefit for ratepayers
   - Complete outsourcing of management/operations (i.e., LIPA becomes "one person at a desk") should be studied as a contingency plan

5. **There is likely a significant role for NYPA to play in transaction execution and the implementation of a permanent solution**

6. **New York State should begin implementing a communications strategy that is supportive of its desired outcome, including focusing on a positive business environment for New York State utilities**

7. **The preliminary recommendations herein require additional refinement and detailed implementation planning**

***Recommendation: Detailed study of the privatization solution to identify implementation steps in detail and then execute as merited***

# II Analysis of Strategic Alternatives

# Summary Assessment of Alternatives[(a)]

| | POTENTIAL TO REDUCE RATES | INTEGRATES MANAGEMENT, PLANNING & OPERATIONS | PROVIDES INSTITUTIONAL STABILITY | IMPROVES ACCOUNTABILITY | REFORMS RATEMAKING AUTHORITY | RESOLVES BOARD/ EMPLOYEE RECRUITMENT & RETENTION CHALLENGES | IMPROVES APPROVAL PROCESS AND ORGANIZATIONAL COMPLEXITY |
|---|---|---|---|---|---|---|---|
| STATUS QUO | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |
| FULL MUNICIPALIZATION | ✗ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ |
| NYPA/LIPA MERGER | ✗ | ✗ | ✓ | ✗ | ✗ | ✗ | ✗ |
| FULLY-OUTSOURCED MANAGEMENT/ OPERATIONS | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✗ |
| IPO | ✗ | ✓ | ✗ | ✓* | ✓ | ✗ | ✗ |
| TRADE SALE | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

[ ] Indicates alternative meriting further consideration based on preliminary analysis.
* Assumes full sale of LIPA shares to public shareholders; ability to meet certain objectives may be compromised if State retains majority or minority share ownership.
(a) Alternatives are not mutually exclusive in all respects.






# Government Ownership—Status Quo

| | |
|---|---|
| DESCRIPTION | **No change to current arrangement on Long Island, with the hope that increased oversight through existing channels is sufficient to meet proposed objectives of the T&D System** |
| WHO OWNS THE SYSTEM ASSETS? | The Long Island Power Authority (a political subdivision of the State of New York) |
| WHO MANAGES AND REGULATES THE SYSTEM? | Managed by third-party operator (i.e., National Grid, transitioning to PSEG in 2014)<br>LIPA's management role expanding under new PSEG agreement<br>LIPA self-regulates the system |
| HOW IS THE SYSTEM FINANCED? | Tax-exempt debt issued by LIPA |
| WHAT HAPPENS TO THE EXISTING DEBT? | All existing LIPA debt remains in place ($6.9 billion) |

**BENEFITS**

- ✓ Historical cost advantage of capital structure comprised of 100% tax-exempt debt—cost advantage unclear in current markets
- ✓ Avoids debt defeasance/breakage costs
- ✓ Labor structure in place; transition to PSEG underway
- ✓ Managing power supply with emphasis on renewables and efficiency

**CONSIDERATIONS**

- ✗ Disconnected management, planning and operations
- ✗ No control or accountability
- ✗ Poor historical performance makes forecasted revenue requirements highly questionable
- ✗ Substantial operating and political risks borne by State
- ✗ Complex/dysfunctional decision-making and approval process
- ✗ Conflicting political and economic interests
- ✗ Limited to no ability to identify/offer system enhancements
- ✗ Absence of equity/ownership provides little incentive for efficiencies
- ✗ Substantial employee retention and recruitment risks/challenges
- ✗ Operating contract unable to anticipate and address all potential issues

***Status quo has no potential to meet key objectives and is certain to be a source of ongoing dysfunction***

# Government Ownership—Full Municipalization of LIPA

| | |
|---|---|
| DESCRIPTION | **LIPA (or newly-formed State-Owned Utility) assumes direct responsibility, management and operation of the T&D System** |
| WHO OWNS THE SYSTEM ASSETS? | LIPA (or newly-formed State-Owned Utility) |
| WHO MANAGES AND REGULATES THE SYSTEM? | LIPA (or newly-formed State-Owned Utility)<br>Regulated by PSC or LIPA (or newly-formed State-Owned Utility) |
| HOW IS THE SYSTEM FINANCED? | Tax-exempt debt issued by LIPA (or newly-formed State-Owned Utility) |
| WHAT HAPPENS TO THE EXISTING DEBT? | All existing LIPA debt remains in place ($6.9 billion) |

## BENEFITS

- ✓ Potentially improves decision-making process
- ✓ Potentially improves ability to identify/offer system enhancements
- ✓ Historical cost advantage of capital structure comprised of 100% tax-exempt debt—cost advantage unclear in current markets
- ✓ Avoids debt defeasance/breakage costs

## CONSIDERATIONS

- ✗ No control or accountability
- ✗ Poor historical performance makes forecasted revenue requirements highly questionable
- ✗ No relevant management experience/expertise
- ✗ Substantial operating and political risks borne by State
- ✗ Expansion of State workforce and role in Long Island energy markets
- ✗ Complex/dysfunctional decision-making and approval process
- ✗ Conflicting political and economic interests
- ✗ Further burden on State budgets
- ✗ Inability to capture synergies (O&M, fuel purchasing, capex, etc.) relative to trade sale
- ✗ Practical limitations (e.g., employee hiring, procurement restrictions) and start-up risks of assuming full control
- ✗ Substantial employee retention and recruitment risks/challenges
- ✗ Absence of equity/ownership provides little incentive for efficiencies
- ✗ Structure would be counter to rest of State and nearly the entire U.S. Electric Industry

***Full municipalization does not meet key objectives***







# Government Ownership—NYPA/LIPA Merger

| | |
|---|---|
| DESCRIPTION | **New York Power Authority ("NYPA") assumes the direct responsibility, management and operation of the T&D System** |
| WHO OWNS THE SYSTEM ASSETS? | NYPA (a political subdivision of the State of New York) |
| WHO MANAGES AND REGULATES THE SYSTEM? | NYPA (a political subdivision of the State of New York)<br>Regulated by the PSC or NYPA self-regulates the system[(a)] |
| HOW IS THE SYSTEM FINANCED? | Tax-exempt debt issued by NYPA or LIPA |
| WHAT HAPPENS TO THE EXISTING DEBT? | All existing LIPA debt remains in place ($6.9 billion) |

## BENEFITS

- ✓ Potentially improves decision-making process
- ✓ Potentially improves ability to identify/offer system enhancements
- ✓ Ability to capture some synergies (O&M, fuel purchasing, capex, etc.) relative to trade sale
- ✓ Historical cost advantage of capital structure comprised of 100% tax-exempt debt—cost advantage unclear in current markets
- ✓ Avoids debt defeasance/breakage costs
- ✓ Efficiency gains from government agency consolidation

## CONSIDERATIONS

- ✗ No integration of management, planning and operations
- ✗ Accountability issue unresolved
- ✗ Substantial operating and political risks borne by State
- ✗ Expansion of State workforce and role in Long Island energy markets
- ✗ Complex/dysfunctional decision-making and approval process
- ✗ Conflicting political and economic interests
- ✗ Further burden on State budgets
- ✗ Inability to capture full synergies (O&M, fuel purchasing, capex, etc.) relative to trade sale
- ✗ Practical limitations (e.g., employee hiring) of NYPA absorbing LIPA
- ✗ Relevant experience/expertise uncertain (e.g., expertise in operating a T&D system)
- ✗ Absence of equity/ownership provides little incentive for efficiencies
- ✗ Structure would be counter to rest of State and nearly the entire U.S. Electric Industry

***NYPA/LIPA merger not does not meet key objectives***

(a) The surviving entity of a NYPA/LIPA merger would likely need rate setting authority to keep LIPA's debt outstanding under its credit documentation.

# Government Ownership—Fully-Outsourced Management/Operations

| | |
|---|---|
| DESCRIPTION | **Evolution of current arrangement on Long Island—third-party operator assumes all of LIPA's management and operational functions; PSC assumes regulatory and contract management responsibilities** |
| WHO OWNS THE SYSTEM ASSETS? | The Long Island Power Authority (a political subdivision of the State of New York) |
| WHO MANAGES AND REGULATES THE SYSTEM? | Managed entirely by third-party operator (e.g., National Grid, PSEG, ConEd)<br>LIPA's role limited solely to serving as a tax-exempt conduit (i.e., no management/planning/operations functions retained)<br>Regulated by the PSC |
| HOW IS THE SYSTEM FINANCED? | Tax-exempt debt issued by LIPA[(a)] |
| WHAT HAPPENS TO THE EXISTING DEBT? | All existing LIPA debt remains in place ($6.9 billion) |

### BENEFITS

- ✓ Integrates management, planning and operations
- ✓ Resolves accountability issue
- ✓ Improves (relative to status quo) ability to identify/offer system enhancements
- ✓ Historical cost advantage of capital structure comprised of 100% tax-exempt debt—cost advantage unclear in current markets
- ✓ Avoids debt defeasance/breakage costs
- ✓ Improves decision-making process
- ✓ Many precedents in government concession agreements and PPPs (e.g., Indiana Toll Road)

### CONSIDERATIONS

- ✗ Potentially less economic than private ownership solution
- ✗ Relative to private ownership solution, does not provide "clean slate" for the T&D System
- ✗ Operating and political risks still ultimately borne by State
- ✗ Potential for conflicting political and economic interests between owner (State) and manager
- ✗ Difficult for contract to anticipate and address all potential issues
- ✗ Creates new organizational complexities
- ✗ Limited successful precedent examples in the public utility context
- ✗ Absence of pure equity/ownership provides limited incentive for efficiencies
- ✗ Execution risks

***Fully-outsourced management/operations may merit further consideration as a contingency plan***

(a) Depending on what happens to ratemaking authority, this alternative could require legislation or bondholder consents.






# Private Ownership—IPO

| | |
|---|---|
| DESCRIPTION | **Sale of the T&D System to the public, creating a new Investor-Owned Utility; residual LIPA liabilities (e.g., Shoreham debt) retired over 30-year period via securitization charge** |
| WHO OWNS THE SYSTEM ASSETS? | Public shareholders of the Investor-Owned Utility<br>State may retain majority or minority stake in Investor-Owned Utility, depending on market capacity and State objectives |
| WHO MANAGES AND REGULATES THE SYSTEM? | Managed by Investor-Owned Utility<br>Regulated by the PSC |
| HOW IS THE SYSTEM FINANCED? | T&D System financed via traditional Investor-Owned Utility capital structure (e.g., 55/45 debt-to-equity ratio)<br>Residual LIPA debt either remains in place or is refinanced in its entirety, and serviced via securitization charge in either case |
| WHAT HAPPENS TO THE EXISTING DEBT? | Partial or full defeasance |

### BENEFITS

- ✓ Improves decision-making process
- ✓ Integrates management, planning and operations
- ✓ Resolves accountability issue
- ✓ Improves ability to identify/offer system enhancements
- ✓ Sustainable capital structure
- ✓ Equity capital provides incentives for efficiencies

### CONSIDERATIONS

- ✗ Inferior to other private ownership option (trade sale) in all relevant respects
- ✗ Inability to capture synergies (O&M, fuel purchasing, capex, etc.) relative to trade sale
- ✗ Substantial practical limitations (e.g., employee hiring, establishing track record, etc.) and other start-up risks of creating stand-alone utility from scratch
- ✗ IPO discount would reduce value/increase costs
- ✗ Substantial execution risks
- ✗ Debt defeasance/breakage costs
- ✗ State-level and local political support unclear
- ✗ Cost of capital impact unclear
- ✗ Risks of potential ongoing State ownership

***Privatization via IPO does not meet key objectives and is not practicable***

# Private Ownership—Trade Sale

| | |
|---|---|
| **DESCRIPTION** | **Sale/privatization of the T&D System to an existing Investor-Owned Utility; residual LIPA liabilities (e.g., Shoreham debt) retired over 30-year period via securitization charge** |
| **WHO OWNS THE SYSTEM ASSETS?** | Investor-Owned Utility (note: many existing Investor-Owned Utilities would be interested in acquiring an appropriately-structured T&D System) |
| **WHO MANAGES AND REGULATES THE SYSTEM?** | Managed by Investor-Owned Utility<br>Regulated by the PSC |
| **HOW IS THE SYSTEM FINANCED?** | T&D System financed via traditional Investor-Owned Utility capital structure (e.g., 55/45 debt-to-equity ratio)<br>Residual LIPA debt either remains in place or is refinanced in its entirety, and serviced via securitization charge in either case |
| **WHAT HAPPENS TO THE EXISTING DEBT?** | Partial or full defeasance |

## BENEFITS

- ✓ Potential to implement a permanent T&D System solution with a moderate benefit for ratepayers
- ✓ Integrates management, planning and operations
- ✓ Resolves accountability issue
- ✓ Improves decision-making process
- ✓ Improves ability to identify/offer system enhancements
- ✓ Synergies (O&M, fuel purchasing, capex, etc.)
- ✓ Professional management and industry experience
- ✓ All operating risks transferred from the State to private entity
- ✓ Sustainable capital structure—provides clear path to defeasance of Shoreham debt
- ✓ Equity capital provides incentives for efficiencies
- ✓ Strong successful precedents—structure would be consistent with rest of State and nearly the entire U.S. Electric Industry
- ✓ Ends transitional role of LIPA as originally contemplated

## CONSIDERATIONS

- × Equity capital more expensive than 100% debt-financed structure
- × Introduces cost of corporate income taxes
- × Debt defeasance/breakage costs
- × Execution complexities
- × State-level and local political support unclear
- × Cost of capital impact unclear

***Privatization via trade sale is the recommended/preferred solution***

# III Potentially Actionable Solutions

# Potentially Actionable Solutions—Organizational Comparison

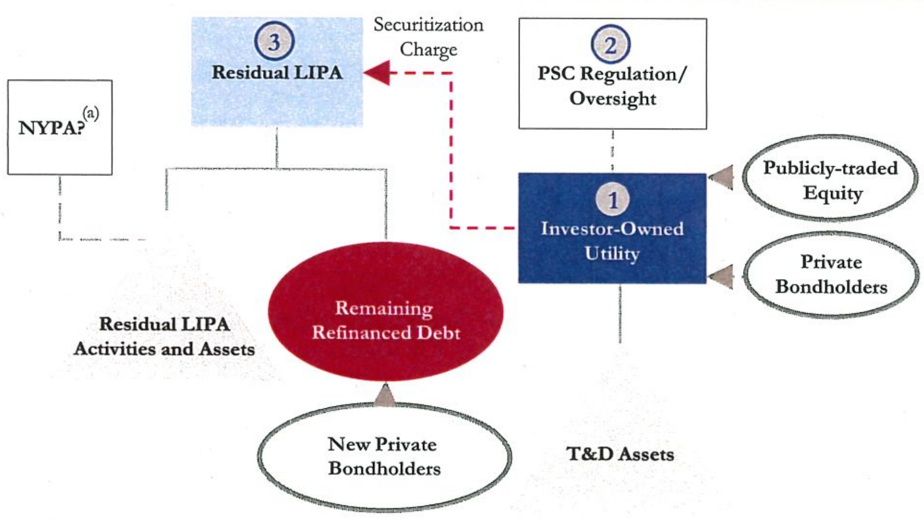
## PRIVATIZATION—TRADE SALE

1. Investor-Owned Utility acquires T&D System
   - Sale proceeds are applied to LIPA debt
   - Excess LIPA debt refinanced via securitization
   - T&D System financed via traditional Investor-Owned Utility capital structure (e.g., 55/45 debt-to-equity ratio)
2. PSC assumes regulatory and ratemaking authority over T&D System
3. Residual LIPA consists of remaining debt, activities and assets
   - Securitization charge services LIPA's remaining refinanced debt

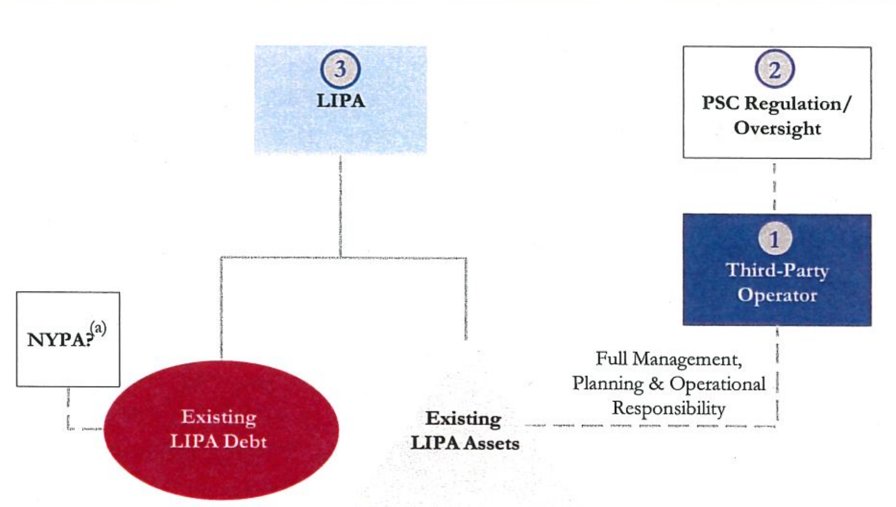
## CONTINGENCY PLAN: FULLY-OUTSOURCED MANAGEMENT/OPERATIONS

1. Third-party operator integrates LIPA and assumes full management, planning and operational responsibility over long term
2. PSC assumes regulatory and ratemaking authority over T&D System and third-party operator
3. LIPA continues to own the T&D System, but is reduced to a vestigial entity—i.e., "one person at a desk"
   - LIPA assigns full management, planning and operational responsibility over to a third-party operator
   - All existing LIPA debt remains in place ($6.9 billion)
   - T&D System continues to be financed via tax-exempt debt, with LIPA serving as tax-exempt conduit issuer

### ORGANIZATIONAL STRUCTURE




### ORGANIZATIONAL STRUCTURE




(a) NYPA could potentially facilitate either solution, including by assuming various LIPA capital leases relating to power supply contracts, managing LIPA's Nine Mile Point 2 interest or administering LIPA's energy efficiency programs.

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III POTENTIALLY ACTIONABLE SOLUTIONS

# Potentially Actionable Solutions—Illustrative Analytical Comparison

($ in millions)

| | | PRIVATIZATION: FULL REFINANCING | PRIVATIZATION: RESIDUAL BONDS REMAIN OUTSTANDING | FULLY-OUTSOURCED MANAGEMENT/OPERATIONS |
|---|---|---|---|---|
| KEY ASSUMPTIONS | O&M Synergies | $125 | $125 | $0 |
| | Fuel and Purchased Power Synergies | $125 | $125 | $50 |
| | Capex Synergies (% Reduction) | 10.0% | 10.0% | 0.0% |
| | Property Tax Reduction (PILOTS/PSA) | $50 ← ~10% | $50 | $25 |
| | Section 18 Assessment Relief | $33 | $33 | $33 |
| NET ECONOMIC COST OF DEFEASANCE | Debt Defeasance/Breakage Costs | $1,736 (a) | $1,119 | $0 |
| | Less: Economic Benefit from Refinancing | (825) | (672) | 0 |
| | Less: Other Economic Benefits from Ending Shoreham Debt Burden | ? | ? | 0 |
| | Net Economic Cost of Debt Defeasance | $911 | $447 | $0 |
| SOURCES | T&D System Sale Proceeds(b) | $4,419 1.2x Rate Base | $4,419 | $0 |
| | NMP2 Sale Proceeds | 0 | 0 | 0 |
| | Section 18 Assessment(c) | 798 thru 2034 (20yrs) | 798 | 798 |
| | Revenue Recovery for Debt Repayment(d) | 2,616 → Securitized on tariff | 2,152 | 6,076 |
| | **Total Sources** | **$7,833** | **$7,369** | **$6,874** |
| USES | LIPA Debt Retired with Sale Proceeds | $4,419 | $4,419 | $0 |
| | Remaining LIPA Debt Outstanding | 2,452 | 2,452 | 6,872 |
| | Net Economic Cost of Debt Defeasance | 911 | 447 | 0 |
| | Transaction Fees | 50 | 50 | 2 |
| | **Total Uses** | **$7,833** | **$7,369** | **$6,874** |

**PROJECTED RATE IMPACT**

| | LIPA Standalone(e) | Full Refinancing: Pro Forma | Full Refinancing: Absolute Difference | Full Refinancing: Difference | Residual Bonds: Pro Forma | Residual Bonds: Absolute Difference | Residual Bonds: Difference | Fully-Outsourced: Pro Forma | Fully-Outsourced: Absolute Difference | Fully-Outsourced: Difference |
|---|---|---|---|---|---|---|---|---|---|---|
| **10-year:** | | | | | | | | | | |
| Rate CAGR | 2.8% | 2.2% | | (0.6%) | 2.4% | | (0.4%) | 2.5% | | (0.3%) |
| Revenue NPV at 5.7%(f) | $33,809 | $32,292 | ($1,517) | (4.5%) | $32,687 | ($1,122) | (3.3%) | $33,299 | ($510) | (1.5%) |
| **30-year:** | | | | | | | | | | |
| Rate CAGR | 2.9% | 2.8% | | (0.1%) | 2.6% | | (0.3%) | 2.8% | | (0.1%) |
| Revenue NPV at 5.7%(f) | $88,346 | $84,679 | ($3,667) | (4.2%) | $84,541 | ($3,805) | (4.3%) | $85,895 | ($2,451) | (2.8%) |

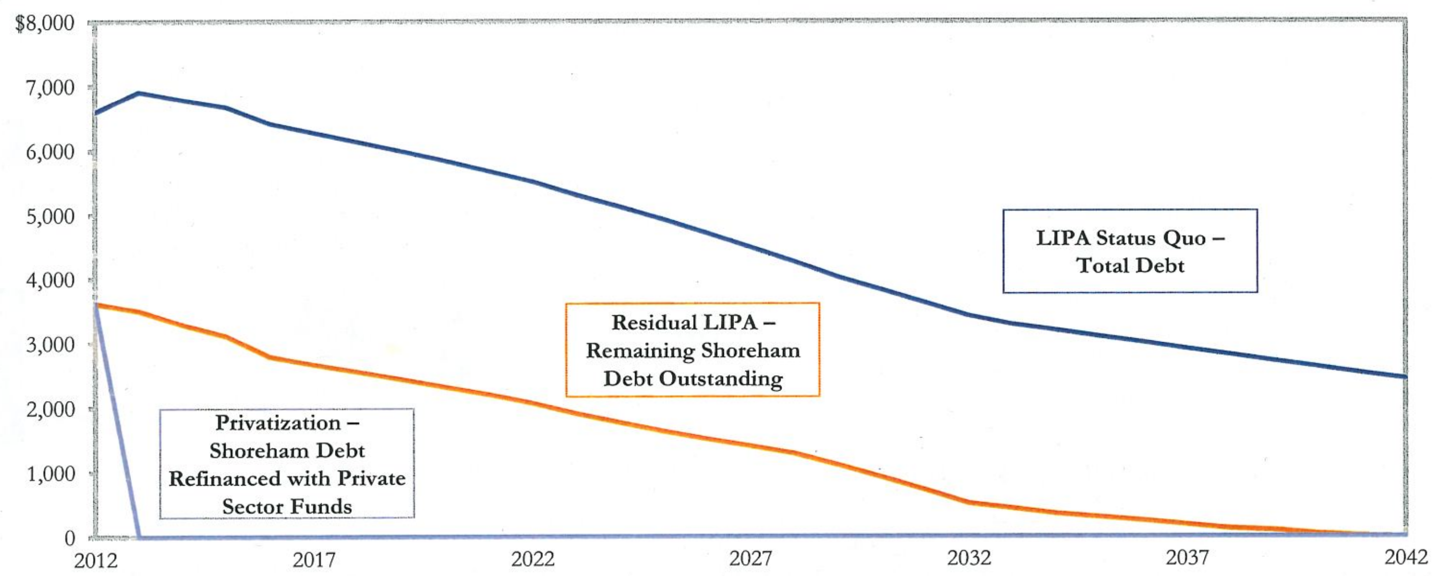
Note: Sandy costs are not included in the current LIPA standalone forecast and therefore not included in the pro forma analysis for comparison purposes.
(a) Assumes $1,325 million in bond defeasance costs, $404 million in swap breakage costs and $7 million in PSEG contract breakage costs are incurred to defease the total outstanding debt amount of $6,872 million.
(b) Sale proceeds include $3,289 million for the book value of the T&D System, $472 million for cash and working capital and a purchase price premium of $658 million (based on a fundamental valuation).
(c) NPV of total amount of Section 18 Assessment redirected over 30-year period.
(d) Remaining LIPA debt outstanding, net of proceeds from Section 18 Assessment relief, assumed to be recovered in rates over 30-year period.
(e) Assumes LIPA projections accurate and forecasts met, a result inconsistent with historical performance.
(f) 5.7% weighted average cost of capital based on 55% debt-to-equity capital structure, 3.75% cost of debt, 10% cost of equity and 40% tax rate.

New Debt Service 30yr levelized; old debt more front end loaded ∴ NPV Savings

# Repayment of the Shoreham Debt

**($ in millions)**

- **The potential privatization solution would lead to the following impacts:**
  - Immediately reduce the LIPA debt by the amount of the T&D System purchase price
  - Securitization mechanism would ensure, once and for all, that the Shoreham debt would be repaid
  - Replace Government ownership/funding/responsibilities/supervision with private sector accountability and funding
  - Prevent LIPA demand for capital from "crowding out" other uses of New York State's capital markets access
  - Under full refinancing scenario, all Shoreham debt would be eliminated and refinanced with taxable securitization bonds




*Source: LIPA 2012 Budget.*
Note: Based on an illustrative purchase price of $4,419 million (assuming a December 31, 2012 transaction close).





# Other Debt Reduction Strategies

| | BANKRUPTCY/CHAPTER 9 | GOVERNMENT STRATEGIES |
|---|---|---|
| DESCRIPTION | ■ **Bondholders could be forced to absorb some of the Shoreham debt costs via a bankruptcy/Chapter 9 process or a related negotiated settlement**<br>– A transfer of LIPA's ratemaking authority (via legislation or otherwise) to the PSC could serve as the bankruptcy/default-triggering event | ■ **The State of New York could raise revenues to accelerate repayment of the Shoreham debt costs via the following methods:**<br>– Extending the Section 18 Assessment beyond its scheduled expiration in 2014 and redirecting its revenues—in part—to Shoreham debt repayment<br>– Allocating revenues collected for the Systems Benefits Charge<br>– Allocating other general or specified State revenues as part of the budgetary process<br>– Receiving Federal revenues/grants/contributions in connection with disaster recovery, future storm preparation, infrastructure investment and/or broader economic stimulus<br>■ **Alternatively (or in addition), the State of New York could assume a portion of the Shoreham debt** |
| BENEFITS | ■ **Could serve as a way to make the chosen solution more effective (i.e., by relieving rate pressure)** | ■ **Direct financial contributions from the Government would likely be viewed as a strong fulfillment of the Government's commitment to assist storm victims and resolve critical infrastructure issues**<br>■ **Federal contributions would be a source of "found money" that could otherwise accelerate Shoreham debt repayment and provide rate relief** |
| CONSIDERATIONS | ■ **Likely adverse effects on other New York State tax-exempt issuers**<br>■ **Complex/lengthy legal process (although pre-filing agreement with creditors could simplify/accelerate the process)**<br>■ **Substantial political challenges**<br>■ **Ratepayer and other stakeholder receptivity/ response unclear** | ■ **Potential political opportunity cost**<br>■ **Substantial political challenges, especially for strategies that could be viewed as diverting previously-designated revenues**<br>■ **Significant political opposition to debt assumption by the State of New York** |

## What Factors Could Lead to a Further Decrease in Rates Following a Privatization?

**ACQUISITION PREMIUM/ SYNERGIES**

- **Buyer believes it will achieve greater synergies in privatization scenario**
  - Assumes that synergy expectations would lead buyer to pay a further premium to ratebase for the T&D System, and excess proceeds would be applied to debt reduction (thereby reducing the revenue requirement/rates)
  - Assumes that a long-term base rate schedule is fixed at outset
- **Unanticipated synergies could be achieved subsequent to a transaction (i.e., efficiencies above and beyond expectations) that would flow through to reduce revenue requirements/rates**
  - Assumes synergy-related savings flow through to ratepayers via PSC ratemaking process
- **Buyer might pay further premium if generally optimistic about business environment**

**OTHER REVENUE SOURCES/ SUBSIDIES**

- **New York State could allocate certain revenue sources to relieving rate pressure on Long Island**
  - Section 18 Assessment
  - Systems Benefit Charge
  - Other general or specified revenues
- **New York State could assume a portion of the Shoreham debt**
- **Federal Government could provide funding to help stabilize the T&D System**

**BANKRUPTCY STRATEGIES**

- **Debt burden could be reduced via bankruptcy/Chapter 9**

**ASSET SALES**

- **Potential for other LIPA assets to be sold (e.g., NMP2 interest, etc.)**

**REGULATORY STRATEGIES**

- **Potential regulatory strategies (e.g., immediate recoveries, trackers, etc.) could enable the T&D System to be sold at a premium**
- **Rate deferral strategies (reduction in near-term rates supported by higher rates in the future)**

***While a preliminary analysis indicates that a privatization could offer moderate rate benefits, one or more of these factors could lead to additional improvements***







## Potentially Available Solutions—Summary Considerations

**PRIVATIZATION—TRADE SALE**

+ Potential to implement a permanent T&D System solution with little to no impact on ratepayers
+ Resolves accountability issue
+ Integrates management, planning and operations
+ Transfers all operating risks from the State to private entity
+ Improves decision-making process
+ Strong successful precedents—structure would be consistent with rest of State and nearly the entire U.S. Electric Industry
+ Ends transitional role of LIPA as originally contemplated
− Investor-Owned Utility capital structure more expensive than 100% debt-financed structure
− Introduces cost of corporate income taxes
− Debt defeasance/breakage costs

**RECOMMENDED PATH**

**FULLY-OUTSOURCED MANAGEMENT/OPERATIONS**

+ Integrates management, planning and operations
+ Improves (relative to status quo) ability to identify/offer system enhancements
+ Avoids debt defeasance/breakage costs
− Potentially less economic than private ownership solution
− Relative to private ownership solution, does not provide "clean slate" for the T&D System
− Operating and political risks still ultimately borne by State
− Potential for conflicting political and economic interests between owner (State) and manager
− Difficult for contract to anticipate and address all potential issues
− Creates new organizational complexities
− Absence of pure equity/ownership provides limited incentive for efficiencies

**CONTINGENCY PLAN**

# Illustrative Privatization Timeline[a]

INDICATIVE TIMELINE

**PREPARATION & ANALYSIS**

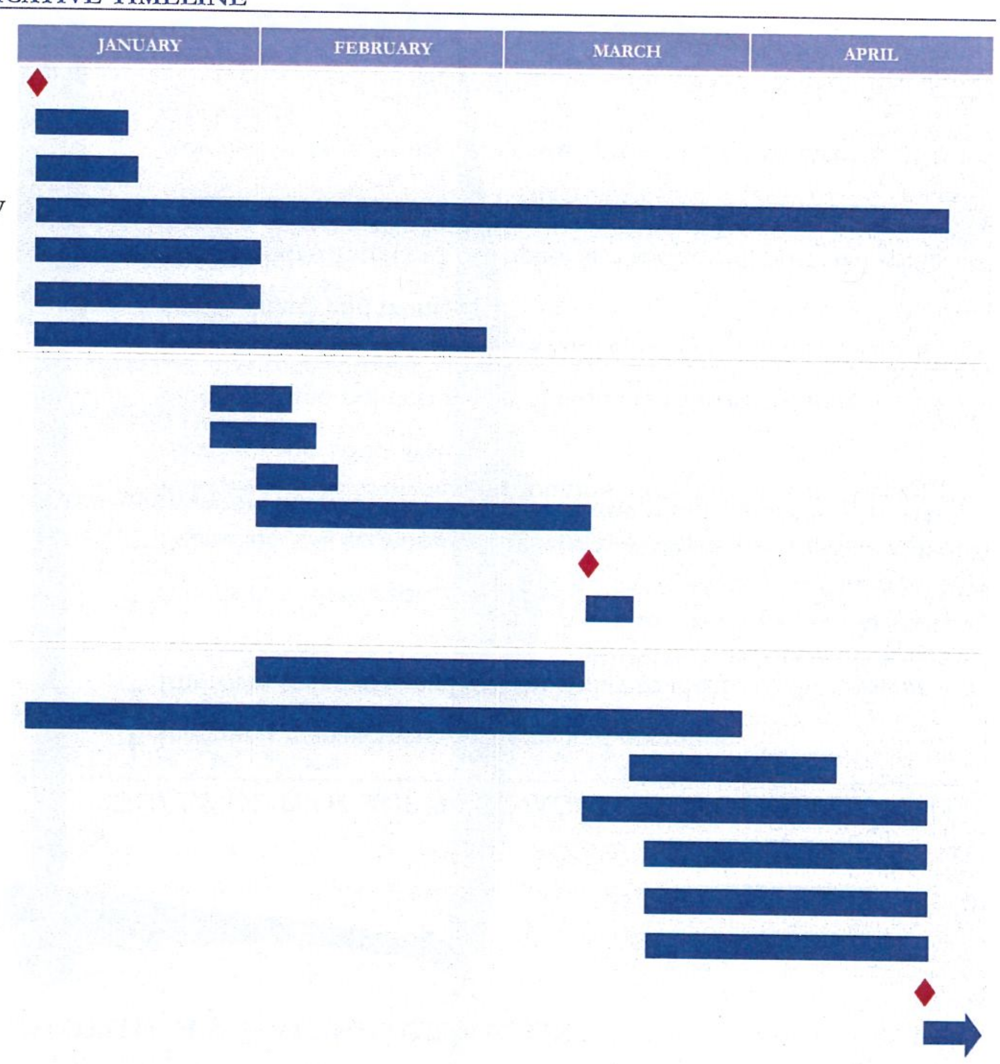
- Decision to proceed with execution
- Develop process strategy[b]
- Refine transaction structure
- Define/implement communications strategy
- Prepare buyer materials[c]
- Prepare data room
- Prepare PSC/regulatory transition

**MARKETING & PRELIMINARY DILIGENCE**

- Contact selected potential buyers
- Sign confidentiality agreements
- Provide materials and data room access
- Buyer evaluation period
- Receive non-binding offers
- Select preferred buyer

**STRUCTURING, DUE DILIGENCE & SIGNING**

- Draft Transaction Documents ("TDs")
- Ongoing structuring analysis
- Ongoing buyer due diligence
- Negotiate TDs
- Buyer-specific regulatory negotiations
- Prepare debt defeasance execution
- Final legal/tax-related documentation
- Sign and announce
- Required transaction approvals




(a) Assumes no material legislative and compliance issues/requirements. Assumes full refinancing of outstanding debt (no bondholder consents required).
(b) Determine selected buyers/scope of buyers and process requirements.
(c) Assemble buyer information pack and documents related to the proposed transaction/process.

# IV Issues for Further Study & Next Steps

# Key Issues for Further Study & Identification

| ISSUE | DESCRIPTION | WORKSTREAM "OWNER(S)" | CONTROLLING/ APPROVING ENTITY |
|---|---|---|---|
| Capital Leases | ■ Determine how capital leases would be treated and where they would reside in a privatization scenario | | ■ IRS<br>■ Auditors<br>■ PPA Counterparties |
| PSC Transition | ■ Determine PSC transition requirements and process for both potential solutions | | ■ PSC |
| T&D System Debt Amount | ■ Calculate updated T&D-related debt amount based on use of proceeds at issuance (update of previous tracing analysis)<br>■ Determine legal/tax requirements | | ■ IRS<br>■ Bondholders |
| Legislative Requirements | ■ Determine legislative requirements for both potential solutions<br>■ Determine process for securitization legislation, key implementation issues and solutions | | ■ Governor's Office<br>■ State Legislature<br>■ PSC |
| Synergies & Property Taxes | ■ Further evaluate synergy and property tax reduction assumptions | | ■ [TBD] |
| Capital Gain Taxes | ■ Evaluate potential capital gain tax consequences for both potential solutions and establish mitigation strategies | | ■ IRS |
| Fully-Outsourced Contract | ■ Further define the fully-outsourced structure/scenario and high-level contract provisions required | | |
| Capital Markets Assumptions | ■ Further refine interest rate, capital structure and credit assumptions<br>■ Test securitization bond structuring assumptions | | |
| NMP2 Value | ■ Estimate value of LIPA's 18% ownership interest in NMP2<br>■ Check ROFR provisions | | |
| Political/Stakeholder Issues | ■ Identify level of political support for each potential solution<br>■ Identify key stakeholders and concerns related to each potential solution | | |
| Operational Transition | ■ Determine viable plan for interim operations of the T&D System | | |






# Next Steps

- **Further evaluate privatization via trade sale**
  - Legal and structuring options
  - Political considerations and legislative requirements
  - Sale process considerations
  - Further refine economic costs/benefits vs. other alternatives
- **Further evaluate fully-outsourced management/operations as contingency plan**
  - Legal and structuring options
    - — NYPA role
    - — Contract parameters
  - Political considerations and legislative requirements
  - Further refine economic costs/benefits vs. other alternatives
- **Reconvene December 20 to provide final recommendations**
  - Recommended solution for final study
  - Recommended implementation process
- **Deliver final study on December 22**
  - Implementation process due diligence
  - External communications materials
  - Ongoing refinement, as needed

# Appendix

# A LIPA-Related Analysis

# LIPA Five-Year Financial Projections—Income Statement

**($ in millions)**

| | 2011A | 2012E | 2013E | 2014E | 2015E | 2016E | Average % of Revenue |
|---|---|---|---|---|---|---|---|
| GWh | 20,313 | 20,614 | 20,820 | 21,028 | 21,239 | 21,451 | |
| **Net Operating Revenues** | **$3,685** | **$3,732** | **$3,842** | **$3,959** | **$4,099** | **$4,334** | **100.0%** |
| Operating Expenses: | | | | | | | |
| Fuel & Purchased Power Costs | $1,744 | $1,663 | $1,687 | $1,745 | $1,834 | $2,022 | 45.2% |
| Operations & Maintenance | 1,149 | 1,035 | 1,078 | 1,119 | 1,152 | 1,200 | 28.5% |
| General & Administrative | 43 | 48 | 51 | 53 | 55 | 57 | 1.3% |
| Depreciation | 156 | 163 | 173 | 185 | 198 | 208 | 4.6% |
| Amortization of Acquisition Adjustm | 111 | 111 | 111 | 111 | 111 | 111 | 2.8% |
| PILOTS and Revenue Tax | 304 | 329 | 354 | 368 | 380 | 393 | 9.0% |
| **Total Operating Expenses** | **$3,507** | **$3,349** | **$3,454** | **$3,580** | **$3,730** | **$3,991** | **91.4%** |
| **Operating Income** | **$178** | **$382** | **$388** | **$379** | **$369** | **$343** | |
| Other Income and Deductions | 170 | 43 | 46 | 47 | 48 | 50 | 1.7% |
| Interest Expense | 331 | 350 | 358 | 351 | 343 | 318 | 8.7% |
| **Net Income** | **$17** | **$75** | **$75** | **$75** | **$75** | **$75** | **1.7%** |

*Source: LIPA 2012 Budget.*

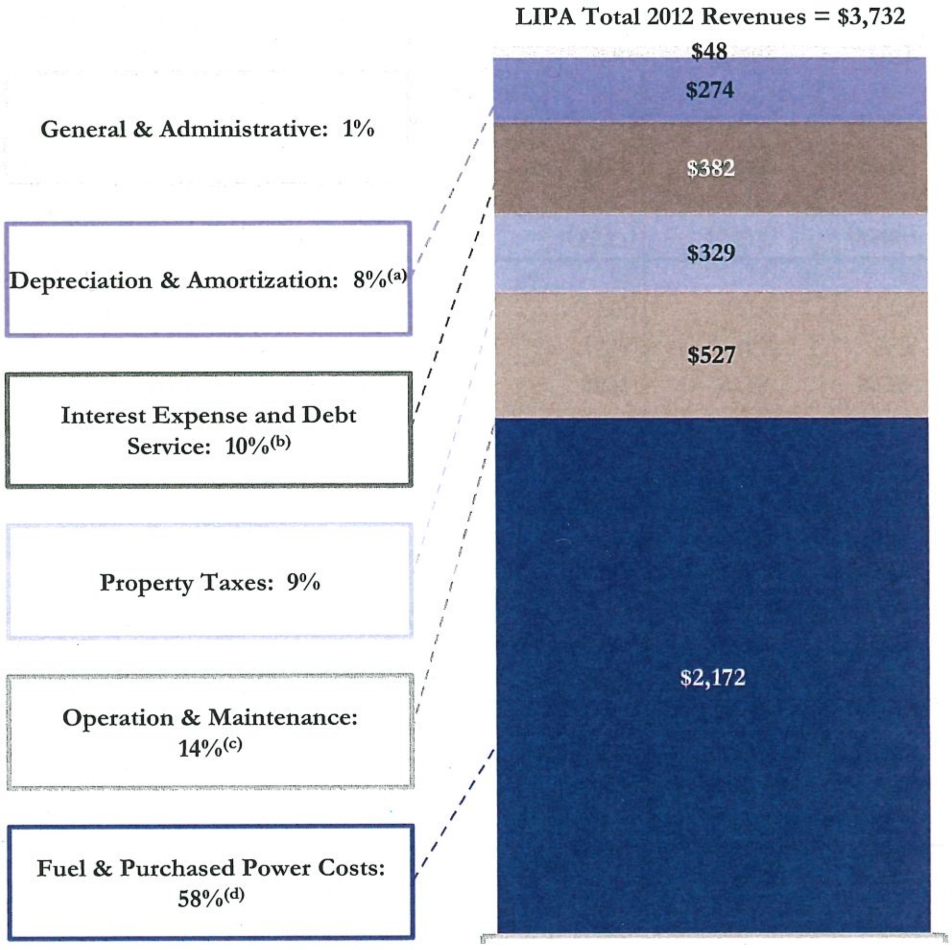






# LIPA Rate Stack Analysis—2012E Total Revenues

**($ in millions)**




*Source: LIPA 2012 Budget.*
(a) Includes depreciation on NMP2 and amortization of acquisition adjustment.
(b) Includes interest expense, other income and excess of revenues over expenses.
(c) Includes T&D property taxes, revenue PILOTs, NYS assessment.
(d) Includes Power Supply O&M and PSA assessment.

# LIPA Credit and Cash Flow Summary

**($ in millions)**

| | 2012E | 2013E | 2014E | 2015E | 2016E |
|---|---|---|---|---|---|
| Excess/(Deficiency) of Revenues Over Expenses | $75 | $75 | $75 | $75 | $75 |
| Plus: Depreciation & Amortization | 274 | 284 | 297 | 309 | 319 |
| Plus: Net Interest Expense | 350 | 358 | 351 | 343 | 318 |
| Plus: Other | (8) | 18 | 50 | 51 | 45 |
| **Operating Cash Available for Debt Service Coverage** | **$691** | **$735** | **$773** | **$778** | **$757** |
| Less: Capital Expenditures | ($321) | ($373) | ($298) | ($321) | ($293) |
| Less: Total Debt Service | (577) | (492) | (580) | (579) | (589) |
| **Net Cash Flow** | **($207)** | **($130)** | **($105)** | **($122)** | **($125)** |
| Issuance/(Repayment) of Commercial Paper | (0) | 307 | 159 | 189 | 56 |
| **Change in Total Funds** | **($208)** | **$178** | **$54** | **$67** | **($69)** |
| | | | | | |
| **Operating Cash Available for Debt Service Coverage** | **$691** | **$735** | **$773** | **$778** | **$757** |
| Less: Senior Lien Debt Service | (556) | (466) | (553) | (551) | (457) |
| Less: Subordinate Debt Service | (14) | (18) | (19) | (19) | (19) |
| Less: Subsidiary Unsecured Debt Service | (8) | (8) | (8) | (8) | (113) |
| **Total Debt Service** | **($577)** | **($492)** | **($580)** | **($579)** | **($589)** |
| | | | | | |
| **Revenue Excess (Deficiency)** | **$114** | **$243** | **$193** | **$200** | **$168** |
| | | | | | |
| **Memo: Coverage Ratios** | | | | | |
| Coverage on Senior Lien Debt | 0.8x | 0.6x | 0.7x | 0.7x | 0.6x |
| Coverage on Senior Lien and Subordinate Debt | 0.2x | 0.1x | 0.1x | 0.1x | 0.4x |
| **Coverage on Total Debt Service** | **0.8x** | **0.7x** | **0.8x** | **0.7x** | **0.8x** |

*Source: LIPA 2012 Budget.*







# LIPA Debt Schedule—2012E Cost of Debt

| | | | Pro Forma 2012E | | | | |
|---|---|---|---|---|---|---|---|
| Series | Type | Maturity | Year-End Principal Outstanding | Average Principal Outstanding | Effective Interest Rate | Expense(a) | Insured |
| **Senior Lien Debt** | | | | | | | |
| 1998A | Capital Appreciation Bonds(b) | 2013-2028 | $137.6 | $147.1 | 5.14% | $7.6 | 100.0% |
| 2000A | Capital Appreciation Bonds(c) | 2013-2029 | 383.3 | 431.7 | 5.10% | 22.0 | 100.0% |
| 2001A | Serial Bonds | 2013-2021 | 0.0 | 0.7 | 4.64% | 0.0 | 0.0% |
| 2003B | Serial Bonds | 2012-2014 | 149.8 | 208.2 | 4.65% | 9.7 | 0.0% |
| 2003C | Serial Bonds(d) | 2013-2027 | 12.2 | 70.5 | 4.45% | 3.1 | 81.4% |
| 2003C | Term Bonds(d)(e) | 2027-2033 | 135.0 | 185.5 | 4.88% | 9.1 | 100.0% |
| 2003D-O | Variable Rate Debt(f)(g) | 2029 | 226.2 | 375.2 | 5.56% | 20.9 | 100.0% |
| 2004A | Serial Bonds(d) | 2013-2025 | 33.9 | 33.9 | 4.57% | 1.5 | 100.0% |
| 2004A | Term Bonds | 2029-2034 | 166.1 | 166.1 | 5.02% | 8.3 | 100.0% |
| 2006A | Serial Bonds(d) | 2016-2026 | 839.2 | 839.2 | 4.54% | 38.1 | 84.1% |
| 2006B | Serial Bonds | 2035 | 4.2 | 4.2 | 4.50% | 0.2 | 0.0% |
| 2006B | Term Bonds | 2035 | 92.7 | 92.7 | 4.88% | 4.5 | 0.0% |
| 2006C | Term Bonds(d) | 2035 | 198.0 | 198.0 | 4.82% | 9.6 | 0.0% |
| 2006D | Serial Bonds | 2013-2025 | 167.2 | 199.0 | 4.48% | 8.9 | 100.0% |
| 2006D | Serial Bonds - Variable Rate | 2015 | 110.7 | 110.7 | 4.11% | 4.6 | 100.0% |
| 2006E | Serial Bonds(d) | 2017-2022 | 507.6 | 507.6 | 4.38% | 22.2 | 81.7% |
| 2006F | Serial Bonds(d) | 2013-2028 | 222.6 | 255.3 | 4.00% | 10.2 | 100.0% |
| 2006F | Term Bonds | 2033 | 112.6 | 112.6 | 4.25% | 4.8 | 100.0% |
| 2008A | Term Bonds | 2033 | 605.1 | 605.1 | 5.93% | 35.9 | 41.3% |
| 2008B | Serial Bonds | 2019-2025 | 96.5 | 96.5 | 5.77% | 5.6 | 0.0% |
| 2008B | Term Bonds | 2033 | 52.8 | 52.8 | 5.75% | 3.0 | 0.0% |
| 2009A | Serial Bonds | 2014-2037 | 363.4 | 363.4 | 5.15% | 18.7 | 0.0% |
| 2009A | Term Bonds | 2033 | 72.5 | 72.5 | 6.25% | 4.5 | 0.0% |
| 2010A | Serial Bonds | 2014-2015 | 193.3 | 193.3 | 2.46% | 4.7 | 0.0% |
| 2010B | BABs - Serial Bonds | 2020-2041 | 210.0 | 210.0 | 5.61% | 11.8 | 0.0% |
| 2011A | Serial Bonds | 2016-2036 | 113.4 | 113.4 | 3.81% | 4.3 | 55.9% |
| 2011A | Term Bonds | 2037-2042 | 136.6 | 136.6 | 5.00% | 6.8 | 0.0% |
| 2012A | Term Bonds | 2037-2042 | 250.0 | 125.0 | 5.00% | 6.3 | 0.0% |
| 2012B | Serial Bonds | 2014-2029 | 250.0 | 125.0 | 4.98% | 6.2 | 0.0% |
| 2012C | General Revenue Bonds | 2033 | 175.0 | 87.5 | 0.23% | 0.2 | 0.0% |
| 2012D | General Revenue Bonds | 2029 | 149.0 | 74.5 | 5.12% | 3.8 | 0.0% |
| **Total Senior Lien Debt** | | | **$6,166.5** | **$6,194.0** | **4.80%** | **$297.2** | **50.9%** |
| **Subordinate Debt** | | | | | | | |
| Series 2011A-3BVR | Variable Rate(f)(g) | 2033 | $350.0 | $525.0 | 5.53% | $29.1 | 0.0% |
| Commercial Paper | Variable Rate(f)(g) | Various | 200.0 | 200.0 | 0.50% | 1.0 | 0.0% |
| **Total Subordinate Debt** | | | **$550.0** | **$725.0** | **4.15%** | **$30.1** | **0.0%** |
| **NYSERDA Bonds** | | | | | | | |
| 1985 Series A | Subordinated | 2016 | $58.0 | $58.0 | 5.15% | $3.0 | 0.0% |
| 1985 Series B | Subordinated | 2016 | 50.0 | 50.0 | 5.15% | 2.6 | 0.0% |
| 1993 Series B | Subordinated | 2023 | 29.6 | 29.6 | 5.30% | 1.6 | 0.0% |
| 1994 Series A | Subordinated | 2024 | 2.6 | 2.6 | 5.30% | 0.1 | 0.0% |
| 1995 Series A | Subordinated | 2025 | 15.2 | 15.2 | 5.30% | 0.8 | 0.0% |
| **Total NYSERDA** | | | **$155.4** | **$155.4** | **5.20%** | **$8.1** | **0.0%** |
| **Total Debt Securities** | | | **$6,871.9** | **$7,074.4** | **4.74%** | **$335.3** | **45.7%** |

(a) Net of amortizations for discounts and premiums, insurance costs and swaption proceeds, if applicable.
(b) Represents accreted value of original proceeds of $145.793 million, adjusted for principal maturities and partial refinancing in 2003.
(c) Represents accreted value of original proceeds of $325.165 million, adjusted for partial refinancing in 2003.
(d) Net of fixed-to-floating/basis swap arrangement.
(e) Excludes aggregate $109 million of notes callable 9/31/2013 planned to be called in relation to the Series 2012A and 2012B issue.
(f) Projected variable rates of 2.50% for 2011 and 2.00% for 2012.
(g) Includes a Fixed Rate Swap Arrangement.

## B Strategic Alternatives-Related Analysis

# LIPA Standalone Financial Projections vs. Management Plan

**($ in millions)**

| | LIPA STANDALONE PROJECTIONS | | | | | Average % of Revenue | PRO FORMA T&D SYSTEM PROJECTIONS | | | | | Average % of Revenue |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012E | 2013E | 2014E | 2015E | 2016E | | 2012E | 2013E | 2014E | 2015E | 2016E | |
| GWh | 20,614 | 20,820 | 21,028 | 21,239 | 21,451 | | 20,614 | 20,820 | 21,028 | 21,239 | 21,451 | |
| **Total Revenue Requirement** | | | | | | | 3,732 | 3,704 | 3,823 | 3,961 | 4,202 | |
| Residual LIPA Revenue Requirement | | | | | | | - | (397) | (397) | (398) | (400) | |
| **Net Operating Revenues** | $3,732 | $3,842 | $3,959 | $4,099 | $4,334 | 100.0% | 3,732 | $3,307 | $3,426 | $3,563 | $3,802 | 100.0% |
| Operating Expenses: | | | | | | | | | | | | |
| Fuel & Purchased Power Costs | $1,663 | $1,687 | $1,745 | $1,834 | $2,022 | 44.8% | $1,663 | $1,562 | $1,616 | $1,698 | $1,872 | 47.2% |
| Operations & Maintenance | 1,035 | 1,078 | 1,119 | 1,152 | 1,200 | 28.0% | 1,001 | 968 | 1,003 | 1,031 | 1,073 | 28.5% |
| General & Administrative | 48 | 51 | 53 | 55 | 57 | 1.3% | 46 | 0 | 0 | 0 | 0 | 0.3% |
| Depreciation | 163 | 173 | 185 | 198 | 208 | 4.6% | 141 | 149 | 159 | 170 | 176 | 4.5% |
| Amortization of Acquisition Adjustment | 111 | 111 | 111 | 111 | 111 | 2.8% | 0 | 0 | 0 | 0 | 0 | 0.0% |
| PILOTS and Revenue Tax | 329 | 354 | 368 | 380 | 393 | 9.1% | 329 | 294 | 305 | 315 | 328 | 8.8% |
| **Total Operating Expenses** | $3,349 | $3,454 | $3,580 | $3,730 | $3,991 | 90.7% | $3,181 | $2,972 | $3,082 | $3,214 | $3,449 | 89.2% |
| **Operating Income** | $382 | $388 | $379 | $369 | $343 | 9.3% | $551 | $334 | $344 | $349 | $353 | 10.8% |
| Other Income and Deductions | 43 | 46 | 47 | 48 | 50 | 1.2% | 4 | 10 | 13 | 15 | 18 | 0.3% |
| Interest Expense | 350 | 358 | 351 | 343 | 318 | 8.6% | 135 | 90 | 88 | 85 | 81 | 2.7% |
| Income Tax Expense | | | | | | | 168 | 102 | 107 | 112 | 116 | |
| **Net Income** | $75 | $75 | $75 | $75 | $75 | 1.9% | $252 | $153 | $161 | $168 | $174 | 5.1% |

| | RESIDUAL LIPA PROJECTIONS | | | | | Average % of Revenue |
|---|---|---|---|---|---|---|
| | 2012E | 2013E | 2014E | 2015E | 2016E | |
| GWh | - | - | - | - | - | |
| **Net Operating Revenues** | $452 | $397 | $397 | $398 | $400 | 100.0% |
| Operating Expenses: | | | | | | |
| Operations & Maintenance | 34 | 34 | 35 | 36 | 37 | 8.6% |
| General & Administrative | 2 | 2 | 2 | 2 | 2 | 0.5% |
| Depreciation | 22 | 23 | 23 | 24 | 25 | 5.7% |
| Amortization of Acquisition Adjustment | 111 | 118 | 118 | 118 | 118 | 28.6% |
| **Total Operating Expenses** | $168 | $178 | $179 | $181 | $182 | 43.4% |
| **Operating Income** | $284 | $220 | $218 | $217 | $218 | 56.6% |
| Other Income and Deductions | 36 | 29 | 29 | 28 | 28 | 7.3% |
| Interest Expense | 215 | 174 | 170 | 166 | 162 | 43.4% |
| **Net Income** | $105 | $75 | $77 | $80 | $83 | 20.6% |

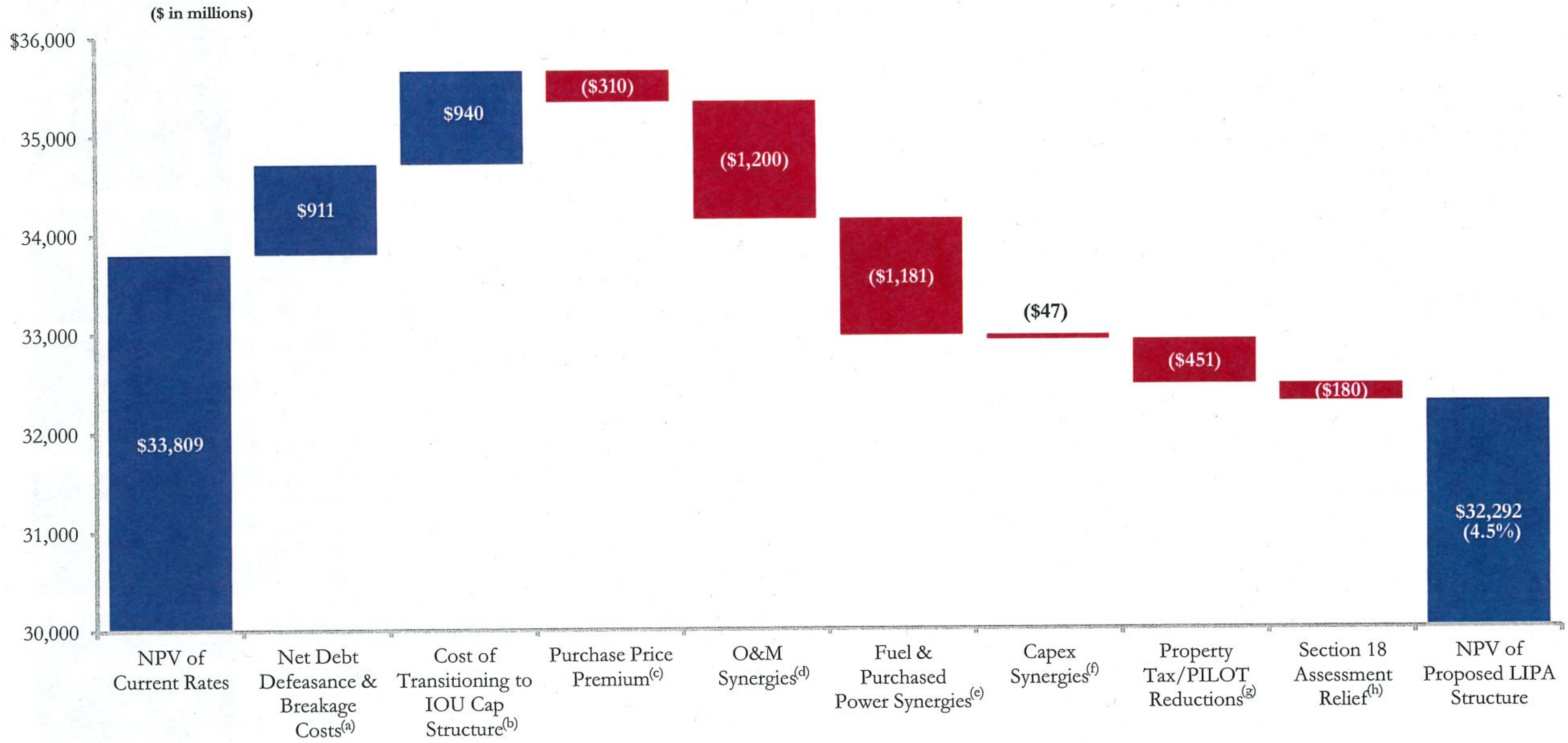
*Source: LIPA 2012 Budget.*





# Illustrative LIPA Privatization 10-Year Revenue NPV Bridge Analysis

**($ in millions)**




*Source: LIPA 2012 Budget.*

Note: Based on 2013E – 2022E financial projections; discounted using a weighted-average cost of capital of 5.7%.

(a) Assumes 100% of debt is refinanced, triggering defeasance, swap breakage and contract breakage costs of $1,325 million, $404 million and $7 million, respectively; netted against benefits of $825 million.

(b) Assumes pro forma capital structure of 55/45 debt-to-equity, cost of debt of 3.75%, regulated return on equity of 10% and tax rate of 40%.

(c) Assumes purchase price premium of $658 million (sale proceeds of $4,419 million less book value of rate base of $3,289 million, and cash and working capital of $472 million).

(d) Assumes 2013 O&M synergies of $125 million (12.5% reduction in 10-year NPV of projected O&M expense).

(e) Assumes 2013 Fuel & Purchased Power synergies of $125 million (7.5% reduction in 10-year NPV of projected Fuel & Purchased Power expense).

(f) Assumes 10% reduction in annual capex.

(g) Assumes $50 million reduction in 2013 Property Taxes/PILOTs.

(h) Assumes 100% of annual Section 18 Assessment is redirected toward residual debt paydown (Section 18 Assessment assumed to be 1.0% of gross annual revenues).

# Potentially Actionable Solutions—Illustrative Analytical Comparison

($ in millions)

| | | PRIVATIZATION—LOW SYNERGIES CASE | PRIVATIZATION—MODERATE SYNERGIES CASE | PRIVATIZATION—HIGH SYNERGIES CASE |
|---|---|---|---|---|
| KEY ASSUMPTIONS | O&M Synergies | $75 | $125 | $150 |
| | Fuel and Purchased Power Synergies | $75 | $125 | $175 |
| | Capex Synergies (% Reduction) | 0.0% | 10.0% | 20.0% |
| | Property Tax Reduction (PILOTS/PSA) | $0 | $50 | $75 |
| | Section 18 Assessment Relief | $0 | $33 | $32 |
| NET ECONOMIC COST OF DEFEASANCE | Debt Defeasance/Breakage Costs | $1,736 | $1,736 | $1,736 |
| | Less: Economic Benefit from Refinancing | (825) | (825) | (825) |
| | Less: Other Economic Benefits from Ending Shoreham Debt Burden | ? | ? | 0 |
| | Net Economic Cost of Debt Defeasance | $911 | $911 | $911 |
| SOURCES | T&D System Sale Proceeds | $4,419 | $4,419 | $4,419 |
| | NMP2 Sale Proceeds | 0 | 0 | 0 |
| | Section 18 Assessment | 0 | 798 | 767 |
| | Revenue Recovery for Debt Repayment | 3,413 | 2,616 | 2,646 |
| | **Total Sources** | **$7,833** | **$7,833** | **$7,833** |
| USES | LIPA Debt Retired with Sale Proceeds | $4,419 | $4,419 | $4,419 |
| | Remaining LIPA Debt Outstanding | 2,452 | 2,452 | 2,452 |
| | Net Economic Cost of Debt Defeasance | 911 | 911 | 911 |
| | Transaction Fees | 50 | 50 | 50 |
| | **Total Uses** | **$7,833** | **$7,833** | **$7,833** |

**PROJECTED RATE IMPACT**

| | LIPA Standalone | Low: Pro Forma | Low: Absolute Difference | Low: Difference | Moderate: Pro Forma | Moderate: Absolute Difference | Moderate: Difference | High: Pro Forma | High: Absolute Difference | High: Difference |
|---|---|---|---|---|---|---|---|---|---|---|
| **10-year:** | | | | | | | | | | |
| Rate CAGR | 2.8% | 2.8% | | 0.0% | 2.2% | | (0.6%) | 1.9% | | (0.9%) |
| Revenue NPV at 5.7% | $33,809 | $33,931 | $123 | 0.4% | $32,292 | ($1,517) | (4.5%) | $31,311 | ($2,498) | (7.4%) |
| **30-year:** | | | | | | | | | | |
| Rate CAGR | 2.9% | 3.0% | | 0.1% | 2.8% | | (0.1%) | 2.6% | | (0.3%) |
| Revenue NPV at 5.7% | $88,346 | $89,805 | $1,459 | 1.7% | $84,679 | ($3,667) | (4.2%) | $81,685 | ($6,661) | (7.5%) |

Note: Sandy costs are not included in the current LIPA standalone forecast and therefore not included in the pro forma analysis for comparison purposes.
5.7% weighted average cost of capital based on 55% debt-to-equity capital structure, 3.75% cost of debt, 10% cost of equity and 40% tax rate.





# Sensitivity Analysis—Individual Variables

| | VARIABLE | IMPACT ON REVENUE NPV: 10-year | IMPACT ON REVENUE NPV: 30-year |
|---|---|---|---|
| PURCHASE PRICE | 0.1x increase in ratebase acquisition multiple (i.e., from 1.2x to 1.3x, or from a purchase price of $4,419 million to $4,748 million) | (0.4%) | (0.4%) |
| SYNERGIES | $10 million increase in annual O&M synergies (0.9% of O&M in 2012 budget) | (0.3%) | (0.3%) |
| | $10 million increase in additional annual fuel and purchased power synergies (0.6% of fuel and purchased power in 2012 budget) | (0.3%) | (0.3%) |
| CAPEX | $50 million reduction in annual Capex (15.6% of Capex in 2012 budget) | (0.1%) | (0.2%) |
| PILOTS/ PROPERTY TAXES | $10 million reduction in annual PILOTs/property taxes (1.9% of PILOTS/property taxes in 2012 budget) | (0.3%) | (0.3%) |
| SECTION 18 ASSESSMENT | $10 million of annual relief from Section 18 Assessment (26.8% of 2012 Section 18 Assessment at 1.0% of gross revenue) | (0.2%) | (0.2%) |
| DEFEASANCE & BREAKAGE COSTS | $50 million reduction of debt defeasance and breakage costs (2.9% of total assumed breakage costs) | (0.1%) | (0.1%) |
| IOU CAPITAL STRUCTURE | 1% increase in debt-to-equity ratio (i.e., increasing from 55% to 56%) | (0.1%) | (0.1%) |

# Estimated Debt Defeasance and Breakage Costs

ILLUSTRATIVE BONDHOLDER ECONOMICS

| Timing | 1/1/2013 Closing Outstanding | 1/1/2013 Closing Breakage | 1/1/2013 Closing Total | 1/1/2014 Closing Outstanding | 1/1/2014 Closing Breakage | 1/1/2014 Closing Total |
|---|---|---|---|---|---|---|
| **Senior Debt** | | | | | | |
| Redeemable Today at Par | $550.2 | $0.0 | $550.2 | $550.2 | $0.0 | $550.2 |
| Redeemable Today at Premium | 210.0 | 94.1 | 304.1 | 210.0 | 89.9 | 299.9 |
| Redeemable in the Future | 4,076.2 | 902.7 | 4,978.9 | 4,076.2 | 754.8 | 4,831.1 |
| Not Redeemable before Maturity | 1,330.0 | 325.1 | 1,655.1 | 1,183.3 | 283.0 | 1,466.2 |
| **Total Senior** | **$6,166.5** | **$1,321.9** | **$7,488.4** | **$6,019.7** | **$1,127.8** | **$7,147.5** |
| Subordinated | 550.0 | 0.0 | 550.0 | 550.0 | 0.0 | 550.0 |
| **Total LIPA** | **$6,716.5** | **$1,321.9** | **$8,038.4** | **$6,569.7** | **$1,127.8** | **$7,697.5** |
| NYSERDA | 155.4 | 3.2 | 158.6 | 155.4 | 3.2 | 158.6 |
| Swap Termination Payments | 0.0 | 403.8 | 403.8 | 0.0 | 364.4 | 364.4 |
| **Total Debt** | **$6,871.9** | **$1,728.9** | **$8,600.8** | **$6,725.1** | **$1,495.3** | **$8,220.5** |

*Source: PFM.*





# Illustrative Potential Synergies from Privatization—Trade Sale

| O&M Expenses | LIPA Standalone 2012E | Percent Reduction | Illustrative Investor-Owned Utility Pro Forma 2012E | Potential Synergies |
|---|---|---|---|---|
| National Grid Management Services Agreement | $296 | (30.0%) | $207 | ($89) |
| National Grid Power Supply Agreement | 449 | 0.0% | 449 | 0 |
| Power Supply Management Contract Transition Costs | 3 | 0.0% | 3 | 0 |
| Efficiency & Renewables Program | 116 | (74.2%) | 30 | (86) |
| Storm Restoration | 52 | (10.0%) | 47 | (5) |
| Nine Mile Point 2 O&M | 33 | 0.0% | 33 | 0 |
| Uncollectible Accounts | 22 | (10.0%) | 20 | (2) |
| Research & Development | 1 | (100.0%) | 0 | (1) |
| Customer Accounting and Billing System | 1 | (100.0%) | 0 | (1) |
| Retail and Customer Care Programs | 2 | (100.0%) | 0 | (2) |
| Storm Hardening Initiative | 1 | 0.0% | 1 | 0 |
| Accretion of Asset Retirement Obligation | 4 | 0.0% | 4 | 0 |
| Assessments | 53 | (10.0%) | 47 | (5) |
| Smart Grid Program Operating Costs | 0 | 0.0% | 0 | 0 |
| O&M-Y49 and Y-50 Cables | 0 | 0.0% | 0 | 0 |
| O&M-NUSCO Cable | 0 | 0.0% | 0 | 0 |
| Miscellaneous | 1 | (100.0%) | 0 | (1) |
| Salaries and Benefits Expense | 20 | (100.0%) | 0 | (20) |
| Professional Services General Expenses | 28 | (100.0%) | 0 | (28) |
| **Total** | **$1,083** | | **$842** | **($240)** *(22%)*[(a)] |

*Memo: Illustrative Moderate Case Assumed Synergies* *($100)* *9%*

(a) The average announced U.S. utility merger non-fuel O&M synergies indicate higher savings than shown above.

New York Power Authority

# C LIPA Standalone Financial Projections

# LIPA Standalone—Income Statement

**($ in millions)**

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | *For the Fiscal Year Ended December 31,* | | | | | | | | |
| GWh | 20,313 | 20,614 | 20,820 | 21,028 | 21,239 | 21,451 | 21,730 | 22,013 | 22,299 | 22,589 | 22,882 | 23,180 |
| **Gross Operating Revenues** | $3,685 | $3,732 | $3,842 | $3,959 | $4,099 | $4,334 | $4,508 | $4,692 | $4,885 | $5,087 | $5,299 | $5,526 |
| Fuel & Purchased Power | 1,744 | 1,663 | 1,687 | 1,745 | 1,834 | 2,022 | 2,120 | 2,223 | 2,331 | 2,444 | 2,562 | 2,686 |
| **Net Operating Revenues** | $1,941 | $2,068 | $2,155 | $2,214 | $2,265 | $2,311 | $2,387 | $2,469 | $2,555 | $2,644 | $2,737 | $2,840 |
| Operating Expenses: | | | | | | | | | | | | |
| Power Supply O&M | $565 | $509 | $521 | $534 | $548 | $562 | $576 | $590 | $605 | $620 | $635 | $651 |
| Nine Mile Point 2 O&M | $37 | $34 | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 41 | 42 | 43 |
| T&D and Other O&M | 547 | 493 | 522 | 549 | 568 | 601 | 636 | 673 | 712 | 753 | 797 | 843 |
| General & Administrative | 43 | 48 | 51 | 53 | 55 | 57 | 58 | 59 | 61 | 62 | 64 | 66 |
| Depreciation (NMP2) | 21 | 22 | 23 | 24 | 26 | 27 | 28 | 29 | 31 | 32 | 33 | 34 |
| Depreciation (T&D) | 135 | 141 | 150 | 161 | 172 | 180 | 186 | 193 | 201 | 209 | 216 | 224 |
| Amortization of Acquisition Adjustment | 111 | 111 | 111 | 111 | 111 | 111 | 111 | 111 | 111 | 111 | 111 | 111 |
| PILOTS and Revenue Tax | 304 | 329 | 354 | 368 | 380 | 393 | 413 | 435 | 458 | 482 | 507 | 534 |
| Total Operating Expenses (Excl. Fuel & Purch Pwr.) | $1,763 | $1,686 | $1,768 | $1,836 | $1,896 | $1,968 | $2,046 | $2,130 | $2,218 | $2,310 | $2,406 | $2,506 |
| **Operating Income** | $178 | $382 | $388 | $379 | $369 | $343 | $341 | $339 | $336 | $334 | $331 | $333 |
| Other Income | 35 | 36 | 41 | 43 | 44 | 46 | 45 | 44 | 43 | 42 | 40 | 39 |
| Grant Income (BAB and solar project subsidies) | 135 | 7 | 5 | 5 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 0 |
| **Income from Continuing Operations** | $348 | $425 | $433 | $426 | $418 | $393 | $390 | $387 | $384 | $380 | $375 | $372 |
| Interest on Debt | $319 | $321 | $312 | $313 | $312 | $310 | $307 | $304 | $300 | $296 | $292 | $288 |
| Other Interest and Fees | 25 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 |
| AFUDC | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) |
| Lazard Interest Adjustment | (3) | 6 | 24 | 16 | 8 | (14) | (14) | (14) | (14) | (14) | (14) | (14) |
| **Total Interest Charges** | $331 | $350 | $358 | $351 | $343 | $318 | $315 | $312 | $309 | $305 | $300 | $297 |
| Promissory Note Receipts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Interest Charges | 331 | 350 | 358 | 351 | 343 | 318 | 315 | 312 | 309 | 305 | 300 | 297 |
| **Net Income** | $17 | $75 | $75 | $75 | $75 | $75 | $75 | $75 | $75 | $75 | $75 | $75 |
| **Memo: EBITDA** | $749 | $986 | $1,026 | $1,043 | $1,058 | $1,055 | $1,080 | $1,108 | $1,137 | $1,167 | $1,199 | $1,236 |
| **T&D EBITDA** | 617 | 853 | 892 | 907 | 921 | 916 | 940 | 967 | 995 | 1,024 | 1,054 | 1,091 |
| EBIT | 178 | 382 | 388 | 379 | 369 | 343 | 341 | 339 | 336 | 334 | 331 | 333 |
| Capital Expenditures | 291 | 321 | 373 | 298 | 321 | 293 | 313 | 318 | 322 | 326 | 330 | 333 |
| T&D Capital Expenditures | 248 | 302 | 332 | 285 | 270 | 279 | 260 | 303 | 266 | 310 | 272 | 317 |
| T&D "Ratebase" | $3,128 | $3,289 | $3,471 | $3,596 | $3,694 | $3,793 | $3,867 | $3,976 | $4,042 | $4,143 | $4,199 | $4,292 |







# LIPA Standalone—Income Statement Assumptions

**($ in millions)**

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | *For the Fiscal Year Ended December 31,* | | | | | | | | |
| **Revenue Assumptions** | | | | | | | | | | | | |
| GWh Growth | (0.3%) | 1.5% | 1.0% | 1.0% | 1.0% | 1.0% | 1.3% | 1.3% | 1.3% | 1.3% | 1.3% | 1.3% |
| Total GWh | 20,313 | 20,614 | 20,820 | 21,028 | 21,239 | 21,451 | 21,730 | 22,013 | 22,299 | 22,589 | 22,882 | 23,180 |
| Fuel Costs ($/MWh) | $0.086 | $0.081 | $0.081 | $0.083 | $0.086 | $0.094 | $0.098 | $0.101 | $0.105 | $0.108 | $0.112 | $0.116 |
| Fuel Costs ($/MWh) Growth | (7.0%) | (6.0%) | 0.4% | 2.4% | 4.1% | 9.2% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| Total Fuel and Purchased Power Costs | $1,744 | $1,663 | $1,687 | $1,745 | $1,834 | $2,022 | $2,120 | $2,223 | $2,331 | $2,444 | $2,562 | $2,686 |
| T&D "Base Rates" ($/MWh) | $0.096 | $0.100 | $0.104 | $0.105 | $0.107 | $0.108 | $0.110 | $0.112 | $0.115 | $0.117 | $0.120 | $0.122 |
| T&D "Base Rate" ($/MWh) Growth | (1.7%) | 5.0% | 3.2% | 1.7% | 1.3% | 1.0% | 2.0% | 2.1% | 2.1% | 2.2% | 2.2% | 2.4% |
| Total T&D "Base Revenues" | $1,941 | $2,068 | $2,155 | $2,214 | $2,265 | $2,311 | $2,387 | $2,469 | $2,555 | $2,644 | $2,737 | $2,840 |
| Total Rates ($/MWh) | $0.181 | $0.181 | $0.185 | $0.188 | $0.193 | $0.202 | $0.207 | $0.213 | $0.219 | $0.225 | $0.232 | $0.238 |
| Total Rate ($/MWh) Growth | (4.2%) | (0.2%) | 1.9% | 2.0% | 2.5% | 4.7% | 2.7% | 2.8% | 2.8% | 2.8% | 2.8% | 2.9% |
| Total Revenue | $3,685 | $3,732 | $3,842 | $3,959 | $4,099 | $4,334 | $4,508 | $4,692 | $4,885 | $5,087 | $5,299 | $5,526 |
| **O&M and G&A Expenses** | | | | | | | | | | | | |
| T&D O&M Expenses Growth Rate | 1.7% | (9.9%) | 6.0% | 5.1% | 3.5% | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% |
| T&D O&M Expenses as % of Revenues | 14.8% | 13.2% | 13.6% | 13.9% | 13.9% | 13.9% | 14.1% | 14.3% | 14.6% | 14.8% | 15.0% | 15.3% |
| G&A Expenses Growth Rate | 1.6% | 12.3% | 6.7% | 3.5% | 3.5% | 3.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| G&A Expenses as % of Revenues | 1.2% | 1.3% | 1.3% | 1.3% | 1.3% | 1.3% | 1.3% | 1.3% | 1.2% | 1.2% | 1.2% | 1.2% |
| **PILOTS and Revenue Taxes** | | | | | | | | | | | | |
| PILOTS | $245 | $264 | $287 | $297 | $307 | $317 | $334 | $353 | $372 | $393 | $414 | $437 |
| PILOTS Growth Rate | 12.5% | 8.1% | 8.6% | 3.5% | 3.3% | 3.3% | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% |
| Revenue Taxes | $59 | $65 | $67 | $71 | $73 | $76 | $79 | $82 | $85 | $89 | $93 | $97 |
| Revenue Taxes as % of Revenues | 1.6% | 1.7% | 1.8% | 1.8% | 1.8% | 1.7% | 1.7% | 1.7% | 1.7% | 1.7% | 1.7% | 1.7% |
| Total PILOTS and Revenue Taxes | $304 | $329 | $354 | $368 | $380 | $393 | $413 | $435 | $458 | $482 | $507 | $534 |
| | | | | | | | 5.2% | 5.2% | 5.2% | 5.2% | 5.3% | 5.3% |
| **Revenue Build-up** | | | | | | | | | | | | |
| Net Income | $17 | $75 | $75 | $75 | $75 | $75 | $75 | $75 | $75 | $75 | $75 | $75 |
| Net Interest and other expenses | 161 | 307 | 313 | 304 | 294 | 268 | 266 | 264 | 261 | 259 | 256 | 258 |
| T&D Operating Expenses | 1,029 | 1,011 | 1,078 | 1,130 | 1,174 | 1,231 | 1,293 | 1,361 | 1,431 | 1,506 | 1,584 | 1,667 |
| **Net Required T&D Revenues** | $1,207 | $1,393 | $1,465 | $1,509 | $1,543 | $1,574 | $1,634 | $1,699 | $1,768 | $1,840 | $1,915 | $2,000 |
| Net T&D Revenues/GWh | $0.059 | $0.068 | $0.070 | $0.072 | $0.073 | $0.073 | $0.075 | $0.077 | $0.079 | $0.081 | $0.084 | $0.086 |

# LIPA Standalone—Balance Sheet

**($ in millions)**

*For the Fiscal Year Ended December 31,*

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash | $438 | $366 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 |
| Investments | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Net Working Capital | 211 | 211 | 211 | 211 | 211 | 211 | 211 | 211 | 211 | 211 | 211 | 211 |
| Net PP&E | 6,625 | 6,786 | 6,990 | 7,105 | 7,232 | 7,321 | 7,424 | 7,523 | 7,616 | 7,706 | 7,790 | 7,868 |
| Promisory Notes Receivable (from NG) | 155 | 155 | 155 | 155 | 155 | 47 | 47 | 47 | 47 | 47 | 47 | 47 |
| Counterparty collateral - posted by Authority | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Other Long-Term Receviables | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 |
| Shoreham Property Tax Settlement | 535 | 525 | 513 | 499 | 484 | 466 | 447 | 425 | 401 | 375 | 347 | 316 |
| Fuel and Purchased Power Costs Recoverable | 114 | 57 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 |
| Acquisition Adjustment | 2,376 | 2,265 | 2,153 | 2,042 | 1,931 | 1,819 | 1,708 | 1,596 | 1,485 | 1,374 | 1,262 | 1,151 |
| Other Non-Current Assets | 453 | 528 | 560 | 525 | 491 | 465 | 431 | 405 | 379 | 362 | 336 | 318 |
| **Total Assets** | **$10,961** | **$10,949** | **$11,060** | **$11,015** | **$10,981** | **$10,808** | **$10,745** | **$10,686** | **$10,618** | **$10,553** | **$10,470** | **$10,389** |
| | | | | | | | | | | | | |
| Commercial Paper | $200 | $200 | $507 | $666 | $855 | $911 | $979 | $1,064 | $1,146 | $1,239 | $1,309 | $1,419 |
| Long-Term Debt (T&D + Shoreham) | 6,608 | 6,517 | 6,240 | 5,958 | 5,655 | 5,453 | 5,242 | 5,016 | 4,786 | 4,548 | 4,315 | 4,043 |
| NYSERDA Financing Notes | 155 | 155 | 155 | 155 | 155 | 47 | 47 | 47 | 47 | 47 | 47 | 47 |
| Capital Leases | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 |
| Other Liabilities | 571 | 575 | 580 | 585 | 590 | 595 | 601 | 606 | 611 | 617 | 622 | 627 |
| Net Assets/Equity | 396 | 471 | 546 | 621 | 696 | 771 | 846 | 921 | 996 | 1,071 | 1,146 | 1,221 |
| **Total Liabilities & Net Assets** | **$10,961** | **$10,949** | **$11,060** | **$11,015** | **$10,981** | **$10,808** | **$10,745** | **$10,686** | **$10,618** | **$10,553** | **$10,470** | **$10,389** |







# LIPA Standalone—Cash Flow Statement

**($ in millions)**

*For the Fiscal Year Ended December 31,*

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Income | $17 | $75 | $75 | $75 | $75 | $75 | $75 | $75 | $75 | $75 | $75 | $75 |
| Add: Depreciation & Amortization | 267 | 274 | 284 | 297 | 309 | 319 | 326 | 334 | 343 | 352 | 361 | 370 |
| Accrual/(Amortization) of Excess Fuel Cost Recovery | (142) | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amortization of Deferred Shoreham Tax Settlement | 39 | 40 | 41 | 42 | 42 | 43 | 44 | 46 | 47 | 48 | 49 | 50 |
| Shoreham Settlement Carrying Charge | (30) | (30) | (29) | (28) | (27) | (26) | (25) | (24) | (23) | (22) | (20) | (19) |
| Power Supply Management Contract Transition | 3 | 3 | 3 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Utilization of Settlement Benefits | (39) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred Fuel Cost Reconciliation | 37 | 37 | 37 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Funding for NMP2 Plant Decommissioning | (0) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| Asset Retirement Obligation Accretion - FASB 143 | 4 | 4 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Prepaid NMP2 Refueling Outage Costs | (0) | (7) | (0) | (8) | (0) | (10) | (0) | (10) | (0) | (10) | (0) | (10) |
| NMP2 Amortized Nuclear Fuel Expense | 11 | 13 | 15 | 17 | 18 | 19 | 19 | 19 | 19 | 19 | 19 | 19 |
| Amortization of Prepaid NMP2 Refueling Outage Costs | 4 | 4 | 4 | 4 | 4 | 5 | 4 | 5 | 4 | 5 | 4 | 5 |
| Servco Transition Costs | NA | (17) | (24) | 8 | 8 | 8 | 8 | 8 | 0 | 0 | 0 | 0 |
| Other | 15 | (75) | (33) | 8 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| **Cash Flow from Operations** | **$184** | **$341** | **$377** | **$422** | **$436** | **$439** | **$456** | **$458** | **$470** | **$472** | **$492** | **$495** |
| | | | | | | | | | | | | |
| Investing Activities | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| NMP2 Capital Expeditures | (43) | (19) | (40) | (12) | (51) | (14) | (53) | (15) | (55) | (16) | (57) | (17) |
| T&D and Other Capital Expenditures | (248) | (302) | (332) | (285) | (270) | (279) | (260) | (303) | (266) | (310) | (272) | (317) |
| **Cash Flow from Investing Activity** | **($291)** | **($321)** | **($373)** | **($298)** | **($321)** | **($293)** | **($313)** | **($318)** | **($322)** | **($326)** | **($330)** | **($333)** |
| | | | | | | | | | | | | |
| **Cash Available for Debt Service** | **($107)** | **$56** | **($31)** | **$124** | **$114** | **$146** | **$143** | **$140** | **$148** | **$146** | **$163** | **$162** |
| | | | | | | | | | | | | |
| Less: Mandatory Repayment of Shoreham Debt | ($224) | ($95) | ($150) | ($153) | ($164) | ($109) | ($115) | ($122) | ($125) | ($129) | ($126) | ($147) |
| Less: Repayment of T&D Debt | 250 | 39 | (126) | (129) | (139) | (92) | (97) | (103) | (105) | (109) | (107) | (124) |
| Total Required Debt Service | $26 | ($55) | ($276) | ($283) | ($303) | ($202) | ($211) | ($225) | ($230) | ($238) | ($233) | ($272) |
| | | | | | | | | | | | | |
| **Cash Avaliable after Mandatory Debt Paydown** | **($81)** | **$0** | **($307)** | **($159)** | **($189)** | **($56)** | **($68)** | **($85)** | **($82)** | **($92)** | **($70)** | **($110)** |
| | | | | | | | | | | | | |
| Issue/(Retire) Commercial Paper | 156 | (0) | 307 | 159 | 189 | 56 | 68 | 85 | 82 | 92 | 70 | 110 |
| Optional Shoreham Debt Repayment | | (36) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Optional T&D Debt Repayment | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash Provided by/(used in) Financing Activities | | ($91) | $31 | ($124) | ($114) | ($146) | ($143) | ($140) | ($148) | ($146) | ($163) | ($162) |
| | | | | | | | | | | | | |
| **Net Change in Cash** | | **($71)** | **$36** | **$0** | **$0** | **$0** | **$0** | **$0** | **$0** | **$0** | **$0** | **$0** |
| | | | | | | | | | | | | |
| Beginning Cash Balance | | 438 | 366 | 402 | 402 | 402 | 402 | 402 | 402 | 402 | 402 | 402 |
| Minimum Cash Balance | | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 |
| Excess Cash/(Deficit) Available for Debt Paydown | | $56 | ($31) | $124 | $114 | $146 | $143 | $140 | $148 | $146 | $163 | $162 |
| | | | | | | | | | | | | |
| Beginning Balance | | $438 | $366 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 |
| Change in Cash | | (71) | 36 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Ending Balance | | $366 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 |

# LIPA Standalone—Credit Statistics

**($ in millions)**

| | *For the Fiscal Year Ended December 31,* | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| **Capitalization:** | | | | | | | | | | | | |
| Cash | $438 | $366 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 | $402 |
| Total Debt | 6,938 | 6,872 | 6,903 | 6,779 | 6,665 | 6,411 | 6,268 | 6,128 | 5,980 | 5,834 | 5,671 | 5,510 |
| **Net Debt** | **$6,500** | **$6,505** | **$6,501** | **$6,377** | **$6,263** | **$6,009** | **$5,866** | **$5,726** | **$5,578** | **$5,432** | **$5,269** | **$5,108** |
| Minority Interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Assets | 396 | 471 | 546 | 621 | 696 | 771 | 846 | 921 | 996 | 1,071 | 1,146 | 1,221 |
| **Total Capitalization** | **$7,333** | **$7,343** | **$7,449** | **$7,400** | **$7,361** | **$7,182** | **$7,114** | **$7,049** | **$6,976** | **$6,905** | **$6,817** | **$6,731** |
| **Financial Statistics:** | | | | | | | | | | | | |
| Interest Expense | $331 | $350 | $358 | $351 | $343 | $318 | $315 | $312 | $309 | $305 | $300 | $297 |
| EBITDA | 749 | 986 | 1,026 | 1,043 | 1,058 | 1,055 | 1,080 | 1,108 | 1,137 | 1,167 | 1,199 | 1,236 |
| T&D EBITDA | 617 | 853 | 892 | 907 | 921 | 916 | 940 | 967 | 995 | 1,024 | 1,054 | 1,091 |
| Capex | 291 | 321 | 373 | 298 | 321 | 293 | 313 | 318 | 322 | 326 | 330 | 333 |
| T&D Capex | 248 | 302 | 332 | 285 | 270 | 279 | 260 | 303 | 266 | 310 | 272 | 317 |
| FFO | 284 | 349 | 359 | 372 | 384 | 394 | 401 | 409 | 418 | 427 | 436 | 445 |
| FFO - Capex | (7) | 28 | (13) | 74 | 63 | 101 | 87 | 91 | 96 | 101 | 106 | 111 |
| **Coverage Ratios:** | | | | | | | | | | | | |
| EBITDA/Interest Expense | 2.3x | 2.8x | 2.9x | 3.0x | 3.1x | 3.3x | 3.4x | 3.6x | 3.7x | 3.8x | 4.0x | 4.2x |
| EBITDA - Capex/Interest Expense | 1.4x | 1.9x | 1.8x | 2.1x | 2.1x | 2.4x | 2.4x | 2.5x | 2.6x | 2.8x | 2.9x | 3.0x |
| FFO/Interest Expense | 1.9x | 2.0x | 2.0x | 2.1x | 2.1x | 2.2x | 2.3x | 2.3x | 2.4x | 2.4x | 2.4x | 2.5x |
| **Leverage Ratios:** | | | | | | | | | | | | |
| Total Debt/Total Capitalization | 94.6% | 93.6% | 92.7% | 91.6% | 90.5% | 89.3% | 88.1% | 86.9% | 85.7% | 84.5% | 83.2% | 81.9% |
| Total Debt/EBITDA | 9.3x | 7.0x | 6.7x | 6.5x | 6.3x | 6.1x | 5.8x | 5.5x | 5.3x | 5.0x | 4.7x | 4.5x |
| FFO/Total Debt | 4.1% | 5.1% | 5.2% | 5.5% | 5.8% | 6.1% | 6.4% | 6.7% | 7.0% | 7.3% | 7.7% | 8.1% |

## D Pro Forma T&D System Financial Projections

# Pro Forma T&D System—Income Statement

**($ in millions)**

For the Fiscal Year Ended December 31,

| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| GWh | | 20,820 | 21,028 | 21,239 | 21,451 | 21,730 | 22,013 | 22,299 | 22,589 | 22,882 | 23,180 |
| **Total Revenue Requirement** | | **$3,704** | **$3,823** | **$3,961** | **$4,202** | **$4,267** | **$4,417** | **$4,644** | **$4,810** | **$5,047** | **$5,229** |
| Residual LIPA Revenue Requirement | | (397) | (397) | (398) | (400) | (298) | (270) | (310) | (281) | (314) | (284) |
| **Gross Operating Revenues** | | **3,307** | **3,426** | **3,563** | **3,802** | **3,969** | **4,148** | **4,334** | **4,529** | **4,733** | **4,946** |
| Fuel & Purchased Power | | 1,687 | 1,745 | 1,834 | 2,022 | 2,120 | 2,223 | 2,331 | 2,444 | 2,562 | 2,686 |
| Less: Fuel & Purchased Power Synergies | | (125) | (129) | (136) | (150) | (157) | (165) | (173) | (181) | (190) | (199) |
| **Net Operating Revenues** | | **$1,745** | **$1,811** | **$1,865** | **$1,929** | **$2,006** | **$2,089** | **$2,176** | **$2,267** | **$2,361** | **$2,458** |
| Operating Expenses: | | | | | | | | | | | |
| Power Supply O&M | | $521 | $534 | $548 | $562 | $576 | $590 | $605 | $620 | $635 | $651 |
| T&D and Other O&M | | 522 | 549 | 568 | 601 | 636 | 673 | 713 | 754 | 798 | 845 |
| O&M Synergies | | (76) | (80) | (85) | (90) | (95) | (101) | (107) | (113) | (120) | (127) |
| General & Administrative | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation (T&D) | | 149 | 159 | 170 | 176 | 182 | 189 | 195 | 202 | 209 | 217 |
| PILOTS and Revenue Tax | | 294 | 305 | 315 | 328 | 345 | 363 | 383 | 403 | 424 | 447 |
| Total Operating Expenses (Excl. Fuel & Purch Pwr.) | | $1,411 | $1,467 | $1,516 | $1,576 | $1,644 | $1,714 | $1,789 | $1,866 | $1,948 | $2,033 |
| **Operating Income** | | **$334** | **$344** | **$349** | **$353** | **$362** | **$375** | **$388** | **$400** | **$413** | **$426** |
| Other Income | | 10 | 13 | 15 | 18 | 18 | 18 | 18 | 18 | 18 | 18 |
| Interest Expense | | 90 | 88 | 85 | 81 | 81 | 84 | 86 | 89 | 92 | 95 |
| **Pre-Tax Income** | | **$255** | **$269** | **$280** | **$290** | **$299** | **$309** | **$319** | **$329** | **$339** | **$349** |
| Income Tax Expense | 40% | $102 | $107 | $112 | $116 | $120 | $124 | $128 | $132 | $136 | $140 |
| **Net Income** | | **$153** | **$161** | **$168** | **$174** | **$180** | **$186** | **$192** | **$198** | **$204** | **$209** |
| **Memo:** **EBITDA** | | **$777** | **$808** | **$834** | **$856** | **$889** | **$927** | **$966** | **$1,006** | **$1,047** | **$1,089** |
| EBIT | | $629 | $649 | $665 | $681 | $707 | $738 | $770 | $803 | $837 | $872 |
| Capital Expenditures | | $299 | $257 | $243 | $251 | $238 | $277 | $247 | $287 | $256 | $296 |







# Pro Forma T&D System—Income Statement Assumptions

**($ in millions)**

For the Fiscal Year Ended December 31,

| **Revenue Assumptions** | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| GWh Growth | 1.0% | 1.0% | 1.0% | 1.0% | 1.3% | 1.3% | 1.3% | 1.3% | 1.3% | 1.3% |
| Total GWh | 20,820 | 21,028 | 21,239 | 21,451 | 21,730 | 22,013 | 22,299 | 22,589 | 22,882 | 23,180 |
| Fuel Costs ($/MWh) | $0.081 | $0.083 | $0.086 | $0.094 | $0.098 | $0.101 | $0.105 | $0.108 | $0.112 | $0.116 |
| Fuel Costs ($/MWh) Growth | 0.4% | 2.4% | 4.1% | 9.2% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| Total Fuel and Purchased Power Costs | $1,687 | $1,745 | $1,834 | $2,022 | $2,120 | $2,223 | $2,331 | $2,444 | $2,562 | $2,686 |
| T&D "Base Rates" ($/MWh) | $0.084 | $0.086 | $0.088 | $0.090 | $0.092 | $0.095 | $0.098 | $0.100 | $0.103 | $0.106 |
| T&D "Base Rate" ($/MWh) Growth | (16.5%) | 2.7% | 2.0% | 2.4% | 2.6% | 2.8% | 2.8% | 2.8% | 2.8% | 2.8% |
| Total T&D "Base Revenues" | $1,745 | $1,811 | $1,865 | $1,929 | $2,006 | $2,089 | $2,176 | $2,267 | $2,361 | $2,458 |
| Total Rates ($/MWh) | $0.178 | $0.182 | $0.187 | $0.196 | $0.196 | $0.201 | $0.208 | $0.213 | $0.221 | $0.226 |
| Total Rate ($/MWh) Growth | (1.7%) | 2.2% | 2.6% | 5.0% | 0.2% | 2.2% | 3.8% | 2.2% | 3.6% | 2.3% |
| Total Revenue | $3,307 | $3,426 | $3,563 | $3,802 | $3,969 | $4,148 | $4,334 | $4,529 | $4,733 | $4,946 |
| **O&M and G&A Expenses** | | | | | | | | | | |
| T&D O&M Expenses Growth Rate | 6.0% | 5.1% | 3.5% | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% | 5.8% |
| T&D O&M Expenses as % of Revenues | 15.8% | 16.0% | 15.9% | 15.8% | 16.0% | 16.2% | 16.4% | 16.7% | 16.9% | 17.1% |
| G&A Expenses Growth Rate | (100.0%) | NM | NM | NM | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| G&A Expenses as % of Revenues | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **PILOTS and Revenue Taxes** | | | | | | | | | | |
| PILOTS | $287 | $297 | $307 | $317 | $334 | $353 | $372 | $393 | $414 | $437 |
| PILOTS Growth Rate | 8.6% | 3.5% | 3.3% | 3.3% | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% | 5.5% |
| Revenue Taxes | 57 | 59 | 62 | 66 | 69 | 72 | 75 | 79 | 82 | 86 |
| Revenue Taxes as % of Revenues | 1.7% | 1.7% | 1.7% | 1.7% | 1.7% | 1.7% | 1.7% | 1.7% | 1.7% | 1.7% |
| Gross PILOTS and Revenue Taxes | $344 | $356 | $369 | $383 | $403 | $425 | $447 | $471 | $496 | $523 |
| Less: PILOTS/Property Tax Reduction | ($50) | ($52) | ($53) | ($55) | ($58) | ($61) | ($65) | ($68) | ($72) | ($76) |
| Net PILOTS and Revenue Taxes | $294 | $305 | $315 | $328 | $345 | $363 | $383 | $403 | $424 | $447 |
| **Revenue Build-up** | | | | | | | | | | |
| Net Income | $153 | $161 | $168 | $174 | $180 | $186 | $192 | $198 | $204 | $209 |
| Net Interest, Tax and Other Expenses | 181 | 183 | 182 | 179 | 183 | 189 | 196 | 203 | 210 | 216 |
| Operating Expenses | 889 | 932 | 968 | 1,015 | 1,068 | 1,124 | 1,184 | 1,246 | 1,312 | 1,382 |
| **Net Required Revenues** | **$1,224** | **$1,276** | **$1,317** | **$1,368** | **$1,430** | **$1,499** | **$1,571** | **$1,647** | **$1,725** | **$1,807** |
| Net T&D Revenues/GWh | $0.059 | $0.061 | $0.062 | $0.064 | $0.066 | $0.068 | $0.070 | $0.073 | $0.075 | $0.078 |

# Pro Forma T&D System—Balance Sheet

**($ in millions)**

| | *For the Fiscal Year Ended December 31,* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Cash | $150 | $150 | $150 | $154 | $348 | $520 | $734 | $921 | $1,152 | $1,354 |
| Net Working Capital | 266 | 266 | 266 | 266 | 266 | 266 | 266 | 266 | 266 | 266 |
| Net PP&E | 3,440 | 3,537 | 3,611 | 3,686 | 3,742 | 3,831 | 3,883 | 3,967 | 4,014 | 4,094 |
| Fuel and Purchased Power Costs Recoverable | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 |
| Goodwill | 658 | 658 | 658 | 658 | 658 | 658 | 658 | 658 | 658 | 658 |
| Other Assets | 96 | 88 | 87 | 86 | 85 | 84 | 84 | 83 | 82 | 82 |
| **Total Assets** | **$4,630** | **$4,720** | **$4,792** | **$4,870** | **$5,120** | **$5,379** | **$5,645** | **$5,916** | **$6,192** | **$6,474** |
| Commercial Paper | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Long-Term Debt | 2,387 | 2,315 | 2,219 | 2,124 | 2,194 | 2,268 | 2,342 | 2,415 | 2,488 | 2,560 |
| Capital Leases | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Liabilities | 102 | 102 | 102 | 102 | 102 | 102 | 102 | 102 | 102 | 102 |
| Net Assets | 2,142 | 2,303 | 2,471 | 2,645 | 2,824 | 3,010 | 3,201 | 3,399 | 3,602 | 3,812 |
| **Total Liabilities & Net Assets** | **$4,630** | **$4,720** | **$4,792** | **$4,870** | **$5,120** | **$5,379** | **$5,645** | **$5,916** | **$6,192** | **$6,474** |







# Pro Forma T&D System—Cash Flow Statement

**($ in millions)**

| | *For the Fiscal Year Ended December 31,* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Net Income | $153 | $161 | $168 | $174 | $180 | $186 | $192 | $198 | $204 | $209 |
| Add: Depreciation | 149 | 159 | 170 | 176 | 182 | 189 | 195 | 202 | 209 | 217 |
| Deferred Fuel Cost Reconciliation | 37 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 4 | 8 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| **Cash Flow from Operations** | **$343** | **$329** | **$339** | **$350** | **$362** | **$375** | **$388** | **$401** | **$414** | **$427** |
| T&D and Other Capital Expenditures | (299) | (257) | (243) | (251) | (238) | (277) | (247) | (287) | (256) | (296) |
| **Cash Flow from Investing Activity** | **($299)** | **($257)** | **($243)** | **($251)** | **($238)** | **($277)** | **($247)** | **($287)** | **($256)** | **($296)** |
| **Cash Available for Debt Service** | **$44** | **$72** | **$96** | **$99** | **$128** | **$296** | **$510** | **$698** | **$929** | **$1,132** |
| Plus: Issuance (Repayment) of Long-Term Debt | (44) | (72) | (96) | (95) | 70 | 74 | 74 | 73 | 73 | 72 |
| Issue/(Retire) Commercial Paper | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Debt Service | ($44) | ($72) | ($96) | ($95) | $70 | $74 | $74 | $73 | $73 | $72 |
| **Net Change In Cash** | **$0** | **$0** | **$0** | **$4** | **$194** | **$172** | **$214** | **$187** | **$231** | **$202** |
| Beginning Cash Balance | 150 | 150 | 150 | 150 | 154 | 348 | 520 | 734 | 921 | 1,152 |
| Minimum Cash Balance | $150 | $150 | $150 | $150 | $150 | $150 | $150 | $150 | $150 | $150 |
| Excess Cash/(Deficit) Available for Debt Paydown | $44 | $72 | $96 | $99 | $128 | $296 | $510 | $698 | $929 | $1,132 |
| Beginning Balance | $150 | $150 | $150 | $150 | $154 | $348 | $520 | $734 | $921 | $1,152 |
| Change in Cash | 0 | 0 | 0 | 4 | 194 | 172 | 214 | 187 | 231 | 202 |
| Ending Balance | $150 | $150 | $150 | $154 | $348 | $520 | $734 | $921 | $1,152 | $1,354 |





F G E

# Pro Forma T&D System—Debt and Interest Schedule

**($ in millions)**

| | For the Fiscal Year Ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Cash Available for Debt Service | $44 | $72 | $96 | $99 | $128 | $296 | $510 | $698 | $929 | $1,132 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Cash Available for Debt Paydown** | **$44** | **$72** | **$96** | **$99** | **$128** | **$296** | **$510** | **$698** | **$929** | **$1,132** |
| **Commercial Paper Program** | | | | | | | | | | |
| Beginning Balance | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Draw/(Paydown) on Revolver | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Ending Balance | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Average Balance | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Interest Payment | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| **Excess Cash Available after Commercial Paper Retir** | **$44** | **$72** | **$96** | **$99** | **$128** | **$296** | **$510** | **$698** | **$929** | **$1,132** |
| **Long-Term Debt** | | | | | | | | | | |
| Beginning Balance | $2,431 | $2,387 | $2,315 | $2,219 | $2,124 | $2,194 | $2,268 | $2,342 | $2,415 | $2,488 |
| Less: Mandatory Repayment | (44) | (72) | (96) | (95) | 70 | 74 | 74 | 73 | 73 | 72 |
| Ending Balance | $2,387 | $2,315 | $2,219 | $2,124 | $2,194 | $2,268 | $2,342 | $2,415 | $2,488 | $2,560 |
| Average Balance | $2,387 | $2,351 | $2,267 | $2,172 | $2,159 | $2,231 | $2,305 | $2,379 | $2,452 | $2,524 |
| Interest Payment | $90 | $88 | $85 | $81 | $81 | $84 | $86 | $89 | $92 | $95 |
| **Total Debt** | **$2,387** | **$2,315** | **$2,219** | **$2,124** | **$2,194** | **$2,268** | **$2,342** | **$2,415** | **$2,488** | **$2,560** |







# Pro Forma T&D System—PP&E Summary

**($ in millions)**

| | For the Fiscal Year Ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| **Consolidated Capex** | **$373** | **$298** | **$321** | **$293** | **$318** | **$323** | **$330** | **$335** | **$342** | **$346** |
| % of Net PP&E | 11.33% | 8.65% | 9.09% | 8.12% | 8.62% | 8.62% | 8.62% | 8.62% | 8.62% | 8.62% |
| Less: NMP2 Capex | (40) | (12) | (51) | (14) | (53) | (15) | (55) | (16) | (57) | (17) |
| Less: Capex Synergies | (33) | (29) | (27) | (28) | (26) | (31) | (27) | (32) | (28) | (33) |
| **Pro Forma T&D Capex** | $299 | $257 | $243 | $251 | $238 | $277 | $247 | $287 | $256 | $296 |
| Total System Depreciation | 167 | 177 | 188 | 194 | 200 | 207 | 213 | 220 | 227 | 235 |
| Less: NMP2 Depreciation | (18) | (18) | (18) | (18) | (18) | (18) | (18) | (18) | (18) | (18) |
| **T&D Depreciation** | **149** | **159** | **170** | **176** | **182** | **189** | **195** | **202** | **209** | **217** |
| **Net PP&E:** | | | | | | | | | | |
| Beginning PP&E | $3,289 | $3,440 | $3,537 | $3,611 | $3,686 | $3,742 | $3,831 | $3,883 | $3,967 | $4,014 |
| Add: Capex | 299 | 257 | 243 | 251 | 238 | 277 | 247 | 287 | 256 | 296 |
| Less: Depreciation | (149) | (159) | (170) | (176) | (182) | (189) | (195) | (202) | (209) | (217) |
| **Ending PP&E** | **$3,440** | **$3,537** | **$3,611** | **$3,686** | **$3,742** | **$3,831** | **$3,883** | **$3,967** | **$4,014** | **$4,094** |





F G E

# Pro Forma T&D System—ROE Calculation

**($ in millions)**

| | | *For the Fiscal Year Ended December 31,* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Beginning Ratebase | | $3,289 | $3,513 | $3,652 | $3,804 | $3,921 | $4,057 | $4,191 | $4,326 | $4,458 | $4,591 |
| Capitalized De-merger Costs | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| MSA Adjustments to Base Rate | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Plus: Capital Expenditures | | 373 | 298 | 321 | 293 | 318 | 323 | 330 | 335 | 342 | 346 |
| Less: Depreciation | | (149) | (159) | (170) | (176) | (182) | (189) | (195) | (202) | (209) | (217) |
| Less: Deferred Tax Liability Accruals | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Ending Ratebase | | $3,513 | $3,652 | $3,804 | $3,921 | $4,057 | $4,191 | $4,326 | $4,458 | $4,591 | $4,720 |
| Average Ratebase | | $3,401 | $3,583 | $3,728 | $3,862 | $3,989 | $4,124 | $4,258 | $4,392 | $4,524 | $4,655 |
| Allocated to Debt | 55.0% | $1,871 | $1,970 | $2,050 | $2,124 | $2,194 | $2,268 | $2,342 | $2,415 | $2,488 | $2,560 |
| Assumed Interest at 3.8% | 3.8% | $70 | $74 | $77 | $80 | $82 | $85 | $88 | $91 | $93 | $96 |
| Allocated to Equity | 45.0% | $1,531 | $1,612 | $1,677 | $1,738 | $1,795 | $1,856 | $1,916 | $1,976 | $2,036 | $2,095 |
| After-tax Equity Return at 10.00% | 10.00% | $153 | $161 | $168 | $174 | $180 | $186 | $192 | $198 | $204 | $209 |
| Operating Income Before Retained Synergies | | $334 | $344 | $349 | $353 | $362 | $375 | $388 | $400 | $413 | $426 |
| Retained Synergies | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Income | | $334 | $344 | $349 | $353 | $362 | $375 | $388 | $400 | $413 | $426 |
| Interest Expense | | $70 | $74 | $77 | $80 | $82 | $85 | $88 | $91 | $93 | $96 |
| Other Income | | $10 | $13 | $15 | $18 | $18 | $18 | $18 | $18 | $18 | $18 |
| Earnings Before Tax (EBT) | | $274 | $283 | $288 | $291 | $298 | $308 | $318 | $328 | $338 | $348 |
| Taxes | | (102) | (107) | (112) | (116) | (120) | (124) | (128) | (132) | (136) | (140) |
| **Net Income** | | **$172** | **$175** | **$176** | **$176** | **$178** | **$184** | **$190** | **$196** | **$202** | **$208** |
| *Return on Equity* | | *11.3%* | *10.9%* | *10.5%* | *10.1%* | *9.9%* | *9.9%* | *9.9%* | *9.9%* | *9.9%* | *9.9%* |





# Pro Forma T&D System—Credit Statistics

**($ in millions)**

| | *For the Fiscal Year Ended December 31,* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| **Capitalization:** | | | | | | | | | | |
| Cash | $150 | $150 | $150 | $154 | $348 | $520 | $734 | $921 | $1,152 | $1,354 |
| Total Debt | 2,387 | 2,315 | 2,219 | 2,124 | 2,194 | 2,268 | 2,342 | 2,415 | 2,488 | 2,560 |
| **Net Debt** | **$2,237** | **$2,165** | **$2,069** | **$1,970** | **$1,846** | **$1,748** | **$1,608** | **$1,494** | **$1,337** | **$1,206** |
| Minority Interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Assets | 2,142 | 2,303 | 2,471 | 2,645 | 2,824 | 3,010 | 3,201 | 3,399 | 3,602 | 3,812 |
| **Total Capitalization** | **$4,529** | **$4,618** | **$4,690** | **$4,769** | **$5,018** | **$5,278** | **$5,543** | **$5,814** | **$6,091** | **$6,372** |
| **Financial Statistics:** | | | | | | | | | | |
| Interest Expense | $90 | $88 | $85 | $81 | $81 | $84 | $86 | $89 | $92 | $95 |
| EBITDA | 777 | 808 | 834 | 856 | 889 | 927 | 966 | 1,006 | 1,047 | 1,089 |
| Capex | 299 | 257 | 243 | 251 | 238 | 277 | 247 | 287 | 256 | 296 |
| FFO | 302 | 320 | 337 | 350 | 361 | 374 | 387 | 400 | 413 | 426 |
| FFO - Capex | 3 | 64 | 94 | 98 | 124 | 97 | 140 | 113 | 157 | 130 |
| **Coverage Ratios:** | | | | | | | | | | |
| EBITDA/Interest Expense | 8.7x | 9.2x | 9.8x | 10.5x | 11.0x | 11.1x | 11.2x | 11.3x | 11.4x | 11.5x |
| EBITDA - Capex/Interest Expense | 5.3x | 6.3x | 7.0x | 7.4x | 8.0x | 7.8x | 8.3x | 8.1x | 8.6x | 8.4x |
| FFO/Interest Expense | 4.4x | 4.6x | 5.0x | 5.3x | 5.5x | 5.5x | 5.5x | 5.5x | 5.5x | 5.5x |
| **Leverage Ratios:** | | | | | | | | | | |
| Total Debt/Total Capitalization | 52.7% | 50.1% | 47.3% | 44.5% | 43.7% | 43.0% | 42.2% | 41.5% | 40.9% | 40.2% |
| Total Debt/EBITDA | 3.1x | 2.9x | 2.7x | 2.5x | 2.5x | 2.4x | 2.4x | 2.4x | 2.4x | 2.4x |
| FFO/Total Debt | 12.6% | 13.8% | 15.2% | 16.5% | 16.5% | 16.5% | 16.5% | 16.6% | 16.6% | 16.6% |

# E Residual LIPA Financial Projections

# Residual LIPA—Income Statement

**($ in millions)**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| | *For the Fiscal Year Ended December 31,* | | | | | | | | | |
| **Total Revenue Requirement** | $397 | $397 | $398 | $400 | $298 | $270 | $310 | $281 | $314 | $284 |
| **Debt Principal Repayment** | ($74) | ($76) | ($79) | ($82) | ($85) | ($89) | ($92) | ($95) | ($99) | ($103) |
| Operating Expenses: | | | | | | | | | | |
| Nine Mile Point 2 O&M | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 41 | 42 | 43 |
| General & Administrative | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Depreciation (NMP2) | 23 | 23 | 24 | 25 | 25 | 26 | 26 | 27 | 28 | 28 |
| Amortization of Acquisition Adjustment & OID | 118 | 118 | 118 | 118 | 118 | 118 | 118 | 118 | 118 | 118 |
| Total Operating Expenses (Excl. Fuel & Purch Pwr.) | $178 | $179 | $181 | $182 | $184 | $185 | $187 | $189 | $191 | $192 |
| **Operating Income** | $220 | $218 | $217 | $218 | $114 | $84 | $123 | $92 | $124 | $91 |
| Other Income | 29 | 29 | 28 | 28 | 27 | 27 | 26 | 25 | 24 | 23 |
| **Income from Continuing Operations** | $248 | $247 | $246 | $246 | $142 | $111 | $149 | $117 | $148 | $115 |
| Interest on Debt | $151 | $147 | $143 | $140 | $137 | $134 | $130 | $127 | $123 | $120 |
| Other Interest and Fees | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 |
| AFUDC | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) |
| **Total Interest Charges** | $174 | $170 | $166 | $162 | $159 | $156 | $153 | $149 | $146 | $142 |
| Promissory Note Receipts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Interest Charges | 174 | 170 | 166 | 162 | 159 | 156 | 153 | 149 | 146 | 142 |
| **Net Income before Cash Reconciliation** | $75 | $77 | $80 | $83 | ($120) | ($178) | ($99) | ($160) | ($94) | ($157) |
| Cash Reconciliation | $0 | $0 | $0 | $0 | $103 | $133 | $95 | $127 | $96 | $130 |
| **Net Income** | $1 | $1 | $1 | $1 | ($18) | ($45) | ($4) | ($32) | $2 | ($27) |
| Memo: **EBITDA** | $361 | $360 | $360 | $361 | $258 | $228 | $268 | $237 | $270 | $238 |
| Memo: EBIT | $220 | $218 | $217 | $218 | $114 | $84 | $123 | $92 | $124 | $91 |
| Memo: Capital Expenditures | $40 | $12 | $51 | $14 | $53 | $15 | $55 | $16 | $57 | $17 |





# Residual LIPA—Balance Sheet

**($ in millions)**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| | *For the Fiscal Year Ended December 31,* | | | | | | | | | |
| Cash | $226 | $226 | $311 | $445 | $531 | $621 | $713 | $810 | $910 | $1,013 |
| Net Working Capital | (55) | (55) | (55) | (55) | (55) | (55) | (55) | (55) | (55) | (55) |
| Net PP&E | 3,515 | 3,504 | 3,531 | 3,521 | 3,549 | 3,538 | 3,567 | 3,555 | 3,585 | 3,573 |
| Capitalized Breakage and Defeasance Costs | 1,736 | 1,736 | 1,736 | 1,736 | 1,736 | 1,736 | 1,736 | 1,736 | 1,736 | 1,736 |
| Promisory Notes Receivable (from NG) | 155 | 155 | 155 | 47 | 47 | 47 | 47 | 47 | 47 | 47 |
| Counterparty collateral - posted by Authority | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Other Long-Term Receviables | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 |
| Shoreham Property Tax Settlement | 513 | 499 | 484 | 466 | 447 | 425 | 401 | 375 | 347 | 316 |
| Acquisition Adjustment | 2,199 | 2,083 | 1,967 | 1,852 | 1,736 | 1,620 | 1,505 | 1,389 | 1,273 | 1,157 |
| Other Non-Current Assets | 465 | 430 | 396 | 370 | 336 | 310 | 284 | 267 | 240 | 223 |
| **Total Assets** | $8,799 | $8,624 | $8,571 | $8,427 | $8,372 | $8,288 | $8,244 | $8,169 | $8,128 | $8,056 |
| Commercial Paper | $159 | $18 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Long-Term Debt (Shoreham) | 3,812 | 3,738 | 3,662 | 3,582 | 3,499 | 3,413 | 3,324 | 3,231 | 3,135 | 3,035 |
| NYSERDA Financing Notes | 155 | 155 | 155 | 47 | 47 | 47 | 47 | 47 | 47 | 47 |
| Capital Leases | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 | 3,031 |
| Other Liabilities | 478 | 483 | 488 | 493 | 498 | 503 | 509 | 514 | 520 | 525 |
| Net Assets/Equity | 1,163 | 1,198 | 1,235 | 1,274 | 1,296 | 1,292 | 1,332 | 1,345 | 1,395 | 1,417 |
| **Total Liabilities & Net Assets** | $8,799 | $8,624 | $8,571 | $8,427 | $8,372 | $8,288 | $8,244 | $8,169 | $8,128 | $8,056 |

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# Residual LIPA—Cash Flow Statement

**($ in millions)**

*For the Fiscal Year Ended December 31,*

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Income | $1 | $1 | $1 | $1 | ($18) | ($45) | ($4) | ($32) | $2 | ($27) |
| Add: Depreciation & Amortization | 145 | 145 | 146 | 146 | 147 | 148 | 148 | 149 | 150 | 150 |
| Amortization of Deferred Shoreham Tax Settlement | 41 | 42 | 42 | 43 | 44 | 46 | 47 | 48 | 49 | 50 |
| Asset Retirement Obligation Accretion - FASB 143 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Shoreham Settlement Carrying Charge | (29) | (28) | (27) | (26) | (25) | (24) | (23) | (22) | (20) | (19) |
| Power Supply Management Contract Transition | 3 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Funding for NMP2 Plant Decommissioning | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| Prepaid NMP2 Refueling Outage Costs | (0) | (8) | (0) | (10) | (0) | (10) | (0) | (10) | (0) | (10) |
| NMP2 Amortized Nuclear Fuel Expense | 15 | 17 | 18 | 19 | 19 | 19 | 19 | 19 | 19 | 19 |
| Amortization of Prepaid NMP2 Refueling Outage Costs | 4 | 4 | 4 | 5 | 4 | 5 | 4 | 5 | 4 | 5 |
| Servco Transition Costs | (24) | 8 | 8 | 8 | 8 | 8 | 0 | 0 | 0 | 0 |
| Section 18 Assessment Redirection | 33 | 34 | 36 | 38 | 40 | 41 | 43 | 45 | 47 | 49 |
| Other | (39) | 8 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| **Cash Flow from Operations** | **$154** | **$230** | **$233** | **$230** | **$225** | **$193** | **$240** | **$207** | **$256** | **$223** |
| NMP2 Capital Expeditures | (40) | (12) | (51) | (14) | (53) | (15) | (55) | (16) | (57) | (17) |
| **Cash Flow from Investing Activity** | **($40)** | **($12)** | **($51)** | **($14)** | **($53)** | **($15)** | **($55)** | **($16)** | **($57)** | **($17)** |
| **Cash Available for Debt Service** | **$114** | **$218** | **$182** | **$301** | **$390** | **$483** | **$579** | **$679** | **$782** | **$889** |
| Less: Mandatory Repayment of Shoreham Debt | ($74) | ($76) | ($79) | ($82) | ($85) | ($89) | ($92) | ($95) | ($99) | ($103) |
| Total Required Debt Service | ($74) | ($76) | ($79) | ($82) | ($85) | ($89) | ($92) | ($95) | ($99) | ($103) |
| **Cash Avaliable after Mandatory Debt Paydown** | **$40** | **$142** | **$103** | **$218** | **$305** | **$394** | **$487** | **$583** | **$683** | **$787** |
| Issue/(Retire) Commercial Paper | (40) | (142) | (18) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Optional Shoreham Debt Repayment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Optional T&D Debt Repayment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash Provided by/(used in) Financing Activities | ($114) | ($218) | ($97) | ($82) | ($85) | ($89) | ($92) | ($95) | ($99) | ($103) |
| **Net Change in Cash** | **$0** | **$0** | **$85** | **$134** | **$1** | **$1** | **$1** | **$1** | **$1** | **$1** |
| Beginning Cash Balance | 226 | 226 | 226 | 311 | 445 | 531 | 621 | 713 | 810 | 910 |
| Minimum Cash Balance | $226 | $226 | $226 | $226 | $226 | $226 | $226 | $226 | $226 | $226 |
| Excess Cash/(Deficit) Available for Debt Paydown | $114 | $218 | $182 | $301 | $390 | $483 | $579 | $679 | $782 | $889 |
| Beginning Balance | $226 | $226 | $226 | $311 | $445 | $531 | $621 | $713 | $810 | $910 |
| Change in Cash | 0 | 0 | 85 | 134 | 86 | 90 | 93 | 96 | 100 | 104 |
| Ending Balance | $226 | $226 | $311 | $445 | $531 | $621 | $713 | $810 | $910 | $1,013 |





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New York Power Authority

E RESIDUAL LIPA FINANCIAL PROJECTIONS

# Residual LIPA—Debt and Interest Schedule

**($ in millions)**

*For the Fiscal Year Ended December 31,*

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash Available after Mandatory Debt Paydown | $40 | $142 | $103 | $218 | $305 | $394 | $487 | $583 | $683 | $787 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Cash Available for Debt Paydown** | **$40** | **$142** | **$103** | **$218** | **$305** | **$394** | **$487** | **$583** | **$683** | **$787** |
| **Commercial Paper Program** | | | | | | | | | | |
| Beginning Balance | $200 | $159 | $18 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Draw/(Paydown) on Revolver | (40) | (142) | (18) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Ending Balance | $159 | $18 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Average Balance | $180 | $89 | $9 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Interest Payment | ($3) | ($1) | ($0) | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| **Excess Cash Available after Commercial Paper Retirement** | **$0** | **$0** | **$85** | **$218** | **$305** | **$394** | **$487** | **$583** | **$683** | **$787** |
| **Long-Term Debt (Shoreham)** | | | | | | | | | | |
| Beginning Balance | $3,961 | $3,887 | $3,811 | $3,732 | $3,649 | $3,564 | $3,476 | $3,384 | $3,288 | $3,190 |
| Less: Principal Payment | (74) | (76) | (79) | (82) | (85) | (89) | (92) | (95) | (99) | (103) |
| Less: Interest Payment | (149) | (146) | (143) | (140) | (137) | (134) | (130) | (127) | (123) | (120) |
| Total Mandatory Shoreham Payment | ($222) | ($222) | ($222) | ($222) | ($222) | ($222) | ($222) | ($222) | ($222) | ($222) |
| Less: Optional Payment | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| **Ending Balance** | **$3,887** | **$3,811** | **$3,732** | **$3,649** | **$3,564** | **$3,476** | **$3,384** | **$3,288** | **$3,190** | **$3,087** |
| Average Balance | $3,885 | $3,849 | $3,771 | $3,690 | $3,607 | $3,520 | $3,430 | $3,336 | $3,239 | $3,138 |
| Memo: Existing Debt Repayment Schedule | $172 | $274 | $281 | $186 | $192 | $201 | $215 | $219 | $228 | $232 |
| **NYSERDA Financing Notes** | | | | | | | | | | |
| Ending Balance | 155 | 155 | 155 | 47 | 47 | 47 | 47 | 47 | 47 | 47 |
| **Total Debt** | **$4,202** | **$3,984** | **$3,887** | **$3,697** | **$3,611** | **$3,523** | **$3,431** | **$3,336** | **$3,237** | **$3,134** |



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# F Frequently Asked Questions

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DISCUSSION MATERIALS

# New York Power Authority

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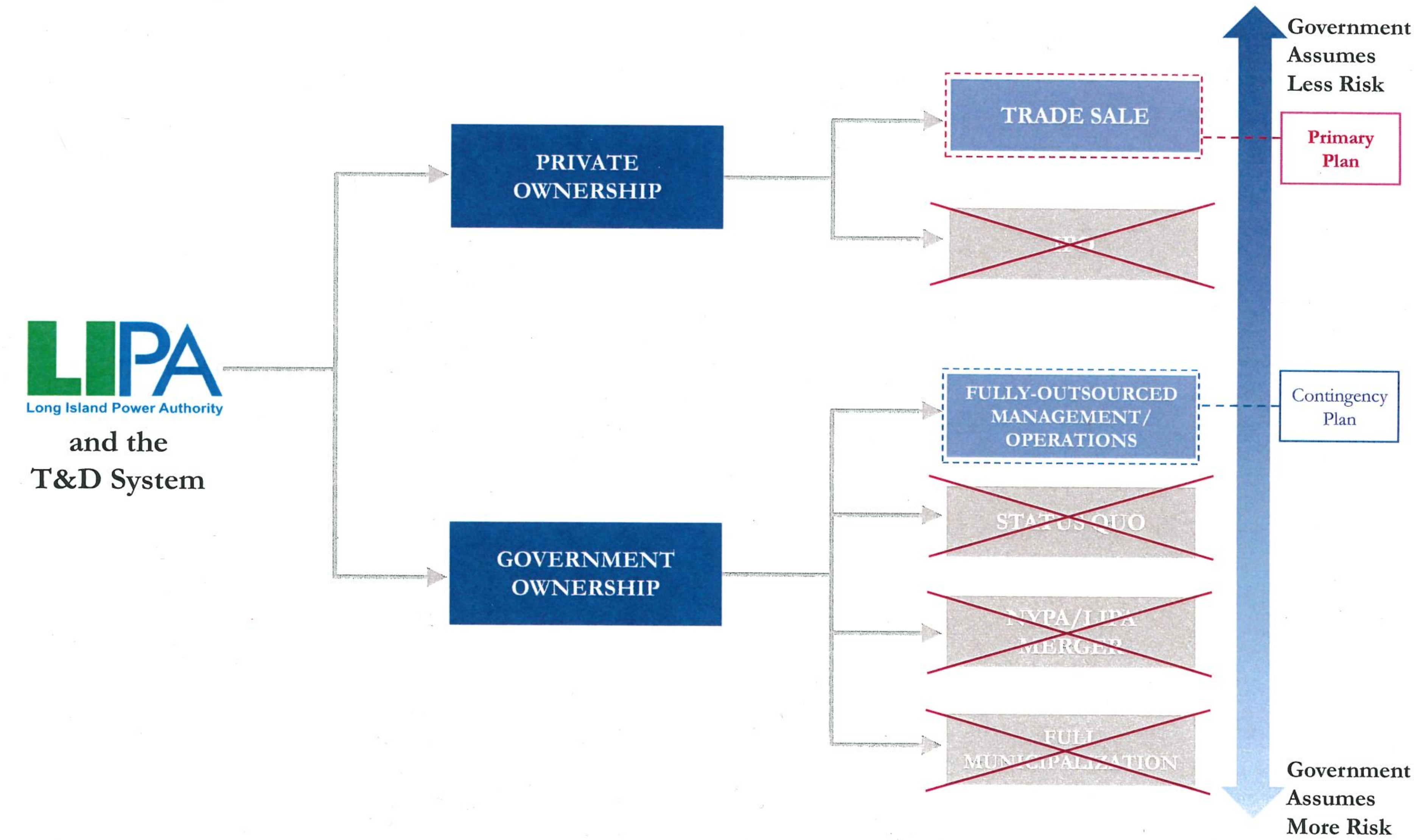
# Table of Contents

# I Executive Summary

# Strategic Organizational Alternatives for LIPA and the T&D System[a]




(a) Alternatives are not mutually exclusive in all respects.



# Executive Summary and Principal Current Recommendations

1. **The status quo is untenable**

2. **LIPA's fundamental organizational and accountability issues should be resolved by placing the Long Island electric T&D system (the "T&D System") under New York PSC regulation and oversight, ensuring that it is held accountable in the same manner as all other utilities in the State**

3. **Further governmental consolidation—through full municipalization, a NYPA/LIPA merger or otherwise—would not address key objectives for the T&D System**
   - No integration of management, planning and operations
   - NYPA, for all its strengths, is not equipped to run a T&D system
   - Accountability issue unresolved

4. **Privatization via sale of the T&D System to a new owner would address the key objectives**
   - Importantly, a unique window of opportunity (supported by historically-low interest rates) may exist to implement a privatization as a permanent solution to the T&D System with a moderate benefit for ratepayers
   - Complete outsourcing of management/operations (i.e., LIPA becomes "one person at a desk") would be a contingency plan

5. **There is likely a significant role for NYPA to play in transaction execution and the implementation of a permanent solution, particularly around LIPA's capital lease portfolio and the resolution of New York State's interest in NMP2[a]**

6. **New York State should begin implementing a communications strategy that is supportive of its desired outcome, including focusing on a positive business environment for New York State utilities**

7. **The recommendations herein require a deliberate, coordinated implementation approach**

***Recommendation: Execute the privatization based on the implementation steps identified herein; maintain the fully-outsourced solution as a contingency plan***

(a) The privatization assumes the extension of the operating agreement with National Grid through transaction close.

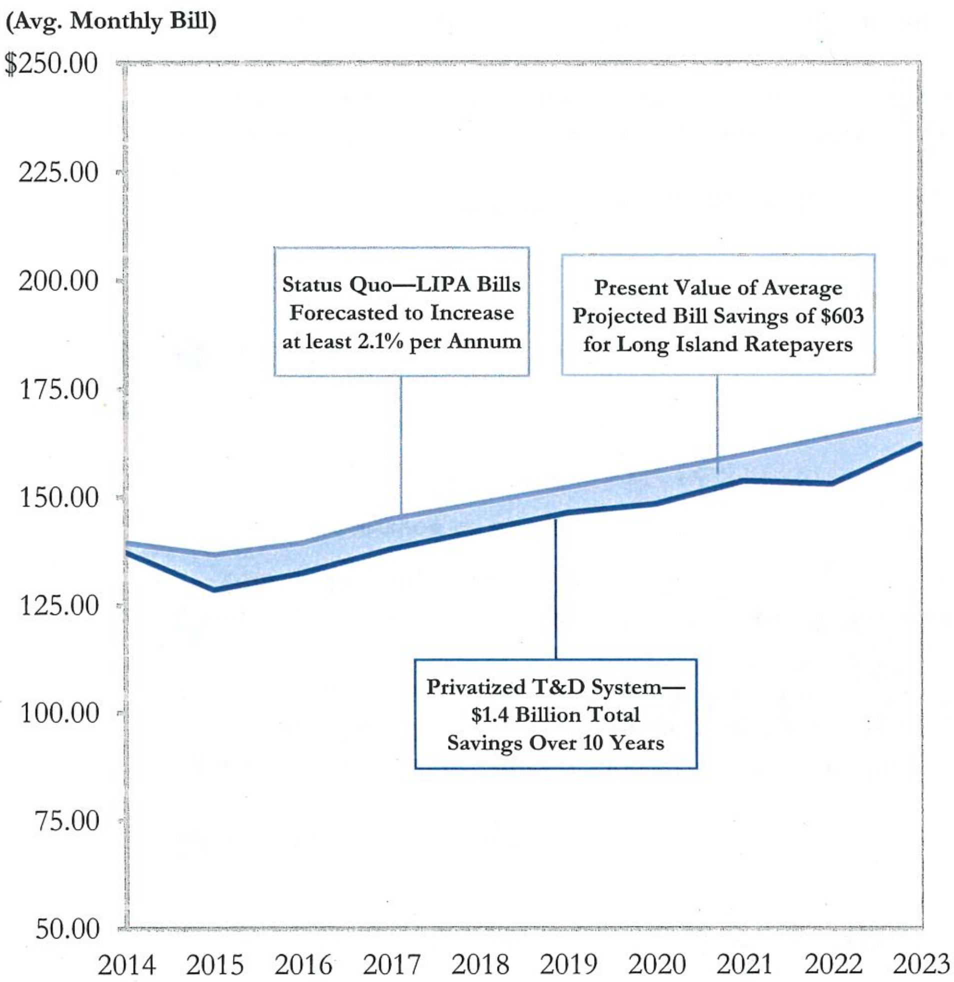




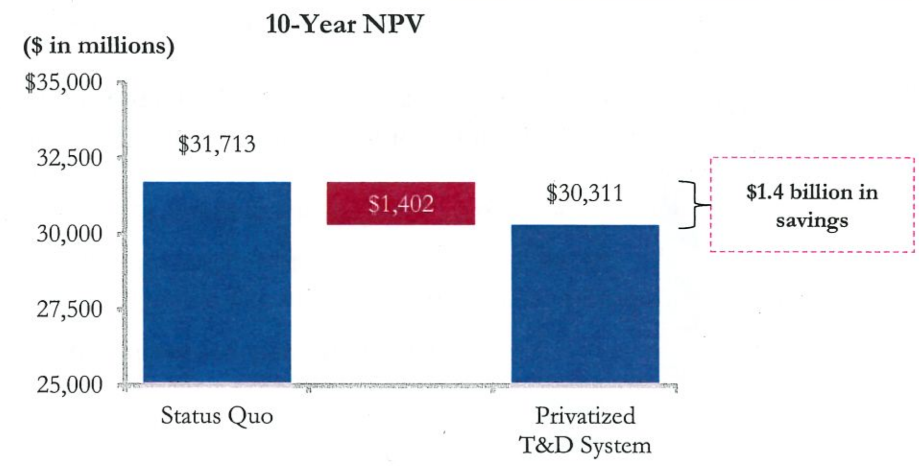
A II III IV V

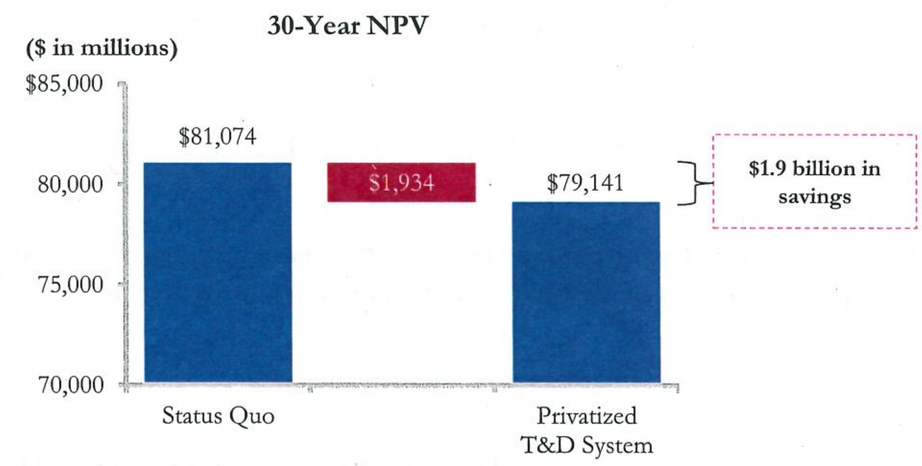
# Quantitative Benefits of Privatization—Ratepayer Bill Comparison

## 10-YEAR CUSTOMER BILL FORECAST




## SUMMARY RATE IMPACT




*Source:* *LIPA 2013 Budget.*
Note: Assumes (i) Privatized T&D System fully refinances remaining LIPA debt, (ii) average monthly residential customer electricity consumption is 775 kWh and (iii) reliability of LIPA forecasts.



# Qualitative Benefits of Privatization

1. Solves, once and for all, the T&D System's problems and the Shoreham debt issues
2. Integrates management, planning and operations
3. Resolves accountability issue

*Key conditions to avoid another "Sandy"*

4. Rate benefits for Long Island ratepayers
5. Transfers operating risks from the State to the private sector
6. Improves decision-making process
7. Successful precedents—structure would be consistent with rest of New York State and nearly the entire U.S. Electric Industry
8. Ends transitional role of LIPA, as originally contemplated in 1998

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New York Power Authority



# Conditions Precedent to a Privatization Transaction

| | | DESCRIPTION | SEQUENCING/TIMING CONSIDERATIONS |
|---|---|---|---|
| STATE LEGISLATION | PRIVATIZATION | ■ **All legislation required to authorize the privatization of the T&D System**<br>▪ Deem privatization to be within LIPA's authority and in furtherance of the public interest<br>▪ Authorize creation of new entities/subsidiaries as necessary to effect privatization<br>▪ Streamline approval process and requirements<br>▪ Amend Public Officers Law to provide waivers for transition of key personnel to an Investor-Owned Utility (buyer)<br>▪ Enable 18-A Conservation Assessment to be allocated directly to service residual LIPA debt (or refinanced LIPA debt) outstanding after privatization | ■ Both privatization and securitization legislation would need to be established to enable any transaction<br>■ Timing: TBD |
| | SECURITIZATION | ■ **Authorize securitization of charges to support/service remaining debt**<br>▪ Provide for taxable and/or tax-exempt[a] financing | ■ Well-established legislative process (albeit no precedent in New York State) |
| PSC RATE COMPACT & REGULATORY FRAMEWORK | | ■ **Establish initial rate compact and overall regulatory framework for an Investor-Owned Utility (buyer)** | ■ Rate compact framework would need to be established to facilitate buyer negotiations<br>■ Timing: TBD |
| APPROVALS, FILINGS AND CONSENTS | | ■ PSC transaction approval<br>■ Debt-related approvals/consents (bondholder consents, PSC financing order), as required<br>■ Federal approvals/filings/rulings (e.g., FERC, HSR/DOJ/FTC, IRS[b], NRC[c], FCC, CFIUS[d], etc.), as required<br>■ State approvals (PACB, Attorney General, Comptroller), as required<br>■ NYISO filings<br>■ Determine capital lease resolution | ■ Various approvals, filings and consents will be required after an agreement is signed with a buyer<br>■ Timing: TBD |

(a) Federal tax legislation would maximize and facilitate the potential use of tax-exempt financing.
(b) Rulings relating to certain income tax matters and to the tax exemption of certain bonds.
(c) NRC filing relating to the sale of LIPA's interest in NMP2, the completion of which is not a requirement for a privatization transaction.
(d) Required if buyer is a foreign entity.

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# Illustrative Privatization Timeline[a]

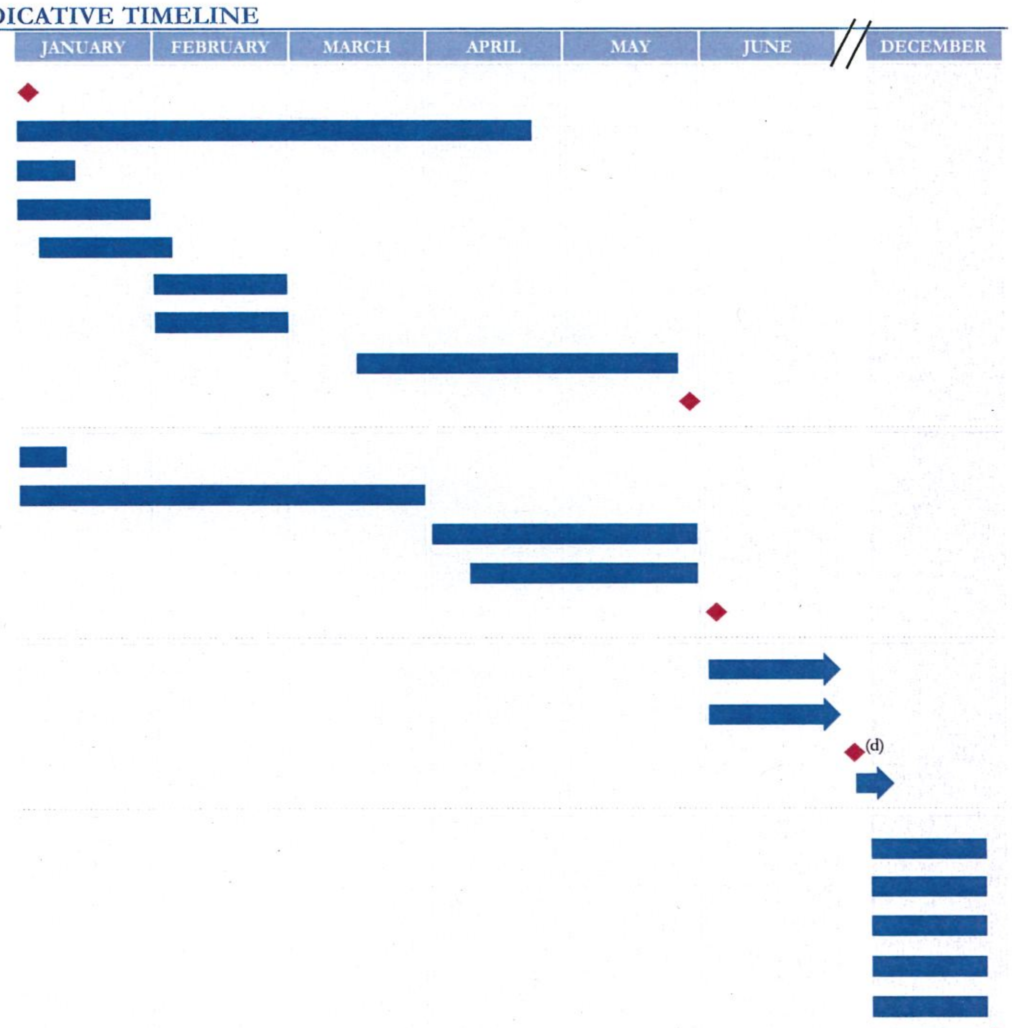
INDICATIVE TIMELINE

**LEGISLATION & REGULATORY FRAMEWORK**
- Decision to proceed with execution
- Define/implement communication strategy
- Develop legislative strategy
- Define proposed securitization structure[b]
- Draft privatization legislation[c]
- Draft securitization legislation[c]
- Establish PSC rate compact/reg. framework
- Introduce legislative/committee actions
- Legislative action complete

**BUYER NEGOTIATIONS & PRELIMINARY DILIGENCE**
- Initiate preliminary buyer discussions
- Prepare buyer evaluation materials
- Buyer evaluation period
- Conduct buyer negotiations
- Select preferred buyer

**NEGOTIATION, DUE DILIGENCE & MARKET CHECK**
- Negotiate transaction documents
- Ongoing buyer due diligence
- Sign and announce
- Market check process

**APPROVALS, FINANCING & CLOSING**
- PSC transaction approval
- Debt-related approvals[e]
- Federal approvals
- State approvals and NYISO filings
- Execute securitization financing
- Transaction close[f]




(a) Assumes full refinancing of outstanding debt. Process, timelines and workstreams will be iterative as additional structuring issues are identified and resolved.
(b) Receive rating agency feedback as required.
(c) Privatization and securitization legislation may be combined.
(d) Anticipated announcement in July 2013.
(e) To include, among other items, a PSC financing order, the timing of which will be subject to various procedural considerations (including the ability of interested parties to request rehearings with the PSC and seek judicial appeals).
(f) Assumes the extension of the operating agreement with National Grid through transaction close.





A II III IV V

## II Situation Overview





A | B | III | IV | V

# Overview of Strategic Assessment Process to Date

| | |
|---|---|
| DEFINED OBJECTIVES | ■ Defined the principal objectives for the T&D System<br>■ Identified "threshold requirements" for potential solutions |
| GATHERED INFORMATION | ■ Requested and reviewed information relevant to the current situation impacting the T&D System<br>■ Reviewed precedent analyses of LIPA from NYPA, LIPA's consultants and others<br>■ Conducted interviews and working sessions with relevant parties and consultants (representatives of New York State, NYPA, LIPA, Hawkins, Orrick, PFM, Brattle Group, etc.)<br>■ Synthesized relevant information relating to LIPA's business, assets and liabilities and the political, legislative and regulatory antecedents of potential solutions |
| ANALYZED STRATEGIC ALTERNATIVES | ■ Consulted with NYPA, its advisors (Hawkins, PFM, Orrick) and representatives of New York State to identify the core issues impacting the T&D System and the universe of potential solutions<br>■ Conducted quantitative and qualitative analysis to evaluate the key drivers of, and their impact on, the T&D System<br>■ Distilled the universe of potential solutions for the T&D System to five specific alternatives<br>■ Evaluated the benefits, considerations and key implementation issues for each alternative |
| DEBT ANALYSIS | ■ Worked with PFM to identify LIPA's outstanding debt and analyze potential defeasance/breakage costs<br>■ Incorporated debt defeasance analysis into broader valuation/transaction structuring analysis |
| STRATEGIC RECOMMENDATION | ■ Recommended the privatization of LIPA via a sale of the T&D System to a new owner as the primary solution and consideration of the fully-outsourced solution as a contingency plan |
| REFINED ANALYSIS | ■ Evaluated the legal and structuring mechanics of the recommended privatization, including identifying critical path items needed for successful execution<br>■ Investigated the relevant political considerations and legislative requirements of the recommended privatization<br>■ Ongoing "stress testing" of key financial assumptions of the recommended privatization with LIPA and NYPA and its advisors |
| IMPLEMENTATION RECOMMENDATION | ■ Identified the conditions precedent to the recommended privatization and established an implementation plan |



# Objectives and Solutions for the T&D System

| | PROPOSED OBJECTIVES |
|---|---|
| ORGANIZATIONAL COHERENCE | ■ Deliver a structure/solution that provides for integrated management, planning and operations of the T&D System |
| ACCOUNTABILITY | ■ Deliver a structure/solution that holds the T&D System accountable in a manner that is consistent with other New York State utilities—i.e., via PSC regulation and oversight |
| ASSETS/RATES | ■ Determine a permanent ownership structure for the T&D System that enables the lowest costs possible given the need for safety, reliability and service levels consistent with those demanded of other utilities in New York State |
| ALLOCATION OF COSTS/LIABILITIES | ■ Determine a fair allocation of the costs/liabilities necessary to achieve these objectives among the system's stakeholders, taking into account both existing obligations and expenditures necessary to achieve the objectives |
| ENVIRONMENTAL | ■ Planning and operation of the T&D System with the same environmental standards and objectives demanded of other utilities in New York State |
| ECONOMIC DEVELOPMENT & JOBS | ■ Provide a stable, high-quality T&D System as a critical component of the infrastructure needed for economic development and jobs growth on Long Island and for the broader benefit of New York State |
| STORM RECOVERY | ■ Facilitate medium-term recovery from Sandy |

## What are the Problems with the Current LIPA Situation?

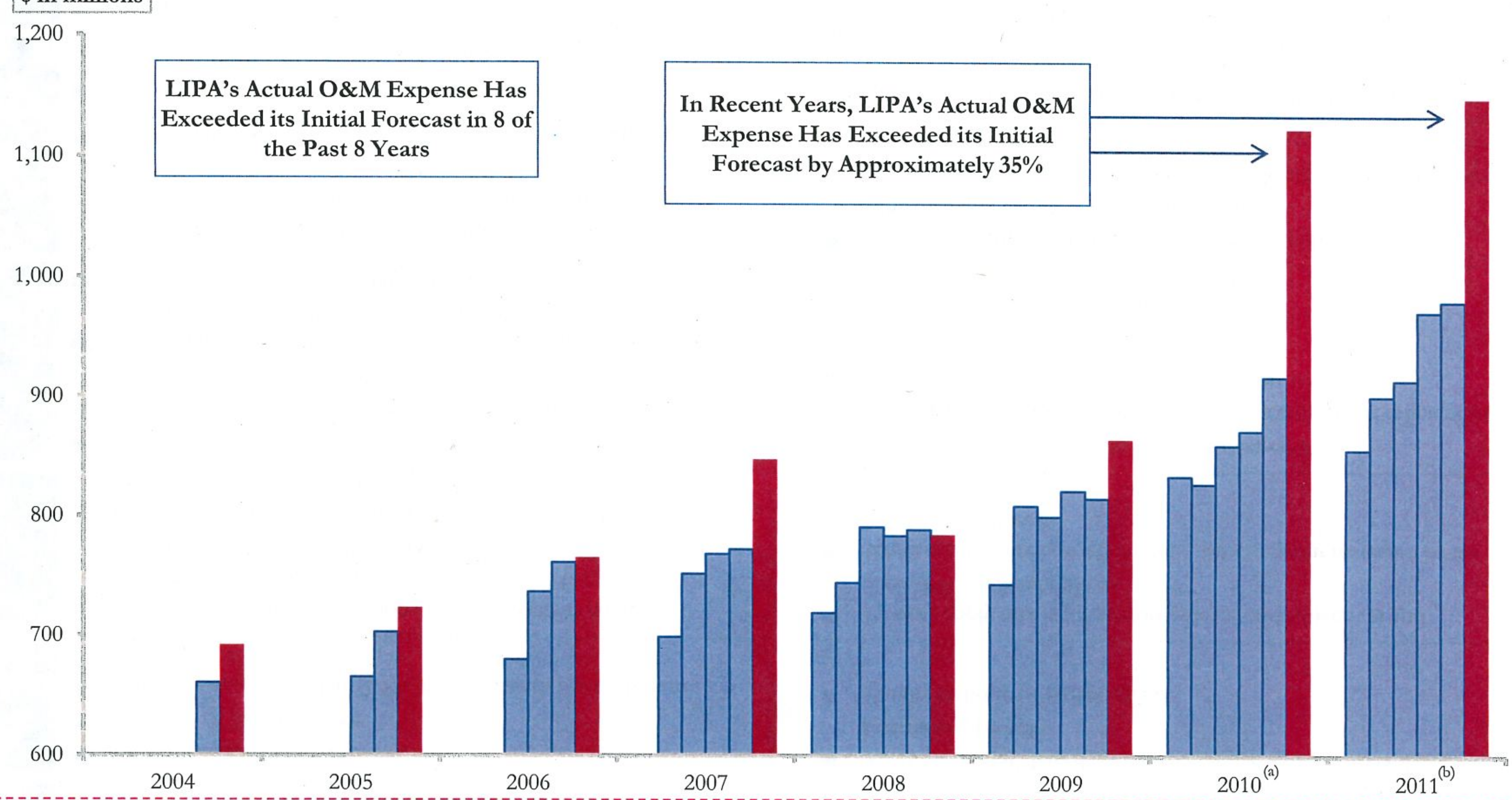
### CURRENT LIPA


### FUTURE LONG ISLAND ELECTRIC T&D SYSTEM




## LIPA—Historical Forecast vs. Actual Results

### PROJECTED VS. ACTUAL OPERATIONS AND MAINTENANCE EXPENSE




| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010[a] | 2011[b] |
|---|---|---|---|---|---|---|---|---|
| *Memo: Percentage Above Initial Forecast* | *5%* | *9%* | *13%* | *21%* | *9%* | *16%* | *35%* | *34%* |

■ Budgeted Forecasts ■ Actual Results

*Source: LIPA's approved and proposed budgets and audited financial statements.*
Note: Budgeted Forecasts represent LIPA's approved budget estimate five, four, three, two and one year(s) before the actual year. LIPA began publishing five-year projections in 2004.
(a) Storm restoration costs exceeded estimates by $140 million in 2010.
(b) Storm restoration costs exceeded estimates by $131 million in 2011.





A B III IV V

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# How Does LIPA Compare to Other New York Investor-Owned Utilities?

| | LIPA | OTHER NY INVESTOR-OWNED UTILITIES |
|---|---|---|
| OWNERSHIP/ OPERATION | ■ Separation of ownership and operations<br>■ Limited expertise in managing large-scale utility | ■ Integrated ownership and operations<br>■ Substantial expertise in managing large-scale utilities |
| RATE-SETTING MECHANISM | ■ Authorized to set its own rates<br>■ No body of jurisprudence<br>■ Any increase greater than 2.5% in a 12-month period requires PSC approval | ■ Rates set by PSC based on cost of service and well-established ratemaking process<br>■ Extensive body of jurisprudence |
| POWER PROCUREMENT | ■ Power supply mix is a function of cost objectives and self-implemented, self-supervised policy objectives (e.g., reserve margins, renewables, energy efficiency)<br>■ Limited to no expertise in power procurement— procurement essentially managed by external consultants | ■ Power supply mix is a function of least-cost objectives and State/PSC-defined policies<br>■ Expertise in power procurement—procurement managed by in-house professionals |
| CAPITAL STRUCTURE | ■ 100% tax-exempt debt financed<br>■ Absence of equity/ownership provides little incentive for efficiencies<br>■ Approximately $3 billion of liabilities in excess of its net PP&E—would be insolvent absent ratemaking authority<br>■ Shoreham debt burden driving rate pressure | ■ Financed by taxable debt and shareholder equity<br>■ Presence of equity/ownership provides incentives for efficiencies<br>■ Sustainable, investment-grade capital structure |
| RESOURCE/ CAPITAL ALLOCATION | ■ Resource/capital planning separate from operations<br>■ Resource/capital allocation decisions made by LIPA staff, with dependence on external consultants<br>■ Limited control or integration of capital/resource planning | ■ Resource planning functions are integrated with operational functions and capital allocation decisions<br>■ Resource/capital allocation decisions made and implemented by in-house professionals |
| CUSTOMER SERVICE | ■ Provided by third party; limited control/flexibility<br>■ Customer dissatisfaction peaking post Sandy | ■ Core function of integrated utilities—generally managed by in-house professionals; full control/flexibility |
| MANAGEMENT/ GOVERNANCE | ■ Politically-appointed Board of Trustees<br>■ Employee recruitment/retention challenges related to compensation limits and other factors<br>■ Complex decision-making/implementation process, burdened by myriad oversight procedures (e.g., Attorney General approvals, Comptroller, etc.) | ■ Shareholder-elected Board of Directors with relevant utility and/or business expertise<br>■ Freedom to compensate employees and Board members at competitive levels<br>■ Decision-making ultimately subject to PSC oversight |

III Analysis of Strategic Alternatives

## Summary Assessment of Alternatives[(a)]

| | POTENTIAL TO REDUCE RATES | INTEGRATES MANAGEMENT, PLANNING & OPERATIONS | PROVIDES INSTITUTIONAL STABILITY | IMPROVES ACCOUNTABILITY | REFORMS RATEMAKING AUTHORITY | RESOLVES BOARD/ EMPLOYEE RECRUITMENT & RETENTION CHALLENGES | IMPROVES APPROVAL PROCESS AND ORGANIZATIONAL COMPLEXITY |
|---|---|---|---|---|---|---|---|
| TRADE SALE | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| IPO | ✗ | ✓ | ✗ | ✓* | ✓ | ✗ | ✗ |
| FULLY-OUTSOURCED MANAGEMENT/ OPERATIONS | ✓ | ✓/✗ | ✓ | ✓ | ✓/✗ | ✓/✗ | ✗ |
| STATUS QUO | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |
| NYPA/LIPA MERGER | ✗ | ✗ | ✓ | ✗ | ✗ | ✗ | ✗ |
| FULL MUNICIPALIZATION | ✗ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ |

Primary plan.
Contingency plan.
* Assumes full sale of LIPA shares to public shareholders; ability to meet certain objectives may be compromised if State retains majority or minority share ownership.
(a) Alternatives are not mutually exclusive in all respects.



## Privatization and Contingency Plan—Summary Considerations

### PRIVATIZATION—TRADE SALE (PRIMARY PLAN)

+ Solves, once and for all, the T&D System's problems and the Shoreham debt issues
+ Integrates management, planning and operations
+ Resolves accountability issue
+ Transfers operating risks from the State to the private sector
+ Improves decision-making process
+ Successful precedents—structure would be consistent with rest of New York State and nearly the entire U.S. Electric Industry
+ Ends transitional role of LIPA, as originally contemplated in 1998
− Investor-Owned Utility capital structure more expensive than 100% debt-financed structure—other cost savings need to offset
− Introduces cost of corporate income taxes
− Debt defeasance/breakage costs

PRIMARY PLAN/RECOMMENDATION

### FULLY-OUTSOURCED MANAGEMENT/OPERATIONS (CONTINGENCY PLAN)

+ Improves (relative to status quo) ability to identify/offer system enhancements
+ Avoids debt defeasance/breakage costs
+/− Integrates management, planning and operations
+/− Possibly improved accountability via PSC regulation and otherwise, but debt levels a constraint
− Potentially less economic than private ownership solution
− Relative to private ownership solution, does not provide "clean slate" for the T&D System
− Operating and political risks still ultimately borne by State
− Potential for conflicting political and economic interests between owner (State) and manager
− Difficult for contract to anticipate and address all potential issues
− Creates new organizational complexities
− Absence of pure equity/ownership provides limited incentive for efficiencies

CONTINGENCY PLAN

# Government Ownership—Status Quo

| | |
|---|---|
| DESCRIPTION | **No change to current arrangement on Long Island, with the hope that increased oversight through existing channels is sufficient to meet proposed objectives of the T&D System** |
| WHO OWNS THE SYSTEM ASSETS? | The Long Island Power Authority (a political subdivision of the State of New York) |
| WHO MANAGES AND REGULATES THE SYSTEM? | Managed by third-party operator (i.e., National Grid, transitioning to PSEG in 2014)<br>LIPA's management role expanding under new PSEG agreement<br>LIPA self-regulates the system |
| HOW IS THE SYSTEM FINANCED? | Tax-exempt debt issued by LIPA |
| WHAT HAPPENS TO THE EXISTING DEBT? | All existing LIPA debt remains in place ($6.7 billion) |

**BENEFITS**

- ✓ Historical cost advantage of capital structure comprised of 100% tax-exempt debt—cost advantage unclear in current markets, however
- ✓ Avoids debt defeasance/breakage costs
- ✓ Transition to PSEG underway
- ✓ Managing power supply with emphasis on renewables and energy efficiency initiatives

**CONSIDERATIONS**

- × Disconnected management, planning and operations
- × No control or accountability
- × Poor historical performance makes forecasted revenue requirements highly questionable
- × Substantial operating and political risks borne by State
- × Complex/dysfunctional decision-making and approval process
- × Conflicting political and economic interests
- × Limited to no ability to identify/offer system enhancements
- × Absence of equity/ownership provides little incentive for efficiencies
- × Substantial employee retention and recruitment risks/challenges
- × Operating contract unable to anticipate and address all potential issues

***Status quo has no potential to meet key objectives and is certain to be a source of ongoing dysfunction***



# Private Ownership—Trade Sale

| | |
|---|---|
| DESCRIPTION | **Sale/privatization of the T&D System to an existing Investor-Owned Utility; residual LIPA liabilities (e.g., Shoreham debt) retired over 30-year period via LIPA securitization charge** |
| WHO OWNS THE SYSTEM ASSETS? | Investor-Owned Utility (note: many existing Investor-Owned Utilities would be interested in acquiring an appropriately-structured T&D System) |
| WHO MANAGES AND REGULATES THE SYSTEM? | Managed by Investor-Owned Utility[(a)]<br>Regulated by the PSC |
| HOW IS THE SYSTEM FINANCED? | T&D System financed via traditional Investor-Owned Utility capital structure (e.g., 55/45 debt-to-equity ratio)<br>Residual LIPA debt either remains in place or is refinanced in its entirety, and serviced via LIPA securitization charge in either case |
| WHAT HAPPENS TO THE EXISTING DEBT? | Partial or full defeasance |

**BENEFITS**

- ✓ Potential to implement a permanent T&D System solution with a moderate benefit for ratepayers
- ✓ Integrates management, planning and operations
- ✓ Resolves accountability issue
- ✓ Improves decision-making process
- ✓ Improves ability to identify/offer system enhancements
- ✓ Synergies (O&M, fuel purchasing, capex, etc.)
- ✓ Professional management and industry experience
- ✓ All operating risks transferred from the State to private entity
- ✓ Sustainable capital structure—provides clear path to defeasance of Shoreham debt
- ✓ Equity capital provides incentives for efficiencies
- ✓ Strong successful precedents—structure would be consistent with rest of New York State and nearly the entire U.S. Electric Industry
- ✓ Ends transitional role of LIPA, as originally contemplated in 1998

**CONSIDERATIONS**

- × Equity capital more expensive than 100% debt-financed structure
- × Introduces cost of corporate income taxes
- × Debt defeasance/breakage costs
- × Execution complexities
- × State-level and local political support unclear
- × Cost of capital impact unclear
- × Recent governmental comments may taint near-term appeal of investment; appeal of investment proposition may need to be clarified

***Privatization via trade sale is the recommended/primary solution***

(a) Assumes the extension of the operating agreement with National Grid through transaction close.

# Private Ownership—IPO

| | |
|---|---|
| DESCRIPTION | **Sale of the T&D System to public investors, creating a new Investor-Owned Utility; residual LIPA liabilities (e.g., Shoreham debt) retired over 30-year period via LIPA securitization charge** |
| WHO OWNS THE SYSTEM ASSETS? | Public shareholders of the Investor-Owned Utility<br>State may retain majority or minority stake in Investor-Owned Utility, depending on market capacity and State objectives |
| WHO MANAGES AND REGULATES THE SYSTEM? | Managed by Investor-Owned Utility<br>Regulated by the PSC |
| HOW IS THE SYSTEM FINANCED? | T&D System financed via traditional Investor-Owned Utility capital structure (e.g., 55/45 debt-to-equity ratio)<br>Residual LIPA debt either remains in place or is refinanced in its entirety, and serviced via LIPA securitization charge in either case |
| WHAT HAPPENS TO THE EXISTING DEBT? | Partial or full defeasance |

**BENEFITS**

- ✓ Improves decision-making process
- ✓ Integrates management, planning and operations
- ✓ Resolves accountability issue
- ✓ Improves ability to identify/offer system enhancements
- ✓ Sustainable capital structure
- ✓ Equity capital provides incentives for efficiencies

**CONSIDERATIONS**

- ✗ Inferior to other private ownership option (trade sale) in all relevant respects
- ✗ Inability to capture synergies (O&M, fuel purchasing, capex, etc.) relative to trade sale
- ✗ Substantial practical limitations (e.g., employee hiring, establishing track record, etc.) and other start-up risks of creating stand-alone utility from scratch
- ✗ IPO discount would reduce value/increase costs
- ✗ Substantial execution risks
- ✗ Debt defeasance/breakage costs
- ✗ State-level and local political support unclear
- ✗ Cost of capital impact unclear
- ✗ Risks of potential ongoing State ownership

***Privatization via IPO does not meet key objectives and is not practicable***



# Government Ownership—Fully-Outsourced Management/Operations

| | |
|---|---|
| DESCRIPTION | **Evolution of current arrangement on Long Island—third-party operator assumes all of LIPA's management and operational functions; PSC assumes regulatory and contract management responsibilities** |
| WHO OWNS THE SYSTEM ASSETS? | The Long Island Power Authority (a political subdivision of the State of New York) |
| WHO MANAGES AND REGULATES THE SYSTEM? | Managed entirely by third-party operator (e.g., National Grid, PSEG, ConEd)<br>LIPA's role limited solely to serving as a tax-exempt conduit (i.e., no management/planning/operations functions retained)<br>Regulated by the PSC |
| HOW IS THE SYSTEM FINANCED? | Tax-exempt debt issued by LIPA[(a)] |
| WHAT HAPPENS TO THE EXISTING DEBT? | All existing LIPA debt remains in place ($6.7 billion) |

**BENEFITS**

- ✓/✗ Notionally integrates management, planning and operations
- ✓/✗ Possibly improved accountability via PSC regulation and otherwise, but debt levels a constraint
- ✓ Improves (relative to status quo) ability to identify/offer system enhancements
- ✓ Historical cost advantage of capital structure comprised of 100% tax-exempt debt—cost advantage unclear in current markets, however
- ✓ Avoids debt defeasance/breakage costs
- ✓ Improves decision-making process
- ✓ Many precedents in government concession agreements and PPPs (e.g., Indiana Toll Road)

**CONSIDERATIONS**

- ✗ Potentially less economic than private ownership solution
- ✗ Relative to private ownership solution, does not provide "clean slate" for the T&D System
- ✗ Operating and political risks still ultimately borne by State
- ✗ Potential for conflicting political and economic interests between owner (State) and manager
- ✗ Difficult for contract to anticipate and address all potential issues
- ✗ Creates new organizational complexities
- ✗ Limited successful precedent examples in the public utility context
- ✗ Absence of pure equity/ownership provides limited incentive for efficiencies
- ✗ Execution risks

***We recommend fully-outsourced management/operations as a contingency plan***

(a) Depending on what happens to ratemaking authority, this alternative could require legislation or bondholder consents.

# Government Ownership—NYPA/LIPA Merger

| | |
|---|---|
| DESCRIPTION | New York Power Authority ("NYPA") assumes the direct responsibility, management and operation of the T&D System |
| WHO OWNS THE SYSTEM ASSETS? | NYPA (a political subdivision of the State of New York) |
| WHO MANAGES AND REGULATES THE SYSTEM? | NYPA (a political subdivision of the State of New York)<br>Regulated by the PSC or NYPA self-regulates the system [(a)] |
| HOW IS THE SYSTEM FINANCED? | Tax-exempt debt issued by NYPA or LIPA |
| WHAT HAPPENS TO THE EXISTING DEBT? | All existing LIPA debt remains in place ($6.7 billion) |

**BENEFITS**

- ✓ Potentially improves decision-making process
- ✓ Potentially improves ability to identify/offer system enhancements
- ✓ Historical cost advantage of capital structure comprised of 100% tax-exempt debt—cost advantage unclear in current markets, however
- ✓ Avoids debt defeasance/breakage costs
- ✓ Efficiency gains from government agency consolidation

**CONSIDERATIONS**

- ✗ No integration of management, planning and operations
- ✗ Accountability issue unresolved
- ✗ Substantial operating and political risks borne by State
- ✗ Expansion of State workforce and role in Long Island energy markets
- ✗ Complex/dysfunctional decision-making and approval process
- ✗ Conflicting political and economic interests
- ✗ Further burden on State budgets
- ✗ Inability to capture synergies (O&M, fuel purchasing, capex, etc.) relative to trade sale
- ✗ Practical limitations (e.g., employee hiring) of NYPA absorbing LIPA
- ✗ Relevant experience/expertise uncertain (e.g., expertise in operating a T&D system)
- ✗ Absence of equity/ownership provides little incentive for efficiencies
- ✗ Structure would be counter to rest of State and nearly the entire U.S. Electric Industry

***NYPA/LIPA merger not does not meet key objectives***

(a) The surviving entity of a NYPA/LIPA merger would likely need rate setting authority to keep LIPA's debt outstanding under its credit documentation.



# Government Ownership—NYPA/LIPA Merger: Further Considerations

| STRATEGIC GOALS | ASSESSMENT |
|---|---|
| POTENTIAL TO REDUCE RATES | Given the lack of operational overlap between NYPA and LIPA, a merger would not generate synergies and thereby would not reduce rates<br>A NYPA/LIPA merger would likely increase costs/rates given the need to recreate management systems and infrastructure that is currently provided by a third-party operator that receives some efficiencies through scale and expertise |
| INTEGRATES MANAGEMENT, PLANNING & OPERATIONS | While various management, planning and operations functions would be reorganized under a NYPA/LIPA merger, NYPA has no experience managing, planning or operating a Transmission & Distribution system |
| PROVIDES INSTITUTIONAL STABILITY | While NYPA is institutionally more stable than LIPA, the complexities of combining organizations would likely reduce the institutional stability of the combined entity |
| IMPROVES ACCOUNTABILITY | Absent fundamental organizational change that involves PSC oversight, a NYPA/LIPA merger would not improve accountability of/for the T&D System |
| RESOLVES BOARD/EMPLOYEE RECRUITMENT & RETENTION CHALLENGES | The current issues that contribute to LIPA's recruitment and retention challenges (e.g., salary compression and caps) would remain unresolved under a combined NYPA/LIPA structure |
| IMPROVES APPROVAL PROCESS & ORGANIZATIONAL COMPLEXITY | A NYPA/LIPA merger would likely increase the organizational complexity of the T&D System and its myriad approval processes and administrative requirements |

***While NYPA will play a key role in the ultimate resolution of the current LIPA situation, a NYPA/LIPA merger would not address the key issues impacting the T&D System***

# Government Ownership—Full Municipalization of LIPA

| | |
|---|---|
| DESCRIPTION | **LIPA (or newly-formed State-Owned Utility) assumes direct responsibility, management and operation of the T&D System** |
| WHO OWNS THE SYSTEM ASSETS? | LIPA (or newly-formed State-Owned Utility) |
| WHO MANAGES AND REGULATES THE SYSTEM? | LIPA (or newly-formed State-Owned Utility)<br>Regulated by PSC or LIPA (or newly-formed State-Owned Utility) |
| HOW IS THE SYSTEM FINANCED? | Tax-exempt debt issued by LIPA (or newly-formed State-Owned Utility) |
| WHAT HAPPENS TO THE EXISTING DEBT? | All existing LIPA debt remains in place ($6.7 billion) |

**BENEFITS**

- ✓ Potentially improves decision-making process
- ✓ Potentially improves ability to identify/offer system enhancements
- ✓ Historical cost advantage of capital structure comprised of 100% tax-exempt debt—cost advantage unclear in current markets, however
- ✓ Avoids debt defeasance/breakage costs

**CONSIDERATIONS**

- ✗ No control or accountability
- ✗ Poor historical performance makes forecasted revenue requirements highly questionable
- ✗ No relevant management experience/expertise
- ✗ Substantial operating and political risks borne by State
- ✗ Expansion of State workforce and role in Long Island energy markets
- ✗ Complex/dysfunctional decision-making and approval process
- ✗ Conflicting political and economic interests
- ✗ Further burden on State budgets
- ✗ Inability to capture synergies (O&M, fuel purchasing, capex, etc.) relative to trade sale
- ✗ Practical limitations (e.g., employee hiring, procurement restrictions) and start-up risks of assuming full control
- ✗ Substantial employee retention and recruitment risks/challenges
- ✗ Absence of equity/ownership provides little incentive for efficiencies
- ✗ Structure would be counter to rest of State and nearly the entire U.S. Electric Industry

***Full municipalization does not meet key objectives***



# How Should LIPA Address the Pending PSEG Transition?

**CONTEMPLATED TRANSACTION TIMING**

- **The privatization scenario assumes a transaction close of January 1, 2014—avoiding certain complications related to the pending PSEG transition, which is scheduled to take effect on the same date**
  - Recent precedent transactions in the Power & Utility Industry indicate this is a realistic and achievable transaction timeline
- **If the contemplated transaction timing is extended beyond January 1, 2014, there are several alternatives with respect to the PSEG transition, including, but not limited to, the following:**

**ALTERNATIVE 1: EXTEND STATUS QUO**

- **Extend the status quo for a limited period by asking National Grid to continue its contract (e.g., for an additional three to six months)**
- **Concurrently, terminate the PSEG operations agreement (to take effect on January 1, 2014)**

**ALTERNATIVE 2: ALLOW PSEG TRANSITION**

- **Allow PSEG to assume its operational role on January 1, 2014 and then terminate this arrangement once the transaction closes**
  - Unfavorable alternative because it would cause ratepayers to incur the full costs of the PSEG transition without enjoying any of the benefits

**ALTERNATIVE 3: FIND NEW THIRD PARTY**

- **Find a new third party to operate the T&D System during the interim period between January 1, 2014 and the transaction close**
  - Unfavorable alternative because it would be difficult to find a high-quality operator that would be interested in a short-term arrangement

***Under the contemplated transaction timing, the PSEG transition and operations agreement should be terminated once buyers provide bona fide bids and it is clear National Grid will continue operating the T&D System with LIPA until closing***

Note: In connection with any of the above alternatives, LIPA should consider improvements to the current National Grid arrangement that could enhance the T&D System's performance before the transaction closing.

## IV Privatization and Contingency Plans

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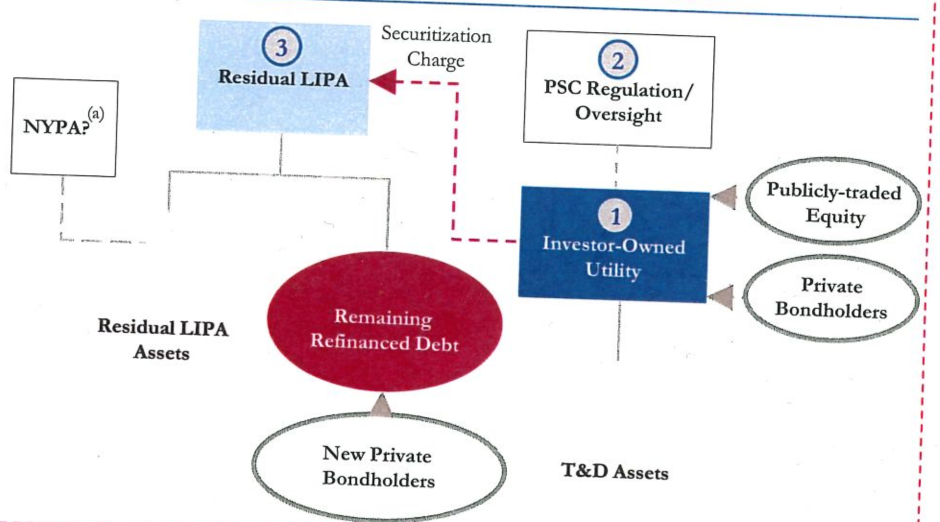
# Privatization and Contingency Plan—Organizational Comparison

## PRIMARY PLAN: PRIVATIZATION—TRADE SALE

1. Investor-Owned Utility acquires T&D System
   - Sale proceeds are applied to LIPA debt
   - Excess LIPA debt refinanced via securitization
   - T&D System financed via traditional Investor-Owned Utility capital structure (e.g., 55/45 debt-to-equity ratio)
2. PSC assumes regulatory and ratemaking authority over T&D System
3. Residual LIPA effectively dissolved
   - LIPA securitization charge services LIPA's remaining refinanced debt

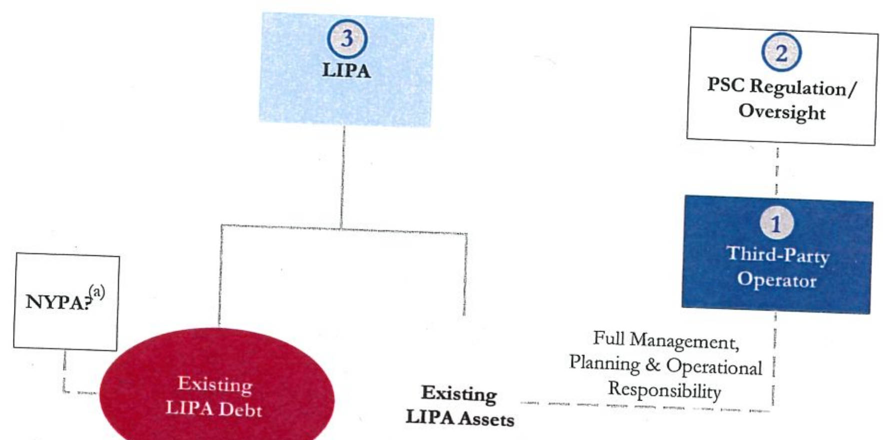
### ORGANIZATIONAL STRUCTURE




## CONTINGENCY PLAN: FULLY-OUTSOURCED MANAGEMENT/OPERATIONS

1. Third-party operator integrates LIPA and assumes full management, planning and operational responsibility over long term
2. PSC assumes regulatory and ratemaking authority over T&D System and third-party operator (b)
3. LIPA continues to own the T&D System, but is reduced to a vestigial entity—i.e., "one person at a desk"
   - LIPA assigns full management, planning and operational responsibility over to a third-party operator
   - All existing LIPA debt remains in place ($6.7 billion)
   - T&D System continues to be financed via tax-exempt debt, with LIPA serving as tax-exempt conduit issuer

### ORGANIZATIONAL STRUCTURE




(a) NYPA could potentially facilitate either solution, including by assuming various LIPA capital leases relating to power supply contracts and/or administering LIPA's energy efficiency programs.
(b) In connection with the PSC's assumption of regulatory and ratemaking authority over the T&D System, it may be necessary to securitize LIPA's debt and/or restrict the PSC's ability to set LIPA's rates to assure bondholders that LIPA's debt service will be maintained. Such securitization, if implemented, could potentially

DRAFT

New York Power Authority



# Privatization and Contingency Plan—Illustrative Analytical Comparison

($ in millions)

| | | PRIVATIZED T&D SYSTEM: FULL REFINANCING | PRIVATIZED T&D SYSTEM: RESIDUAL BONDS REMAIN OUTSTANDING | FULLY-OUTSOURCED MANAGEMENT/OPERATIONS |
|---|---|---|---|---|
| KEY ASSUMPTIONS | O&M Synergies | $125 | $125 | $25 |
| | Fuel and Purchased Power Savings | $125 | $125 | $0 |
| | Capex Savings (% Reduction) | 10.0% | 10.0% | 0.0% |
| | State Assessment Relief | $37 | $38 | $37 |
| NET ECONOMIC COST OF DEFEASANCE | Debt Defeasance/Breakage Costs(a) | $1,471 | $932 | $0 |
| | Less: Economic Benefit from Refinancing | (1,079) | (684) | 0 |
| | Less: Other Economic Benefits from Ending Shoreham Debt Burden | ? | ? | ? |
| | Net Economic Cost of Debt Defeasance | $392 | $248 | $0 |
| SOURCES | T&D System Sale Proceeds(b) | $4,250 | $4,250 | $0 |
| | NMP2 Sale Proceeds | 226 | 226 | 0 |
| | State Assessment Relief(c) | 791 | 791 | 802 |
| | Revenue Recovery for Debt Repayment(d) | 1,900 | 1,756 | 5,925 |
| | Total Sources | $7,167 | $7,023 | $6,727 |
| USES | LIPA Debt Retired with Sale Proceeds | $4,250 | $4,250 | $0 |
| | Remaining LIPA Debt Outstanding | 2,475 | 2,475 | 6,725 |
| | Net Economic Cost of Debt Defeasance | 392 | 248 | 0 |
| | Transaction Fees | 50 | 50 | 2 |
| | Total Uses | $7,167 | $7,023 | $6,727 |

Breakeven point ≈ 50% of this amount

| PROJECTED RATE IMPACT | Status Quo(e) | Full-Refinancing | Absolute Difference | Difference | Partial-Refinancing | Absolute Difference | Difference | Fully-Outsourced | Absolute Difference | Difference |
|---|---|---|---|---|---|---|---|---|---|---|
| **10-year:** | | | | | | | | | | |
| Rate CAGR | 2.1% | 1.8% | | (0.4%) | 1.8% | | (0.3%) | 2.0% | | (0.1%) |
| Revenue NPV at 5.3%(f) | $31,713 | $30,311 | ($1,402) | (4.4%) | $30,839 | ($873) | (2.8%) | $31,564 | ($148) | (0.5%) |
| **30-year:** | | | | | | | | | | |
| Rate CAGR | 2.4% | 2.4% | | 0.0% | 2.3% | | (0.1%) | 2.3% | | (0.1%) |
| Revenue NPV at 5.3%(f) | $81,074 | $79,141 | ($1,934) | (2.4%) | $79,104 | ($1,970) | (2.4%) | $80,245 | ($830) | (1.0%) |

Note: Sandy costs are not included in the current LIPA standalone forecast and therefore not included in the pro forma analysis for comparison purposes.
(a) Assumes $1,111 million in bond defeasance costs, $354 million in swap breakage costs and $7 million in PSEG contract breakage costs are incurred to defease the total outstanding debt amount of $6,725 million.
(b) Sale proceeds include $3,558 million for the book value of the T&D System, $513 million for cash and working capital and a purchase price premium of $178 million (based on a fundamental valuation).
(c) NPV of total amount of 18-A Conservation Assessment redirected over 30-year period.
(d) Remaining LIPA debt outstanding, net of proceeds from 18-A Conservation Assessment relief, assumed to be recovered in rates over 30-year period.
(e) Assumes LIPA projections accurate and forecasts met, a result inconsistent with historical performance.
(f) 5.3% weighted average cost of capital based on 55% debt-to-equity capital structure, 3.0% cost of debt (rising to 6.0% over time), 9.5% cost of equity and 40% tax rate.





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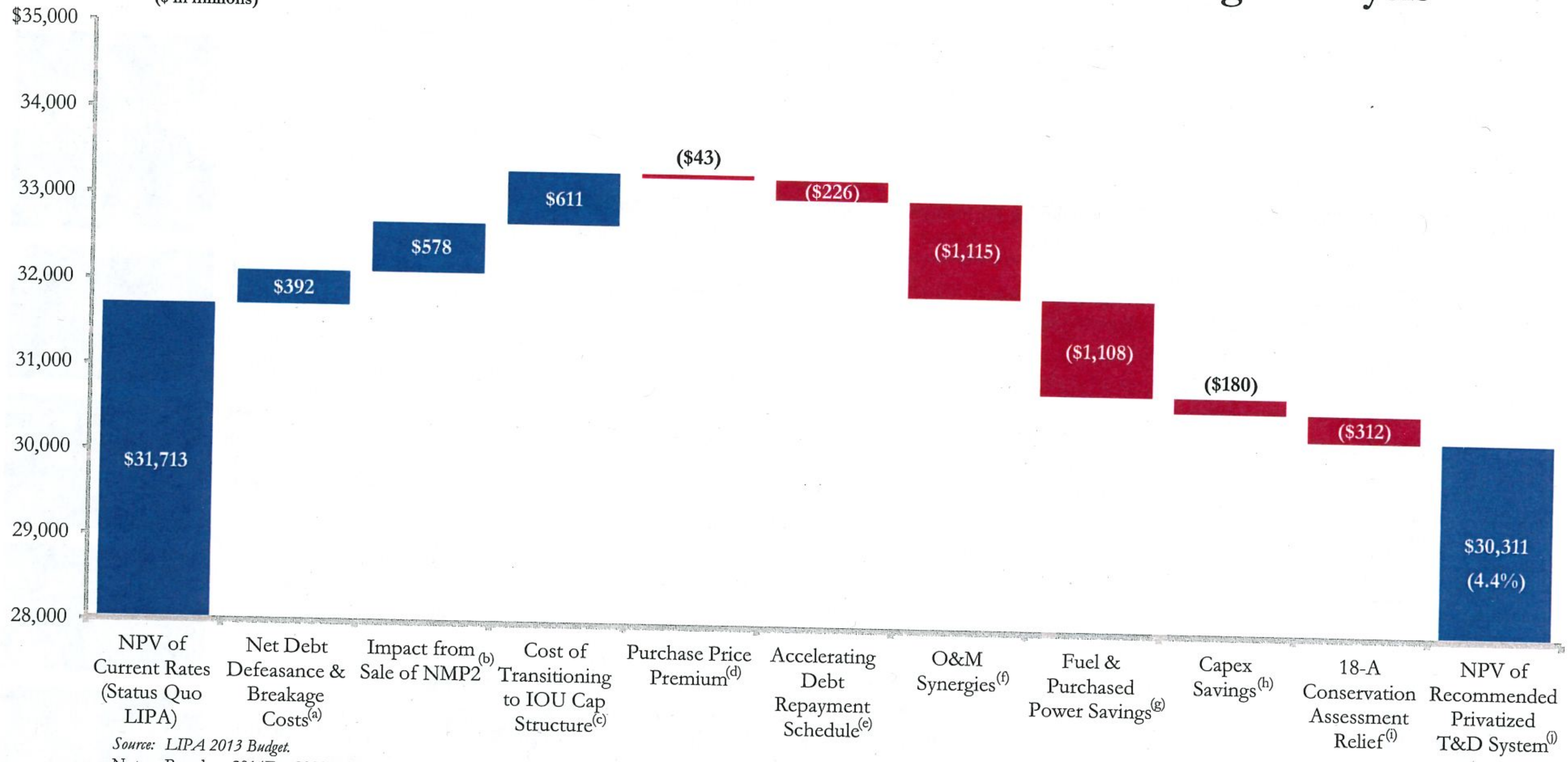
# Illustrative LIPA Privatization 10-Year Revenue NPV Bridge Analysis

**($ in millions)**




*Source: LIPA 2013 Budget.*

Note: Based on 2014E – 2023E financial projections; discounted using a weighted average cost of capital of 5.3%.

(a) Assumes 100% of debt is refinanced, triggering defeasance, swap breakage and contract breakage costs of $1,111 million, $354 million and $7 million, respectively; netted against benefits of $1,079 million.

(b) Assumes NMP2 is sold for $226 million ($181 loss on book value) on the day the transaction closes.

(c) Assumes 55% debt-to-equity capital structure, 3.0% cost of debt (rising to 6.0% over time), 9.5% cost of equity and 40% tax rate.

(d) Assumes purchase price premium of $178 million (sale proceeds of $4,250 million less book value of assets of $3,558 million and cash and working capital of $513 million).

(e) Assumes securitized debt of $4,076 million is issued for 30 years at a 3.75% interest rate, with accelerating annual principal repayments (0.50% repayment in 2014 and 6.17% repayment in 2043).

(f) Assumes O&M synergies of $63 million in 2014, $125 million in 2015 and grown proportionally thereafter (11.6% reduction in 10-year NPV of projected O&M expense).

(g) Assumes fuel and purchased power savings of $63 million in 2014, $125 million in 2015 and grown proportionally thereafter (8.3% reduction in 10-year NPV of projected fuel and purchased power expense).

(h) Assumes 10% reduction in annual capex.

(i) Assumes 100% of annual 18-A Conservation Assessment is redirected toward residual debt paydown (18-A Conservation Assessment assumed to be 1.0% of gross annual revenues).

(j) Under a full refinancing scenario, the Privatized T&D System revenue requirement would equal the revenue requirement of Status Quo LIPA if O&M synergies, fuel and purchased power savings and capex savings equal $55 million, $55 million and 5%, respectively (i.e., more than a 50% reduction to assumed run-rate synergies).

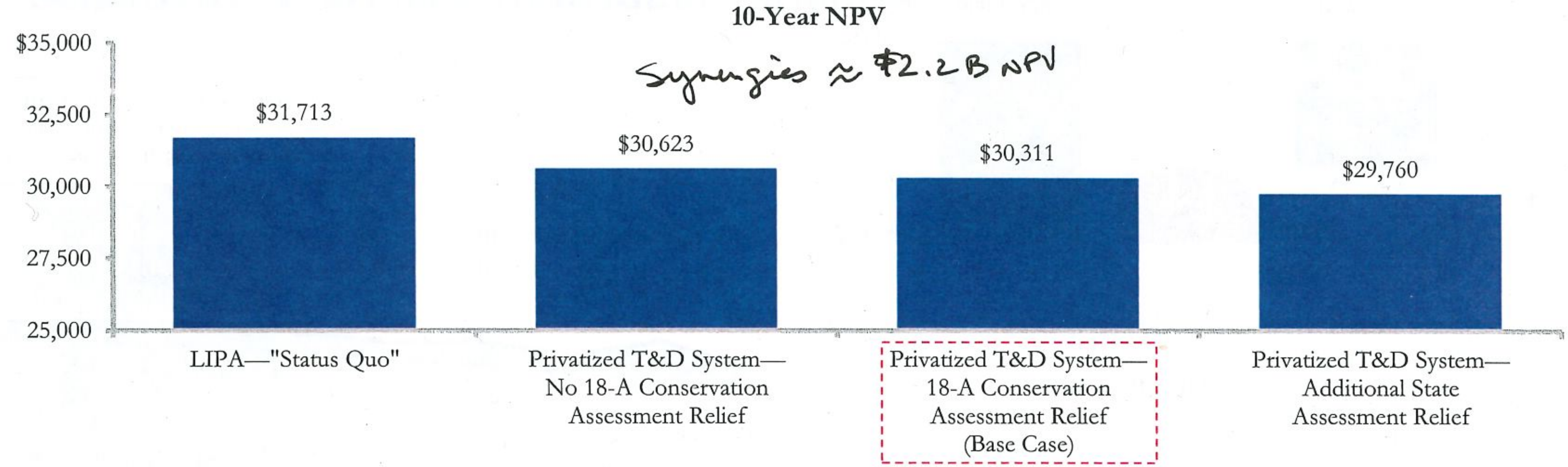


# Quantitative Benefits of Privatization—Additional Sensitivities

**($ in millions)**

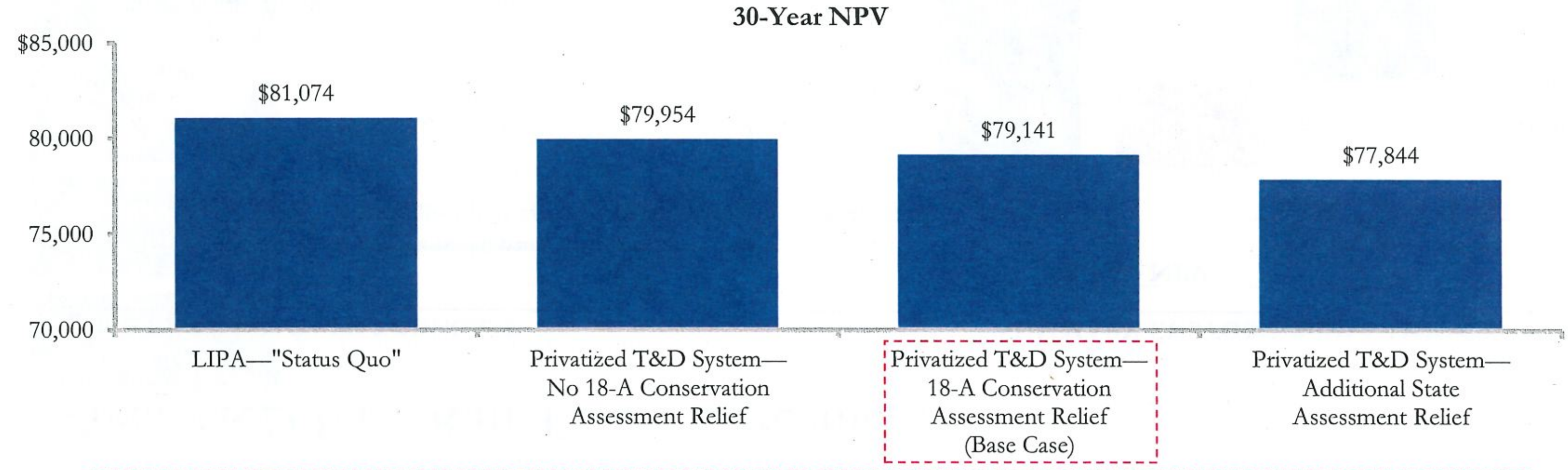
### 10-Year NPV

Synergies ≈ $2.2B NPV




| | | | |
|---|---|---|---|
| *Memo: Ratepayer Savings* | *$1,090* | *$1,402* | *$1,953* |

### 30-Year NPV




| | | | |
|---|---|---|---|
| *Memo: Ratepayer Savings* | *$1,120* | *$1,934* | *$3,230* |





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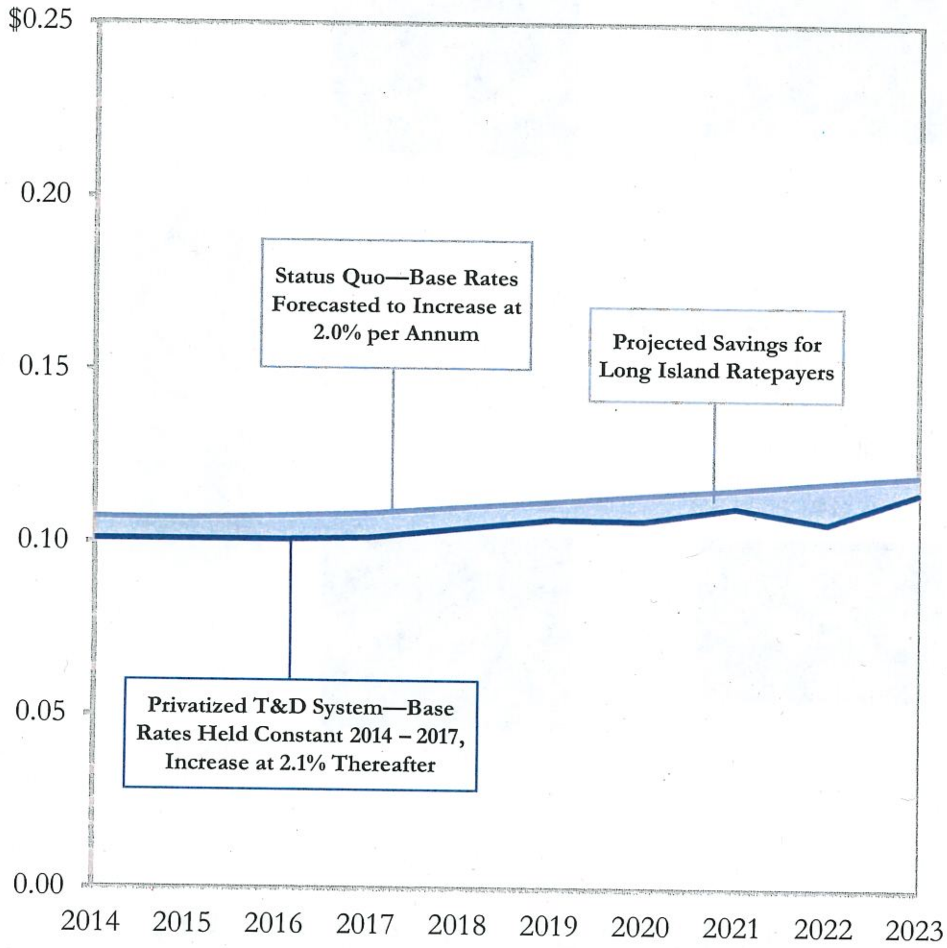
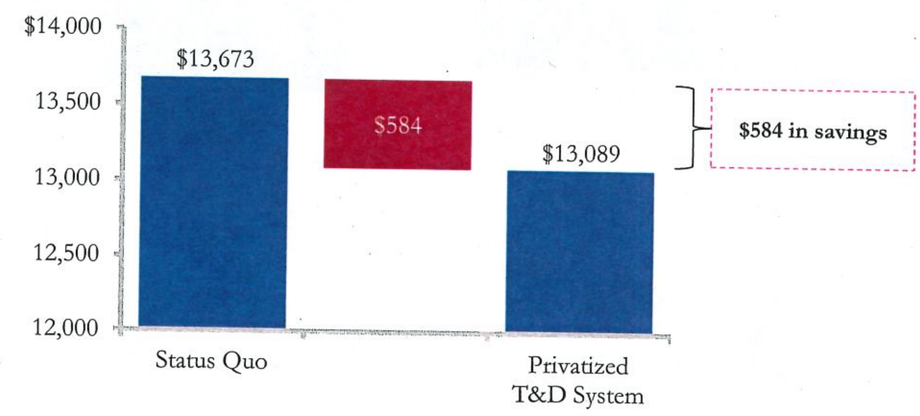
# 3-Year T&D Base Rate Freeze Agreement

## 10-YEAR BASE RATE FORECAST

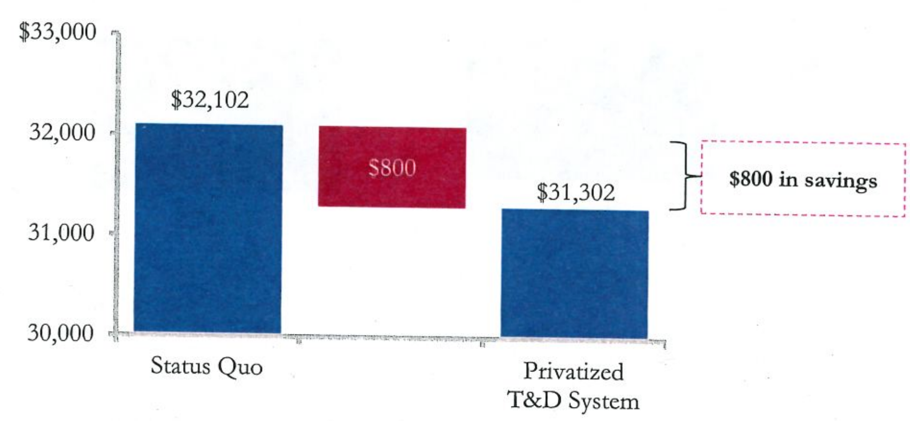



## SUMMARY CUSTOMER BILL IMPACT

10-Year NPV




30-Year NPV




*Source:* *LIPA 2013 Budget.*
Note: Assumes (i) T&D Base Rates are held at the projected 2013 rate of $0.101/kWh and (ii) average monthly residential customer electricity consumption is 775 kWh.





# Sensitivity Analysis—Individual Variables

| | VARIABLE | IMPACT ON REVENUE NPV 10-year | 30-year |
|---|---|---|---|
| PURCHASE PRICE | ■ $100 million increase in purchase price (i.e., from $4,250 million to $4,350 million) | (0.1%) | (0.1%) |
| SYNERGIES | ■ $10 million increase in annual O&M synergies (1.0% of O&M in 2013 budget) | (0.2%) | (0.2%) |
| | ■ $10 million increase in additional annual fuel and purchased power savings (0.7% of fuel and purchased power in 2013 budget) | (0.3%) | (0.3%) |
| CAPEX | ■ $10 million reduction in annual capex (2.2% of capex in 2013 budget) | (0.2%) | (0.4%) |
| 18-A CONSERVATION ASSESSMENT | ■ $10 million of annual relief from 18-A Conservation Assessment (27.8% of 2013 18-A Conservation Assessment at 1.0% of gross revenue) | (0.3%) | (0.3%) |
| DEFEASANCE & BREAKAGE COSTS | ■ $50 million reduction of debt defeasance and breakage costs (3.4% of total assumed breakage costs) | (0.1%) | (0.1%) |
| IOU CAPITAL STRUCTURE | ■ 1% increase in debt-to-equity ratio (i.e., increasing from 55% to 56%) | (0.1%) | (0.1%) |

## What Factors Could Lead to a Further Decrease in Rates Following a Privatized T&D System?

**ACQUISITION PREMIUM/ SYNERGIES**

- **Buyer believes it will achieve greater synergies in privatization scenario**
  - Assumes that synergy expectations would lead buyer to pay a further premium to ratebase for the T&D System, and excess proceeds would be applied to debt reduction (thereby reducing the revenue requirement/rates)
  - Assumes that a long-term base rate schedule is fixed at outset
- **Unanticipated synergies could be achieved subsequent to a transaction (i.e., efficiencies above and beyond expectations) that would flow through to reduce revenue requirements/rates**
  - Assumes synergy-related savings flow through to ratepayers via PSC ratemaking process
- **Buyer might pay further premium if generally optimistic about business environment**

**OTHER REVENUE SOURCES/ SUBSIDIES**

- **New York State could allocate certain revenue sources to relieving rate pressure on Long Island**
  - 18-A Conservation Assessment
  - Systems Benefit Charge
  - Other general or specified revenues
- **New York State could assume a portion of the Shoreham debt**
- **Federal Government could provide funding to help stabilize the T&D System**

**BANKRUPTCY STRATEGIES**

- **Debt burden could be reduced via bankruptcy/Chapter 9**

**ASSET SALES**

- **Potential value from LIPA assets to be sold (e.g., NMP2 interest, etc.)**

**REGULATORY STRATEGIES**

- **Potential regulatory strategies (e.g., immediate recoveries, trackers, etc.) could enable the T&D System to be sold at a premium**
- **Rate deferral strategies (reduction in near-term rates supported by higher rates in the future)**

***While the recommended privatization is projected to offer moderate rate benefits, one or more of these factors could lead to additional improvements***

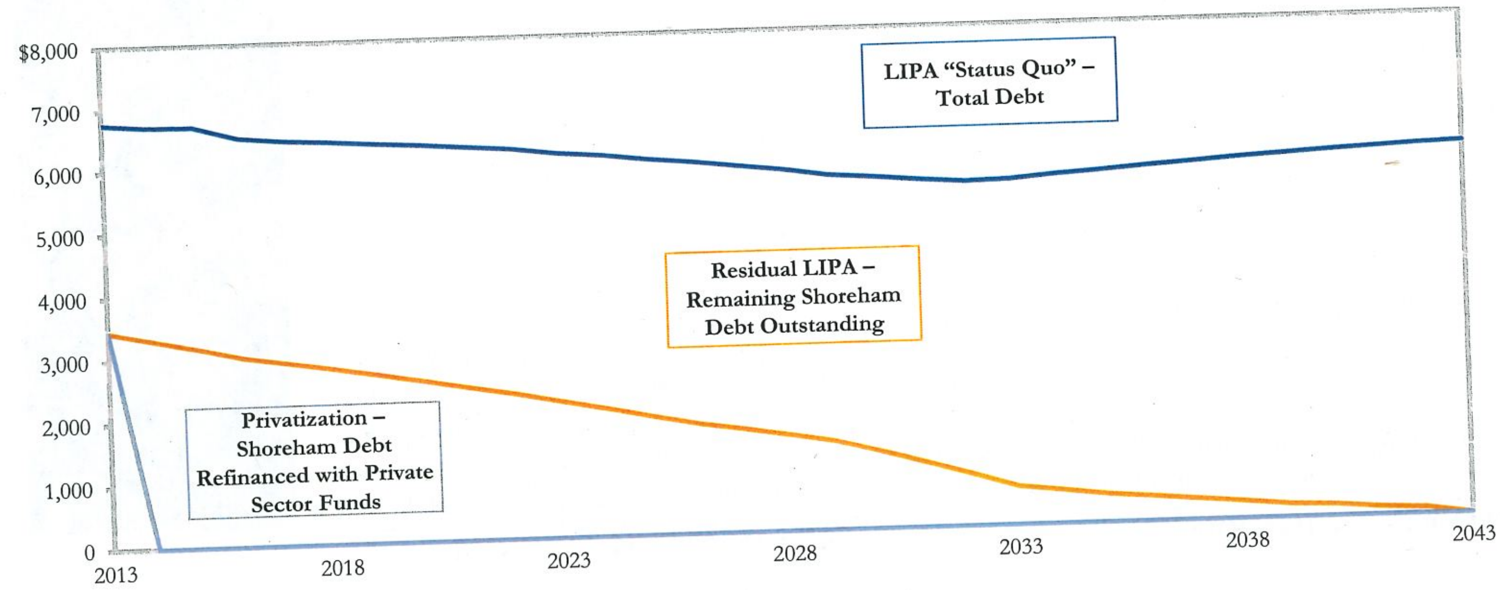




## Repayment of the Shoreham Debt

($ in millions)

- **The recommended privatization would lead to the following impacts:**
  - Immediately reduce the LIPA debt by the amount of the T&D System purchase price
  - Securitization mechanism would ensure, once and for all, that the Shoreham debt would be repaid
  - Replace Government ownership/funding/responsibilities/supervision with private sector accountability and funding
  - Prevent LIPA demand for capital from "crowding out" other uses of New York State's capital markets access
  - Under full refinancing scenario, all Shoreham debt would be eliminated and refinanced with taxable securitization bonds




*Source: LIPA 2013 Budget.*
Note: Based on an illustrative purchase price of $4,250 million (assuming a January 1, 2014 transaction close). Debt amounts based on total year-end debt balance.

# Other Debt Reduction Strategies

| | BANKRUPTCY/CHAPTER 9 | GOVERNMENT STRATEGIES |
|---|---|---|
| DESCRIPTION | ■ **Bondholders could be forced to absorb some of the Shoreham debt costs via a bankruptcy/Chapter 9 process or a related negotiated settlement**<br>▪ A transfer of LIPA's ratemaking authority (via legislation or otherwise) to the PSC could serve as the bankruptcy/default-triggering event | ■ **The State of New York could raise revenues to accelerate repayment of the Shoreham debt costs via the following methods:**<br>▪ Extending the 18-A Conservation Assessment beyond its scheduled expiration in 2014 and redirecting its revenues—in part—to Shoreham debt repayment<br>▪ Allocating revenues collected for the Systems Benefits Charge<br>▪ Allocating other general or specified State revenues as part of the budgetary process<br>▪ Receiving Federal revenues/grants/contributions in connection with disaster recovery, future storm preparation, infrastructure investment and/or broader economic stimulus<br>■ **Alternatively (or in addition), the State of New York could assume a portion of the Shoreham debt** |
| BENEFITS | ■ **Could serve as a way to make the chosen solution more effective (i.e., by relieving rate pressure)** | ■ **Direct financial contributions from the Government would likely be viewed as a strong fulfillment of the Government's commitment to assist storm victims and resolve critical infrastructure issues**<br>■ **Federal contributions would be a source of "found money" that could otherwise accelerate Shoreham debt repayment and provide rate relief** |
| CONSIDERATIONS | ■ **Likely adverse effects on other New York State tax-exempt issuers**<br>■ **Complex/lengthy legal process (although pre-filing agreement with creditors could simplify/accelerate the process)**<br>■ **Substantial political challenges**<br>■ **Ratepayer and other stakeholder receptivity/ response unclear** | ■ **Potential political opportunity cost**<br>■ **Substantial political challenges, especially for strategies that could be viewed as diverting previously-designated revenues**<br>■ **Significant political opposition to debt assumption by the State of New York** |

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# V Execution Process

# A Execution Timeline and Process Issues

# Conditions Precedent Workstream Overview

| | WORKSTREAM/TASK | STATE | NYPA | LIPA | PSC | ORRICK | HAWKINS | LAZARD | ESTIMATED TIMING |
|---|---|---|---|---|---|---|---|---|---|
| | | RESPONSIBLE PARTIES | | | | | | | |
| SECURITIZATION LEGISLATION | ■ Create proposed securitization structure | | ✓ | | | ✓ | | ✓ | ■ 7 – 10 days |
| | ■ Rating agency discussions/feedback[a] | | ✓ | ✓ | | ✓ | ✓ | ✓ | ■ 30 – 45 days |
| | ■ Draft and submit legislation | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ■ 90 – 120 days |
| | ■ Navigate legislative process | ✓ | | | | | | | ■ 45 – 60 days |
| | ■ File application for PSC financing order | ✓ | | | | ✓ | | | ■ 45 – 60 days |
| PRIVATIZATION LEGISLATION | ■ Draft and submit legislation | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ■ 90 – 120 days |
| | ■ Develop communication/stakeholder plan | ✓ | ✓ | | | | | ✓ | ■ 10 – 15 days |
| | ■ Build political/stakeholder support | ✓ | ✓ | | | | | | ■ 30 – 90 days |
| | ■ Navigate legislative process | ✓ | | | | | | | ■ 45 – 60 days |

(a) Includes consideration related to impact on existing debt and interim credit rating and preparation of a rating agency briefing booklet.







# Conditions Precedent Workstream Overview (cont'd)

| | WORKSTREAM/TASK | STATE | NYPA | LIPA | PSC | ORRICK | HAWKINS | LAZARD | ESTIMATED TIMING |
|---|---|---|---|---|---|---|---|---|---|
| | | RESPONSIBLE PARTIES | | | | | | | |
| PSC WORKSTREAMS | ■ Prepare internal organization for assuming T&D System regulation /oversight | ✓ | | | ✓ | | | | ■ 60 – 90 days |
| | ■ Establish rate compact and regulatory framework | ✓ | ✓ | | ✓ | | | ✓ | ■ 20 – 30 days |
| | ■ Receive input on privatization process/requirements | ✓ | ✓ | | ✓ | | ✓ | ✓ | ■ 20 – 30 days |
| | ■ Receive input/PSC requirements for securitization legislation | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ■ 20 – 30 days |
| | ■ Receive final transaction approval | ✓ | | | ✓ | ✓ | | | ■ 90 – 180 days |
| | ■ Approve PSC financing order for securitization | | | | ✓ | ✓ | | | ■ 45 – 60 days[a] |
| OTHER WORKSTREAMS | ■ Review operating contracts and PPAs for necessary approvals/consents | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ■ 15 – 20 days |
| | ■ Analyze potential impact of PSEG transition and mitigation plans | ✓ | ✓ | ✓ | | ✓ | | | ■ 60 – 90 days |
| | ■ Determine capital lease resolution | ✓ | ✓ | ✓ | | ✓ | | ✓ | ■ 20 – 30 days |
| | ■ NMP2 divestiture plan and execution | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | 180 – 270 days |
| | ■ Determine all required final approvals/consents | ✓ | ✓ | ✓ | | ✓ | ✓ | | ■ 7 – 10 days |
| | ■ Determine SEC registration requirements, as applicable | | | | | ✓ | ✓ | | ■ 7 – 10 days |
| | ■ Determine SEC regulatory impacts, as applicable | | | | | ✓ | | | ■ 7 – 10 days |
| | ■ Determine Dodd-Frank requirements, as applicable | | | | | ✓ | | | ■ 7 – 10 days |
| | ■ Determine depreciation recapture issues and structuring solutions | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ■ 30 – 60 days |
| | ■ Obtain required approvals/consents | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ■ 90 – 180 days |
| | ■ IRS private letter rulings | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | ■ 60 – 120 days |

(a) The timing of the PSC financing order will be subject to various procedural considerations (including the ability of interested parties to request rehearings with the PSC and seek judicial appeals).

# Illustrative "Term Sheet" for T&D System Rate Agreement[(a)]

| | KEY TERMS |
|---|---|
| T&D SYSTEM RATEBASE | ■ **The T&D System's ratebase would consist of the net property, plant and equipment of the T&D System assets (approximately $3.6 billion)**<br>▪ LIPA's capital leases would not be included in ratebase (approximately $3.8 billion) |
| CAPITAL STRUCTURE | ■ **Allowed debt/equity ratio of 55/45** |
| RETURN ON EQUITY | ■ **Allowed Return on Equity of 9.5%** |
| CREDIT RATING | ■ **Targeted A-/BBB+ credit rating** |
| CAPEX /EXPENSE TRACKERS | ■ **To be determined** |
| FUEL AND PURCHASED POWER COSTS | ■ **Fuel and purchased power costs would be passed through to ratepayers in a manner consistent with all other New York State utilities** |
| INCENTIVE RATEMAKING | ■ **To be determined** |
| TERM | ■ **The PSC and IOU would enter into a T&D System rate agreement with a three-year term**<br>▪ Base rates would be $[ ], $[ ] and $[ ]/MWh in 2014, 2015 and 2016, respectively<br>▪ In order to provide certainty to a new owner and longer-term rate stability, a longer-term rate agreement may be appealing |
| LONG ISLAND ECONOMIC DEVELOPMENT | ■ **To be determined** |

Add Environmental

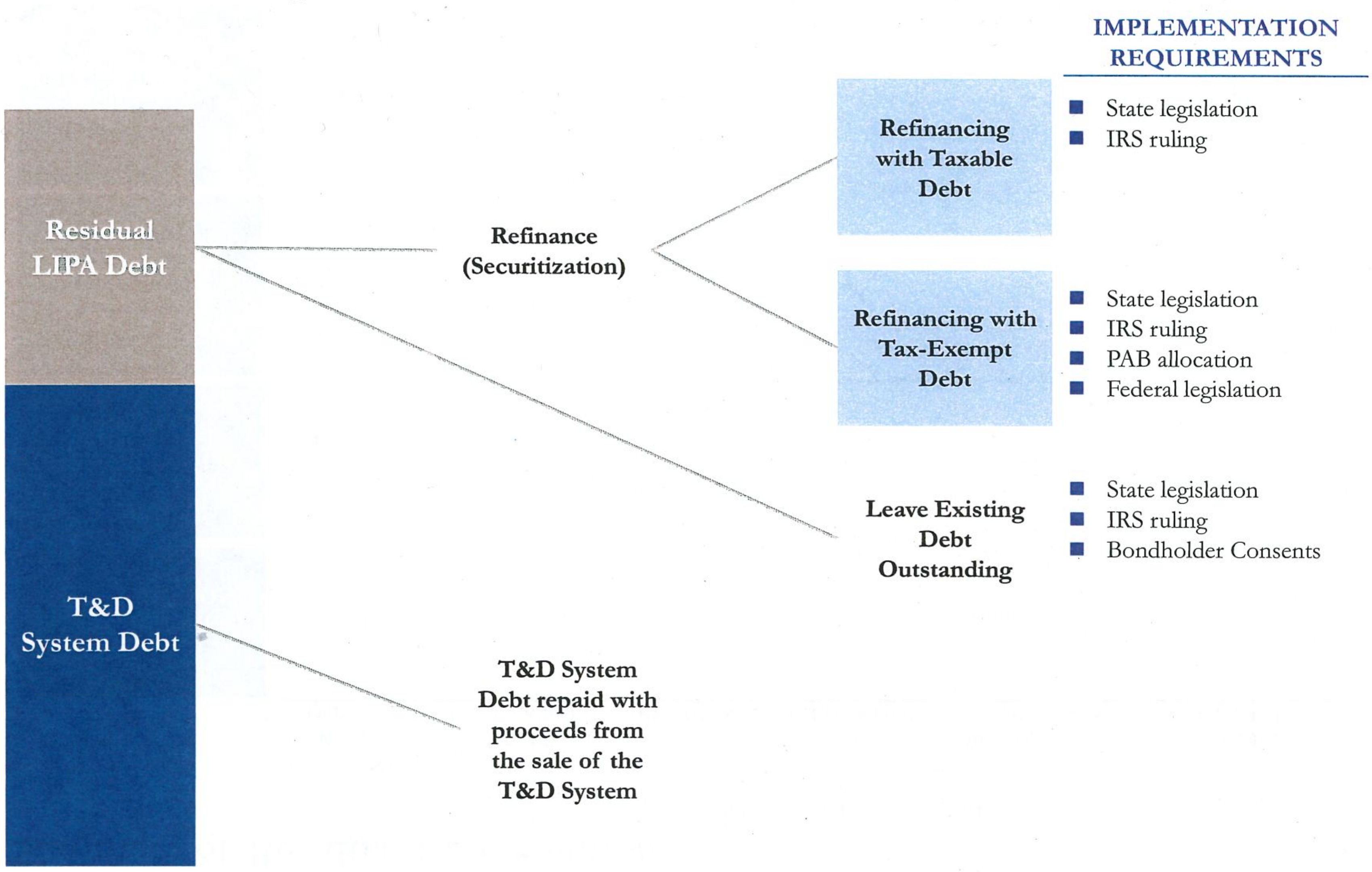
(a) Interested parties in any privatization process would have significant commentary on this aspect of the privatization.







# Illustrative Comparison of Residual Debt Solutions



# Summary of Residual Debt Solutions

| | 30-YEAR NPV RATE IMPACT | IMPLEMENTATION REQUIREMENTS: STATE LEGISLATION | IRS RULING | PAB ALLOCATION | BONDHOLDER CONSENTS | FEDERAL LEGISLATION |
|---|---|---|---|---|---|---|
| TAXABLE REFINANCING (SECURITIZATION) | ($1,934)[a] | ✓ | ✓ | | | |
| LEAVE EXISTING TAX-EXEMPT DEBT OUTSTANDING | ($1,970)[b] | ✓ | ✓ | | ✓ | |
| NEWLY-ISSUED TAX-EXEMPT REFINANCING (SECURITIZATION) | ($1,934)[c] | ✓ | ✓ | ✓ | | ✓ |
| HYBRID (SELECTIVELY DEFEASE/ LEAVE DEBT OUTSTANDING) | ? | ✓ | ✓ | | | ✓ |

(a) Assumes full refinancing of total long-term debt outstanding with taxable, 30-year, 3.75% notes, triggering $1,111 million in bond defeasance costs, $354 million in swap breakage costs and $7 million in PSEG contract breakage costs.

(b) Assumes partial refinancing of existing long-term debt in an amount equal to sale proceeds, triggering $932 in bond defeasance and swap breakage costs and $7 million in PSEG contract breakage costs.

(c) Assumes full refinancing of total long-term debt outstanding with tax-exempt, 30-year, 3.75% notes, triggering $1,111 million in bond defeasance costs, $354 million in swap breakage costs and $7 million in PSEG contract breakage costs.

# B Frequently Asked Questions

# Frequently Asked Questions

| | | | |
|---|---|---|---|
| QUESTION | **Won't rates go up 20% in a privatization scenario? I have read of a recent study in that regard** | **Doesn't privatization mean that Long Island will go back to the days of LILCO?** | **Isn't a privatization and/or a changed LIPA going to hurt the environment?** |
| ANSWER | ▪ First and foremost, third-party utilities should be able to bring savings and cost benefits to the T&D System to reduce rates<br>▪ The analytical basis of any study that would suggest rates would increase 20% is unclear<br>▪ More generally, for years third parties and others have simplistically said that LIPA could never be undone because of cost of capital—this observation ignores the extent to which the cost of capital of Investor-Owned Utilities and municipal tax-exempt entities has narrowed in recent years<br>▪ In addition, this observation ignores LIPA's precarious position and the costs and risks to ratepayers of the status quo | ▪ No. LILCO was widely understood to be a customer-unfriendly organization<br>▪ There are many examples in the region and across the country of extremely well-run Investor-Owned Utilities where service and reliability are excellent and customer satisfaction is unambiguous<br>▪ There is no reason that Long Island cannot experience these same services and benefits | ▪ No. As an Investor-Owned Utility, the T&D System would be regulated by the New York State PSC and subject to the same environmental standards as all other New York State utilities |







# Frequently Asked Questions (cont'd)

| | | | |
|---|---|---|---|
| QUESTION | **Isn't a privatization and/or changed LIPA going to raise local property taxes?** | **Why would New York State allow a privatization of LIPA to companies who performed badly in responding to Sandy?** | **Is now a good time to sell a utility?** |
| ANSWER | ▪ No. While LIPA is currently subject to unprecedented levels of property taxes, a reduction in these property tax payments would not be a condition of any LIPA privatization | ▪ Sandy presented an extraordinary challenge to all utilities in the region, and each utility faced its own set of issues and circumstances<br>▪ In general, the region's utilities have a strong track record for performance, response and reliability<br>▪ However, no other utility in the region had the magnitude of LIPA's storm response issues, communication problems and general mismanagement<br>▪ In addition, and perhaps more importantly, LIPA's current organizational structure and lack of PSC regulation and oversight ensure that the mismanagement of LIPA will continue with little to no accountability | ▪ Yes. The current utility merger & acquisition environment is strong, driven by a low interest rate environment, healthy stock market valuations and the ongoing need for utilities to increase scale and efficiencies to help fund infrastructure investment and reduce rate pressures<br>▪ Importantly, a unique window of opportunity (supported by historically-low interest rates) may exist to implement a sale through privatization as a permanent solution to the T&D System with a moderate benefit for ratepayers |

## Frequently Asked Questions (cont'd)

| | | | |
|---|---|---|---|
| **QUESTION** | **Why would a private buyer be willing to pay a premium (price in excess of the book value) for LIPA's T&D System assets?** | **Can you be sure that an Investor-Owned Utility would be interested in buying the T&D System? How do we know that a privatization effort would not waste time and money?** | **Is there a way to solicit interest from buyers in advance of conducting a privatization process, to ensure that adequate interest exists?** |
| **ANSWER** | ■ Private buyers may be willing to pay a premium for the T&D System for various reasons<br>■ Often a buyer may feel that they are in a position to realize certain operating improvements and other efficiencies that accompany private operation through combined systems and technical expertise, improved allocation of capital or increased scale<br>■ Electric T&D companies (and other utilities) are typically (and routinely) acquired for premiums to historical book value | ■ IOU's should be interested in acquiring the T&D System if it represents an attractive use of capital<br>■ However, recent commentary by New York State may have "chilled" the appetite; there is also general skepticism regarding government privatization and follow-through<br>■ These concerns can be addressed by providing the relevant representatives with the authority to negotiate on a bilateral or multilateral basis (for both price and a rate agreement) and use a "market check" to ensure that ratepayers and the State are achieving the best possible value<br>■ New York State must create an environment where it is worth the buyer's time to engage in a very complicated project on an accelerated timeframe | ■ Yes. There are ways to test market interest on a formal or informal basis<br>■ Lazard conducted a similar "market sounding" process for the City of Philadelphia in connection with the City's potential sale of Philadelphia Gas Works<br>■ A brief summary of this process is provided in Lazard's Strategic Assessment, available on the City's website at the following location: http://www.phila.gov/PDFs/PGW-Strategic-Assessment.pdf |






## Frequently Asked Questions (cont'd)

| | | | |
|---|---|---|---|
| **QUESTION** | **What other issues could impact buyer interest in the T&D System?** | **Could the State sell LIPA for $1?** | **If LIPA has almost $7 billion of debt, but only approximately $4 billion worth of T&D System assets, why doesn't the (effectively insolvent) organization declare bankruptcy and start over with a clean balance sheet?** |
| **ANSWER** | ■ Interest in the T&D System will largely be driven by buyers' perceptions of New York State as an attractive jurisdiction for owning a utility<br>■ In that regard, the State of New York can help promote buyer interest by communicating messages consistent with a positive business environment and a strong interest in ensuring a successful transition of the T&D System to a private owner with PSC regulation<br>■ Such a communications strategy will counterbalance buyer skepticism regarding government privatization and follow-through | ■ No. Selling the T&D System for $1 would not generate the proceeds required to repay the debt associated with the T&D System, and it would likely be difficult to receive the necessary bondholder (and other) approvals required for such a transaction | ■ Any bankruptcy or restructuring-related solution would likely have adverse effects on other New York State tax-exempt issuers and would inevitably result in a complex/lengthy legal process |

# Frequently Asked Questions (cont'd)

| | | | |
|---|---|---|---|
| QUESTION | **What if Lazard's valuation and/or synergies analysis is incorrect?** | **Can a new owner agree to freeze bills?** | **If fuel and purchased power costs are "pass through" expenses, how can we be sure that an Investor-Owned Utility has any incentive to reduce these costs? Don't they need to take this risk to ensure the costs will be reduced?** |
| ANSWER | ■ Lazard's analysis is supported by rigorous quantitative valuation methodologies and recent experience selling assets similar to the T&D System<br>■ Synergy estimates are based on input from industry experts, LIPA staff members, external consultants and a working knowledge of how potential buyers will evaluate the T&D System's operations<br>■ Under the proposed regulatory construct, even if certain synergies are not realized by the Investor-Owned Utility, the PSC's oversight and ratemaking process will ensure that those costs are not inequitably passed on to ratepayers | ■ A new owner can agree to freeze distribution rates—the actual expenses of operating the system<br>■ No system owner—LIPA, an Investor-Owned Utility or any other type of owner can agree to freeze fuel and purchased power costs—these must be passed along to customers<br>■ All utilities regulated by the PSC in New York State operate in this manner; they have agreed to distribution rates and pass through fuel and purchased power costs to their customers<br>■ In the case of LIPA, however, there is no direct outside oversight of how any portion of its rates are set | ■ No Investor-Owned Utility will acquire the T&D System if it is treated differently than other utilities (i.e., by being forced to take risk on fuel and purchased power costs)<br>■ The rate plan will need to create incentive mechanisms to ensure that the Investor-Owned Utility is highly motivated to reduce its fuel and purchased power costs |





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DRAFT

New York Power Authority

B FREQUENTLY ASKED QUESTIONS

# Frequently Asked Questions (cont'd)

| | | | |
|---|---|---|---|
| QUESTION | **Wouldn't it be simpler just to modify the PSEG contract to give it more control over the T&D System?** | **Wouldn't PSEG be able to save a lot of money—by realizing synergies—if it were given much more control over the T&D System in its operating contract?** | **Won't privatization create risk of disruption in the midst of the transition to PSEG?** |
| ANSWER | ■ This solution would not solve the key issues currently impacting the T&D System, so the same problems would persist<br>■ In addition, the structural problems related to such a solution may be just as complicated as privatization—accordingly, the T&D System could wind up with a worse structure and potentially higher costs | ■ Because PSEG's operating contract compensates PSEG on a cost-plus basis, there is no means to create incentives of ownership for PSEG without fundamentally restructuring the operating contract<br>■ Further, PSEG competed to operate, but not own, the T&D System and is not "entitled" to an ownership position | ■ A well-conceived privatization process could mitigate many of the disruption risks associated with the PSEG transition<br>■ The PSEG transition itself involves various risks and expenses—a portion of which could be avoided through a privatization |



Contains proprietary & confidential commercial or financial information and trade secrets, disclosure of which will cause substantial injury to the competitive position of Lazard

# Appendix

# A LIPA-Related Analysis

# LIPA Five-Year Financial Projections—Income Statement

($ in millions)

| | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | Average % of Revenue |
|---|---|---|---|---|---|---|---|
| GWh | 20,314 | 20,461 | 20,665 | 20,872 | 21,081 | 21,291 | |
| **Net Operating Revenues** | **$3,732** | **$3,598** | **$3,720** | **$3,682** | **$3,794** | **$3,985** | **100.0%** |
| Operating Expenses: | | | | | | | |
| Fuel & Purchased Power Costs | $1,663 | $1,533 | $1,504 | $1,447 | $1,523 | $1,673 | 41.5% |
| Operations & Maintenance | 1,035 | 1,046 | 1,121 | 1,122 | 1,140 | 1,162 | 29.4% |
| General & Administrative | 48 | 47 | 54 | 56 | 57 | 59 | 1.4% |
| Depreciation | 163 | 166 | 183 | 192 | 201 | 210 | 4.9% |
| Amortization of Acquisition Adjustment | 111 | 111 | 111 | 111 | 111 | 111 | 3.0% |
| PILOTS and Revenue Tax | 329 | 342 | 378 | 386 | 395 | 407 | 9.9% |
| **Total Operating Expenses** | **$3,349** | **$3,247** | **$3,351** | **$3,313** | **$3,427** | **$3,621** | **90.2%** |
| **Operating Income** | **$382** | **$351** | **$369** | **$369** | **$367** | **$364** | **9.8%** |
| Other Income and Deductions | 43 | 56 | 43 | 46 | 47 | 46 | 1.2% |
| Interest Expense | 350 | 332 | 338 | 340 | 339 | 335 | 9.0% |
| **Net Income** | **$75** | **$75** | **$75** | **$75** | **$75** | **$75** | **2.0%** |

*Source: LIPA 2013 Budget.*

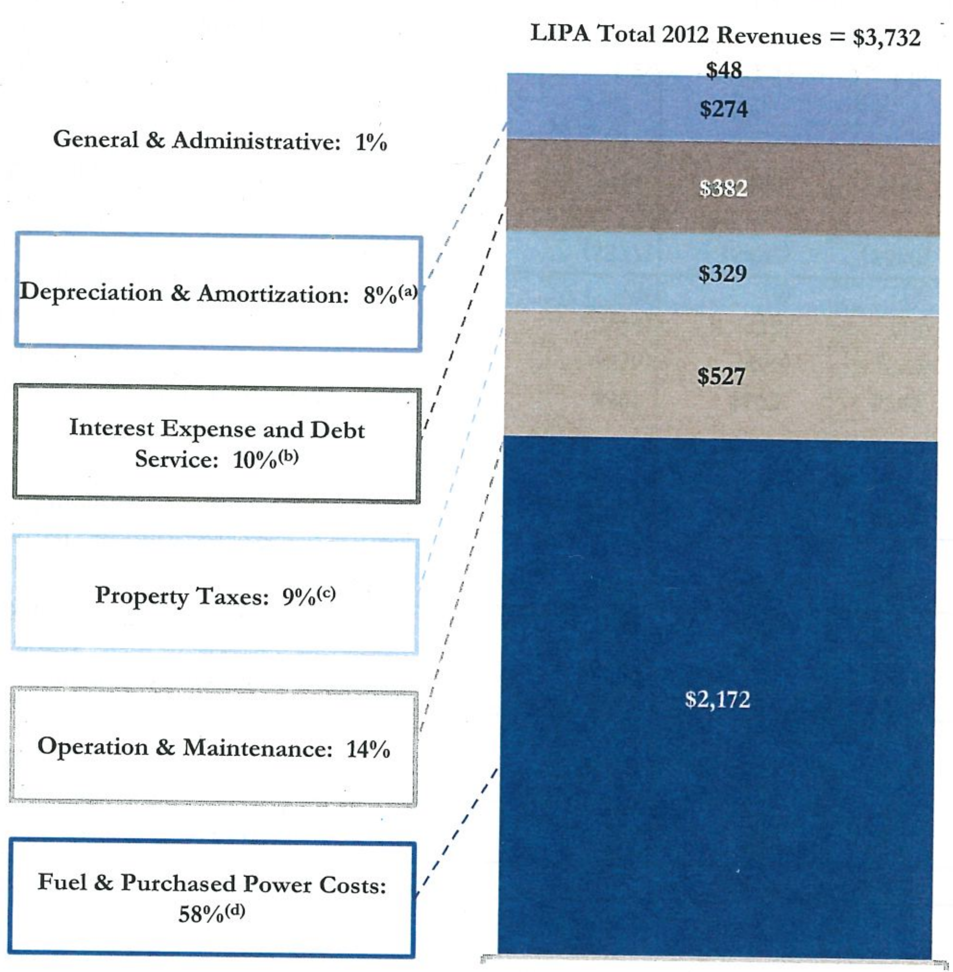






# LIPA Rate Stack Analysis—2012E Total Revenues

($ in millions)




*Source: LIPA 2012 Approved Budget.*

(a) Includes depreciation on NMP2 and amortization of acquisition adjustment.
(b) Includes interest expense, other income and excess of revenues over expenses.
(c) Includes T&D property taxes, revenue PILOTs and 18-A Conservation Assessment and other State Assessments.
(d) Includes Power Supply O&M and PSA assessment.

# LIPA Credit and Cash Flow Summary

**($ in millions)**

| | 2012E | 2013E | 2014E | 2015E | 2016E |
|---|---|---|---|---|---|
| Excess/(Deficiency) of Revenues Over Expenses | $75 | $75 | $75 | $75 | $75 |
| Plus: Depreciation & Amortization | 274 | 278 | 294 | 303 | 312 |
| Plus: Net Interest Expense | 350 | 340 | 346 | 348 | 344 |
| Plus: Other | (8) | (20) | 46 | 54 | 154 |
| **Operating Cash Available for Debt Service Coverage** | **$691** | **$672** | **$761** | **$780** | **$886** |
| Less: Capital Expenditures | ($321) | ($448) | ($353) | ($414) | ($341) |
| Less: Total Debt Service | (577) | (492) | (580) | (579) | (589) |
| **Net Cash Flow** | **($207)** | **($268)** | **($172)** | **($213)** | **($45)** |
| Issuance/(Repayment) of Commercial Paper | 0 | 0 | 0 | 0 | 0 |
| **Change in Total Funds** | **($207)** | **($268)** | **($172)** | **($213)** | **($45)** |
| | | | | | |
| **Operating Cash Available for Debt Service Coverage** | **$691** | **$672** | **$761** | **$780** | **$886** |
| Less: Senior Lien Debt Service | (556) | (466) | (553) | (551) | (457) |
| Less: Subordinate Debt Service | (14) | (18) | (19) | (19) | (19) |
| Less: Subsidiary Unsecured Debt Service | (8) | (8) | (8) | (8) | (113) |
| **Total Debt Service** | **($577)** | **($492)** | **($580)** | **($579)** | **($589)** |
| | | | | | |
| **Revenue Excess (Deficiency)** | **$114** | **$180** | **$181** | **$201** | **$296** |
| | | | | | |
| **Memo: Coverage Ratios** | | | | | |
| Coverage on Senior Lien Debt | 1.2x | 1.4x | 1.4x | 1.4x | 1.9x |
| Coverage on Senior Lien and Subordinate Debt | 1.2x | 1.4x | 1.3x | 1.4x | 1.9x |
| **Coverage on Total Debt Service** | **1.2x** | **1.4x** | **1.3x** | **1.3x** | **1.5x** |

*Source: LIPA 2013 Budget.*





# LIPA Debt Schedule—2013E Cost of Debt

| | | | Pro Forma 2013E | | | | |
|---|---|---|---|---|---|---|---|
| **Series** | **Type** | **Maturity** | **Year-End Principal Outstanding** | **Average Principal Outstanding** | **Effective Interest Rate** | **Expense[a]** | **Insured** |
| **Senior Lien Debt** | | | | | | | |
| 1998A | Capital Appreciation Bonds[b] | 2013-2028 | $132.0 | $154.6 | 4.72% | $7.3 | 100.0% |
| 2000A | Capital Appreciation Bonds[c] | 2013-2028 | 372.6 | 453.5 | 4.75% | 21.5 | 100.0% |
| 2001A | Serial Bonds | 2013-2021 | 0.0 | 0.0 | 0.00% | 0.0 | 0.0% |
| 2003B | Serial Bonds | 2013-2014 | 57.4 | 119.0 | 4.69% | 5.6 | 0.0% |
| 2003C | Serial Bonds[d] | 2013-2033 | 3.3 | 9.2 | 2.32% | 0.2 | 31.3% |
| 2003C | Term Bonds[d][e] | 2033 | 135.0 | 135.0 | 4.85% | 6.6 | 100.0% |
| 2003D-O | Variable Rate Debt[e][f] | 2029 | 226.2 | 375.2 | 6.51% | 24.4 | 100.0% |
| 2004A | Serial Bonds[d] | 2013-2025 | 29.7 | 32.5 | 4.60% | 1.5 | 100.0% |
| 2004A | Term Bonds | 2029-2034 | 166.1 | 166.1 | 5.02% | 8.3 | 100.0% |
| 2006A | Serial Bonds[d] | 2013-2026 | 839.2 | 839.2 | 4.53% | 38.0 | 84.1% |
| 2006B | Serial Bonds | 2035 | 4.2 | 4.2 | 4.50% | 0.2 | 0.0% |
| 2006B | Term Bonds | 2035 | 92.7 | 92.7 | 4.88% | 4.5 | 0.0% |
| 2006C | Term Bonds[d] | 2035 | 198.0 | 198.0 | 4.79% | 9.5 | 0.0% |
| 2006D | Serial Bonds | 2013-2025 | 165.2 | 166.5 | 4.55% | 7.6 | 100.0% |
| 2006D | Serial Bonds - Variable Rate | 2015 | 110.7 | 110.7 | 4.11% | 4.6 | 100.0% |
| 2006E | Serial Bonds[d] | 2013-2022 | 507.6 | 507.6 | 4.37% | 22.2 | 81.7% |
| 2006F | Serial Bonds[d] | 2013-2028 | 199.5 | 207.2 | 4.07% | 8.4 | 100.0% |
| 2006F | Term Bonds | 2033 | 112.6 | 112.6 | 4.25% | 4.8 | 100.0% |
| 2008A | Term Bonds | 2034 | 605.1 | 605.1 | 5.93% | 35.9 | 41.3% |
| 2008B | Serial Bonds | 2019-2025 | 96.5 | 96.5 | 5.77% | 5.6 | 0.0% |
| 2008B | Term Bonds | 2033 | 52.8 | 52.8 | 5.75% | 3.0 | 0.0% |
| 2009A | Serial Bonds | 2014-2039 | 363.4 | 363.4 | 5.15% | 18.7 | 0.0% |
| 2009A | Term Bonds | 2033 | 72.5 | 72.5 | 6.25% | 4.5 | 0.0% |
| 2010A | Serial Bonds | 2014-2015 | 193.3 | 193.3 | 2.46% | 4.7 | 0.0% |
| 2010B | BABs - Serial Bonds | 2020-2041 | 210.0 | 210.0 | 5.61% | 11.8 | 0.0% |
| 2011A | Serial Bonds | 2017-2036 | 113.4 | 113.4 | 3.81% | 4.3 | 55.9% |
| 2011A | Term Bonds | 2037-2038 | 136.6 | 136.6 | 5.00% | 6.8 | 0.0% |
| 2012A | Term Bonds | 2037-2042 | 250.0 | 250.0 | 4.69% | 11.7 | 0.0% |
| 2012B | Serial Bonds | 2014-2029 | 250.0 | 250.0 | 3.82% | 9.5 | 0.0% |
| 2012C | Serial Bonds - Variable Rate | 2030-2033 | 175.0 | 175.0 | 0.50% | 0.9 | 0.0% |
| 2012D | Serial Bonds - Variable Rate | 2027-2029 | 149.0 | 149.0 | 0.50% | 0.7 | 0.0% |
| **Total Senior Lien Debt** | | | **$6,019.7** | **$6,351.5** | **4.62%** | **$293.5** | **51.2%** |
| **Subordinate Debt** | | | | | | | |
| Series 2011A-3BVR | Variable Rate[e][f] | 2033 | $350.0 | $350.0 | 2.96% | $10.4 | 0.0% |
| Commercial Paper | Variable Rate[e][f] | Various | 200.0 | 200.0 | 0.93% | 1.9 | 0.0% |
| **Total Subordinate Debt** | | | **$550.0** | **$550.0** | **2.22%** | **$12.2** | **0.0%** |
| **NYSERDA Bonds** | | | | | | | |
| 1985 Series A | Subordinated | 2016 | $58.0 | $58.0 | 5.15% | $3.0 | 0.0% |
| 1985 Series B | Subordinated | 2016 | 50.0 | 50.0 | 5.15% | 2.6 | 0.0% |
| 1993 Series B | Subordinated | 2023 | 29.6 | 29.6 | 5.30% | 1.6 | 0.0% |
| 1994 Series A | Subordinated | 2024 | 2.6 | 2.6 | 5.30% | 0.1 | 0.0% |
| 1995 Series A | Subordinated | 2025 | 15.2 | 15.2 | 5.30% | 0.8 | 0.0% |
| **Total NYSERDA** | | | **$155.4** | **$155.4** | **5.20%** | **$8.1** | **0.0%** |
| **Total Debt Securities** | | | **$6,725.1** | **$7,056.9** | **4.45%** | **$313.8** | **45.9%** |

(a) Net of amortizations for discounts and premiums, insurance costs and swaption proceeds, if applicable.
(b) Represents accreted value of original proceeds of $145.793 million, adjusted for principal maturities and partial refinancing in 2003.
(c) Represents accreted value of original proceeds of $325.165 million, adjusted for partial refinancing in 2003.
(d) Net of fixed-to-floating/basis swap arrangement.
(e) Projected variable rates of 2.50% for 2011 and 2.00% for 2012.
(f) Includes a Fixed Rate Swap Arrangement.

# Selected Recent Rating Agency Commentary

| RATING AGENCY | RATING/ OUTLOOK | DATE OF REPORT | SELECTED COMMENTARY |
|---|---|---|---|
| STANDARD &POOR'S | A-/Negative | 12/06/2012 | **"The outlook revision reflects our view that protracted power outages following Superstorm Sandy contribute to a political climate that diminishes the utility's ratemaking and financial flexibility.** Reduced ratemaking flexibility might impair LIPA's financial risk or operating profile if it cannot recoup from customers those portions of the **estimated $850 million of storm recovery costs that the Federal Emergency Management Agency (FEMA) will not reimburse**. … In addition, constraints on ratemaking flexibility could hinder the authority's ability to make investments that will buttress the system to better withstand future storms or recover costs associated with strengthening the system."<br><br>**"The revised outlook also reflects our view of the resignations of key utility officials.** The resignations coincided with criticisms of LIPA's management of October's vast storm outages. The authority's chief operating officer, its board chairman, a trustee and vice president of customer service all resigned. **We believe the departures leave a void that could frustrate timely and appropriate management of the financial, operational, customer relations and political challenges the utility faces in the storm's aftermath."**<br><br>"We could **revise the outlook to stable** if the authority **manages its finances and operations effectively** in the storm's aftermath and **shows that it can adjust its capital and rate plan."** |
| Moody's Corporation | A3/Negative[(a)] | 11/05/2012 | "We believe that the restoration costs from the aftermath of Storm Sandy could further weaken the Long Island Power Authority's financial condition particularly if liquidity measures are not strengthened and rate recovery, disaster relief and insurance compensation payments are not received in a timely manner."<br><br>"Substantial storm-related costs will be an additional call on liquidity but we anticipate that the major cash outflows will not occur for a few months until after contractors complete their respective audit and billing process. In the meantime, LIPA has indicated that the authority is close to establishing new credit lines in the amount of $300 to $500 million, which will bolster liquidity. **It remains unclear whether LIPA will need to further increase the size of the facilities in light of final Storm Sandy costs.** We note that LIPA currently has approximately $100 million of unutilized capacity under its commercial paper program."<br><br>**"An additional vulnerability for LIPA is the degree to which their storm-responsiveness affects their ability to recover storm related costs.** As an unregulated utility, LIPA's Board can quickly establish a rate mechanism, which can strengthen the utility's current financial position. However, implementing the rate mechanism may be a challenge if storm responsiveness turns out to be a major political issue. Already, Governor Cuomo, in a November 1st letter to all New York utilities and in numerous media statements, had indicated the State would invoke punitive measures on any utility if storm-responsiveness becomes an issue and in the case of LIPA, would, in the extreme, seek to remove the management responsible for such results, should they occur. On the positive side, we understand that LIPA's power supply sources were not heavily impacted including the underwater transmission lines that bring energy on to the island. Most of the damage occurred within the distribution network. The greatest damage was to the Rockaways and Long Beach distribution systems, which were significantly destroyed by the storm. These affected customers, however, represent about 3% of LIPA customer revenues." |

(a) On December 10, 2012, Moody's announced that it was placing LIPA under review for a possible downgrade, citing LIPA's weakened financial strength and governance concerns following the resignation of several board members.





# Comparative Credit Statistics Profile

| | LIPA | Pro Forma T&D System[(a)] | S&P A- Guidelines[(b)] Worse | S&P A- Guidelines[(b)] Better | Central Hudson | ConEd | National Grid[(c)] | Northeast Utilities | Pepco | PSE&G |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Selected Regional Investor-Owned Utilities | | | | | |
| S&P Credit Rating/Outlook | A-/Negative | N/A | | | A/Negative | A-/Stable | A-/Stable | A-/Stable | BBB+/Stable | BBB/Positive |
| Debt/EBITDA | 15.6x | 4.1x | 4.0x | 3.0x | 3.6x | 4.3x | 4.7x | 5.0x | 5.0x | 3.2x |
| FFO/Total Debt | 4.1% | 16.1% | 20.0% | 30.0% | 25.2% | 23.2% | 14.3% | 14.1% | 11.3% | 24.7% |
| FFO/Interest | 1.9x | 6.4x | 3.0x | 3.5x | 5.7x | 6.3x | 3.3x | 4.4x | 3.3x | 5.6x |
| Total Debt/Capitalization | 94.6% | 55.0% | 50.0% | 45.0% | 56.6% | 55.6% | 71.2% | 60.8% | 56.6% | 53.7% |

*Source: LIPA 2013 Budget and Company filings.*
Note: Metrics based on 2011A, except for Pro Forma T&D System and National Grid.
(a) Based on pro forma 2014E projections.
(b) Credit metric ranges implied for a company with a business risk profile of "Excellent" and a financial risk profile of "Significant," for which the expected credit rating under S&P's methodology would be A-.
(c) Based on fiscal year ended March 31, 2012.

# B Strategic Alternatives-Related Analysis

# LIPA Standalone Financial Projections vs. Management Plan

($ in millions)

| | LIPA STANDALONE PROJECTIONS 2013E | 2014E | 2015E | 2016E | 2017E | Average % of Revenue |
|---|---|---|---|---|---|---|
| GWh | 20,461 | 20,665 | 20,872 | 21,081 | 21,291 | |
| **Total Revenue Requirement** | | | | | | |
| Residual LIPA Revenue Requirement | | | | | | |
| **Net Operating Revenues** | **$3,598** | **$3,720** | **$3,682** | **$3,794** | **$3,985** | **100.0%** |
| Operating Expenses: | | | | | | |
| Fuel & Purchased Power Costs | $1,533 | $1,504 | $1,447 | $1,523 | $1,673 | 40.9% |
| Operations & Maintenance | 1,046 | 1,121 | 1,122 | 1,140 | 1,162 | 29.8% |
| General & Administrative | 47 | 54 | 56 | 57 | 59 | 1.5% |
| Depreciation | 166 | 183 | 192 | 201 | 210 | 5.1% |
| Amortization of Acquisition Adjustment | 111 | 111 | 111 | 111 | 111 | 3.0% |
| PILOTS and Revenue Tax | 342 | 378 | 386 | 395 | 407 | 10.2% |
| **Total Operating Expenses** | **$3,247** | **$3,351** | **$3,313** | **$3,427** | **$3,621** | **90.3%** |
| **Operating Income** | **$351** | **$369** | **$369** | **$367** | **$364** | **9.7%** |
| Other Income and Deductions | 56 | 43 | 46 | 47 | 46 | 1.3% |
| Interest Expense | 332 | 338 | 340 | 339 | 335 | 9.0% |
| Income Tax Expense | | | | | | |
| **Net Income** | **$75** | **$75** | **$75** | **$75** | **$75** | **2.0%** |

| | PRO FORMA T&D SYSTEM PROJECTIONS 2013E | 2014E | 2015E | 2016E | 2017E | Average % of Revenue |
|---|---|---|---|---|---|---|
| GWh | 20,461 | 20,665 | 20,872 | 21,081 | 21,291 | |
| **Total Revenue Requirement** | **3,598** | **3,659** | **3,463** | **3,603** | **3,789** | |
| Residual LIPA Revenue Requirement | - | (161) | (120) | (135) | (129) | |
| **Net Operating Revenues** | **3,598** | **$3,498** | **$3,343** | **$3,468** | **$3,661** | **100.0%** |
| Operating Expenses: | | | | | | |
| Fuel & Purchased Power Costs | $1,533 | $1,533 | $1,417 | $1,492 | $1,633 | 43.3% |
| Operations & Maintenance | 978 | 1,082 | 1,022 | 1,041 | 1,059 | 29.5% |
| General & Administrative | 45 | 0 | 0 | 0 | 0 | 0.3% |
| Depreciation | 144 | 157 | 164 | 170 | 177 | 4.6% |
| Amortization of Acquisition Adjustment | 0 | 0 | 0 | 0 | 0 | 0.0% |
| PILOTS and Revenue Tax | 342 | 403 | 406 | 417 | 431 | 11.4% |
| **Total Operating Expenses** | **$3,043** | **$3,175** | **$3,008** | **$3,120** | **$3,300** | **89.1%** |
| **Operating Income** | **$555** | **$323** | **$335** | **$348** | **$360** | **10.9%** |
| Other Income and Deductions | 5 | 9 | 14 | 16 | 17 | 0.3% |
| Interest Expense | 305 | 73 | 77 | 83 | 87 | 3.6% |
| Income Tax Expense | 102 | 104 | 108 | 113 | 116 | |
| **Net Income** | **$153** | **$156** | **$163** | **$169** | **$174** | **4.6%** |

| | RESIDUAL LIPA PROJECTIONS 2013E | 2014E | 2015E | 2016E | 2017E | Average % of Revenue |
|---|---|---|---|---|---|---|
| GWh | - | - | - | - | - | |
| **Net Operating Revenues** | **$162** | **$161** | **$120** | **$135** | **$129** | **100.0%** |
| Operating Expenses: | | | | | | |
| Operations & Maintenance | 33 | 0 | 0 | 0 | 0 | 4.7% |
| General & Administrative | 2 | 2 | 2 | 2 | 2 | 1.5% |
| Depreciation | 22 | 0 | 0 | 0 | 0 | 3.1% |
| Amortization of Acquisition Adjustment | 111 | 165 | 165 | 165 | 165 | 109.2% |
| **Total Operating Expenses** | **$168** | **$167** | **$167** | **$167** | **$167** | **118.4%** |
| **Operating Income** | **($7)** | **($6)** | **($47)** | **($32)** | **($38)** | **(18.4%)** |
| Other Income and Deductions | 43 | 35 | 34 | 30 | 25 | 23.6% |
| Interest Expense | 35 | 187 | 186 | 182 | 178 | 108.8% |
| **Net Income** | **$1** | **($158)** | **($199)** | **($185)** | **($192)** | **(103.6%)** |

*Source: LIPA 2013 Budget.*







# Privatization and Contingency Plan—Illustrative Analytical Comparison

($ in millions)

| | | PRIVATIZATION—LOW SYNERGIES CASE | PRIVATIZATION—MODERATE SYNERGIES CASE | PRIVATIZATION—HIGH SYNERGIES CASE |
|---|---|---|---|---|
| KEY ASSUMPTIONS | O&M Synergies | $95 | $125 | $150 |
| | Fuel and Purchased Power Savings | $95 | $125 | $175 |
| | Capex Savings (% Reduction) | 5.0% | 10.0% | 20.0% |
| | State Assessment Relief | $37 | $37 | $36 |
| NET ECONOMIC COST OF DEFEASANCE | Debt Defeasance/Breakage Costs[a] | $1,471 | $1,471 | $1,471 |
| | Less: Economic Benefit from Refinancing | (1,079) | (1,079) | (1,079) |
| | Less: Other Economic Benefits from Ending Shoreham Debt Burden | ? | ? | ? |
| | Net Economic Cost of Debt Defeasance | $392 | $392 | $392 |
| SOURCES | T&D System Sale Proceeds[b] | $4,250 | $4,250 | $4,250 |
| | NMP2 Sale Proceeds | 226 | 226 | 226 |
| | State Assessment Relief[c] | 811 | 791 | 2,032 |
| | Revenue Recovery for Debt Repayment[d] | 1,880 | 1,900 | 660 |
| | **Total Sources** | **$7,167** | **$7,167** | **$7,167** |
| USES | LIPA Debt Retired with Sale Proceeds | $4,250 | $4,250 | $4,250 |
| | Remaining LIPA Debt Outstanding | 2,475 | 2,475 | 2,475 |
| | Net Economic Cost of Debt Defeasance | 392 | 392 | 392 |
| | Transaction Fees | 50 | 50 | 50 |
| | **Total Uses** | **$7,167** | **$7,167** | **$7,167** |

| PROJECTED RATE IMPACT | | Status Quo[e] | Low Synergies | Difference | Moderate Synergies | Difference | High Synergies | Difference |
|---|---|---|---|---|---|---|---|---|
| **10-year:** | Rate CAGR | 2.1% | 2.0% | (0.1%) | 1.8% | (0.4%) | 1.2% | (0.9%) |
| | Revenue NPV at 5.3%[f] | $31,713 | $30,896 | (2.6%) | $30,311 | (4.4%) | $28,947 | (8.7%) |
| **30-year:** | Rate CAGR | 2.4% | 2.5% | 0.1% | 2.4% | 0.0% | 2.2% | (0.2%) |
| | Revenue NPV at 5.3%[f] | $81,074 | $81,133 | 0.1% | $79,141 | (2.4%) | $74,923 | (7.6%) |

Note: Sandy costs are not included in the current LIPA standalone forecast and therefore not included in the pro forma analysis for comparison purposes.
(a) Assumes $1,111 million in bond defeasance costs, $354 million in swap breakage costs and $7 million in PSEG contract breakage costs are incurred to defease the total outstanding debt amount of $6,725 million.
(b) Sale proceeds include $3,558 million for the book value of the T&D System, $513 million for cash and working capital and a purchase price premium of $178 million (based on a fundamental valuation).
(c) NPV of total amount of redirected 18-A Conservation Assessment and other State Assessments over 30-year period.
(d) Remaining LIPA debt outstanding, net of proceeds from 18-A Conservation Assessment and other State Assessment relief, assumed to be recovered in rates over 30-year period.
(e) Assumes LIPA projections accurate and forecasts met, a result inconsistent with historical performance.
(f) 5.3% weighted average cost of capital based on 55% debt-to-equity capital structure, 3.0% cost of debt (rising to 6.0% over time), 9.5% cost of equity and 40% tax rate.

# Summary of Debt Assumptions

**($ in millions)**

| | | PRIVATIZATION—FULL REFINANCING | | PRIVATIZATION—PARTIAL REFINANCING | |
|---|---|---|---|---|---|
| | **LIPA STATUS QUO DEBT** | **IOU DEBT** | **RESIDUAL LIPA—SECURITIZATION** | **IOU DEBT** | **RESIDUAL LIPA—BONDS REMAIN OUTSTANDING** |
| **AMOUNT** | $6,725 | $2,438 (Initial Amount) | $4,076 | $2,438 (Initial Amount) | $3,457 |
| **TAX STATUS** | Tax-Exempt | Taxable | Taxable | Taxable | Tax-Exempt |
| **INTEREST RATE** | Current Effective Rate: 4.45% Interest on New Debt Issuances: 3.00% (Rising to 4.50% over Long Term) | Current Effective Rate: 4.45% Interest on New Debt Issuances: 3.00% (Rising to 6.00% over Long Term) | 3.75% Fixed (Securitized Debt) | Current Effective Rate: 4.45% Interest on New Debt Issuances: 3.00% (Rising to 6.00% over Long Term) | Current Effective Rate: 4.45% (Existing Debt) |
| **TERM** | Various | Various | 30 years | Various | 30 years |
| **DEBT SERVICE PROFILE** | Various | Various | Annual Principal Repayment: 0.50% (Rising to 6.17% over Long Term) | Various | Proportionate Amount of LIPA Status Quo Schedule |

*Source: LIPA 2013 Budget.*

Note: Based on an illustrative purchase price of $4,250 million (assuming a January 1, 2014 transaction close). Debt amounts based on total year-end debt balance.





# Estimated Debt Defeasance and Breakage Costs

**ILLUSTRATIVE BONDHOLDER ECONOMICS**

| | 1/1/2014 Closing | | |
|---|---|---|---|
| **Timing** | **Outstanding** | **Breakage** | **Total** |
| **Senior Debt** | | | |
| Redeemable Today at Par | $550.2 | $0.0 | $550.2 |
| Redeemable Today at Premium | 210.0 | 85.9 | 295.9 |
| Redeemable in the Future | 4,076.2 | 756.9 | 4,833.2 |
| Not Redeemable before Maturity | 1,183.2 | 264.9 | 1,448.1 |
| **Total Senior** | **$6,019.7** | **$1,107.7** | **$7,127.4** |
| Subordinated | 550.0 | 0.0 | 550.0 |
| **Total LIPA** | **$6,569.7** | **$1,107.7** | **$7,677.4** |
| NYSERDA | 155.4 | 3.2 | 158.6 |
| Swap Termination Payments | 0.0 | 353.7 | 353.7 |
| **Total Debt** | **$6,725.1** | **$1,464.5** | **$8,189.6** |

*Source: PFM.*