

Long Island Power Authority

**Biennial Report
of the
Consulting Engineer and Rate Consultant
for the Period
January 1, 2010 through December 31, 2011**

August 31, 2012

NAVIGANT CONSULTING, INC.



August 31, 2012

Long Island Power Authority
Board of Trustees
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Chairman and Members of the Board of Trustees:

Navigant Consulting, Inc. ("Navigant") has been retained by the Long Island Power Authority (the "Authority") as the Authority's Consulting Engineer and Rate Consultant (as such terms are defined in the General Bond Resolution and the General Subordinated Resolution) for the purpose of an examination of, and preparation of a report on, the properties and operations of the System. This report (the "Biennial Report") is to be prepared no less frequently than every other Fiscal Year, commencing with Fiscal Year 1999 (the 12 months ended December 31, 1999) pursuant to Section 702(b) of the General Bond Resolution and Section 7.02 of the General Subordinated Resolution. Navigant submits this Biennial Report for the Fiscal-Year 2010 through 2011 period (the "Historical Period") presenting the results of its review and investigations.

In preparation of the Biennial Report, Navigant has reviewed the operation, maintenance, and repair of the System for the Historical Period and estimated results for the two Fiscal Years ending December 31, 2013. Navigant has also reviewed the rates, fees, rents, charges, and surcharges of the Authority. For purposes of this assignment, Navigant has conducted investigations and analyses, held discussions with staff and representatives of the Authority and National Grid plc, among others, and performed examinations of reports and projections prepared by consultants and advisors to the Authority, which Navigant deemed necessary and appropriate to reach its conclusions.

Subsequent to the effective date of this Biennial Report, several events occurred which could have an impact on the management and operation of the Authority's electric system. Please review Section 8 of this Biennial Report for information on these events.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Patrick S. Hurley".

Patrick S. Hurley
Managing Director

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SECTION 1

INTRODUCTION

The Long Island Power Authority (the "Authority") is a corporate municipal instrumentality and political subdivision of the State of New York authorized under the Long Island Power Authority Act (the "Act"). The Authority became the retail supplier of electric service in most of Nassau and Suffolk Counties and the Rockaway Peninsula of Queens County (the "Service Area") on May 28, 1998 by acquiring the Long Island Lighting Company ("LILCO") as a wholly owned subsidiary of the Authority through a merger (the "LIPA/LILCO Merger"). Since the LIPA/LILCO Merger, LILCO has done business under the name "LIPA." Before the LIPA/LILCO Merger, LILCO was a publicly traded, shareholder-owned corporation that, since the early 1900's, was the sole supplier of both retail electric and gas service in the Service Area. LIPA (LILCO) no longer provides gas service in the Service Area. For the period prior to the LIPA/LILCO Merger, LILCO is referred to herein as "LILCO" and, for the subsequent period, is referred to herein as "LIPA."

The Authority, through LIPA, owns, among others, the following assets: (i) an electric transmission and distribution system (the "T&D System") serving most of Nassau and Suffolk Counties and the Rockaway Peninsula of Queens County, including assets, facilities, equipment, and contractual arrangements used to provide the transmission and distribution of electrical capacity and energy to electric customers within the Service Area; (ii) an 18 percent ownership interest in the Nine Mile Point 2 Nuclear Power Station ("NMP2") located in upstate New York; and (iii) certain other intangible assets resulting from the LIPA/LILCO Merger. These assets, together with all other assets of the Authority and LIPA used in the furnishing of electric service, are referred to as the "System."

As part of the LIPA/LILCO Merger, the remainder of LILCO's electric service assets (including all of its then-existing fossil-fueled generating units), and its entire gas supply system, were transferred to certain wholly-owned subsidiaries of KeySpan Corporation which did business under the name of KeySpan Energy ("KeySpan"). In August 2007, KeySpan was acquired by National Grid plc ("National Grid"), a company organized under the laws of England and Wales. Effective May 1, 2008, the subsidiaries of KeySpan Corporation which acquired the electric service assets of LILCO began doing business under the name "National Grid" (each such subsidiary a "National Grid Sub" and collectively the "National Grid Subs"). See Section 3 herein for additional information on the acquisition of KeySpan Corporation by National Grid.

LIPA provides retail electric service to approximately 1.1 million customers within the Service Area. During 2011, the maximum annual peak demand experienced by LIPA totaled approximately 5,771 megawatts ("MW"), inclusive of sales for resale. LIPA's total annual revenues during 2011 approximated \$3.689 billion, of which over \$3.661 billion was derived from retail electric sales.

PURPOSE OF THE REPORT

The Authority had a total of approximately \$6.858 billion of senior lien, subordinate lien, and subsidiary debt outstanding as of December 31, 2011 (net of \$36.8 million of unamortized premium/discounts). As of such date, approximately \$6.014 billion of senior lien bonds issued under the Authority's Electric System General Revenue Bond Resolution (the "General Bond Resolution") were outstanding. The Authority also had outstanding approximately \$525 million

of subordinate lien bonds, issued under the Authority's Electric System General Subordinated Revenue Bond Resolution (the "General Subordinated Resolution"), \$200 million of commercial paper issued under the Authority's Supplemental Bond Resolution, and approximately \$155 million of New York State Energy Research and Development Authority Financing Notes for which it is primarily responsible, and for which LIPA holds a Promissory Note from KeySpan for an equivalent amount. The General Bond Resolution and General Subordinated Resolution contain certain covenants that require the Authority to undertake certain actions on an annual or periodic basis. One such action involves the performance by the Authority's Consulting Engineer and Rate Consultant (as such terms are defined in the General Bond Resolution and the General Subordinated Resolution) of an examination of, and preparation of a report on, the properties and operations of the System. This report (the "Biennial Report") is to be prepared no less frequently than every other Fiscal Year, commencing with Fiscal Year 1999. LIPA's Fiscal Year extends from January 1 through December 31.

Pursuant to Section 702(b) of the General Bond Resolution and Section 7.02 of the General Subordinated Resolution, the Biennial Report is to set forth the following:

- (i) "The Consulting Engineer's advice and recommendations as to the proper operation, maintenance, and repair of the System during the ensuing two Fiscal Years, and an estimate of the amounts of money necessary for such purposes;
- (ii) The Consulting Engineer's advice and recommendations as to improvements which should be made during the ensuing two Fiscal Years, and an estimate of the amounts of money necessary for such purposes, showing the amount projected to be expended during such Fiscal Years from the proceeds of Bonds and Subordinated Indebtedness issued under or pursuant to the Resolution;
- (iii) The Rate Consultant's recommendation as to any necessary or advisable revisions of rates, fees, rents, charges and surcharges and such other advice and recommendation as it may deem desirable; and
- (iv) The Consulting Engineer's findings as to whether the System has been maintained in good repair and sound operating condition, and its estimate of the amount, if any, required to be expended to place such properties in such condition and the details of such expenditures and the approximate time required therefore."

Navigant Consulting, Inc. ("Navigant") has been retained by the Authority to serve as the Consulting Engineer and the Rate Consultant to perform the examination of the properties and operations of the System, as required by the General Bond Resolution and General Subordinated Resolution, and to render its findings with respect to the above subject matter. This Biennial Report covers the Fiscal-Year 2010 through 2011 period (the "Historical Period") and the Fiscal-Year 2012 through 2013 forecast period (the "Forecast Period"). Information presented herein with respect to LIPA's historical operations is limited to financial and operating results known to have occurred as of December 31, 2011, except as otherwise noted. Additional information and items of a material nature have been included in this Biennial Report based on information available to Navigant through the date of this Biennial Report. Navigant's findings with respect to Section 702(b) of the General Bond Resolution and Section 7.02 of the General Subordinated Resolution can be found in Section 7 of this Biennial Report.

NAVIGANT CONSULTING, INC.

Navigant is an international firm of engineers, economists, regulatory specialists, and management consultants headquartered in Chicago, Illinois. Navigant's professionals provide services to a variety of industries, including electric and gas utilities, power producers, fuel suppliers, and power marketers. For these clients, typical services include power marketing analysis, transmission and distribution system planning, generation facilities evaluation, rate and pricing studies, environmental assessments, conservation and demand-side management program development and evaluation, strategic planning, marketing studies, and related services.

In addition to serving as the Authority's Consulting Engineer and Rate Consultant, Navigant provides assistance to the Authority on various issues, including operations, management, and expansion of its facilities, power supply resource development, rates and charges, and budget review and development.

SECTION 2

DESCRIPTION OF THE SYSTEM

The Service Area encompasses the bulk of Long Island in New York State, and is comprised of Nassau and Suffolk Counties and the Rockaway Peninsula of Queens County, an area of approximately 1,230 square miles, excluding areas served by three municipal utilities: the villages of Freeport, Greenport, and Rockville Centre. Suffolk County is the easternmost county within the Service Area and covers an area of approximately 911 square miles, followed by Nassau County with a 287 square mile area, and the Rockaway Peninsula with an area of approximately 32 square miles. The Service Area is bounded by the Atlantic Ocean on the south and east, by the Long Island Sound on the north, and by portions of New York City on the west. LIPA estimates the population of the Service Area was approximately 3.0 million people as of December 31, 2011.

CLIMATIC FACTORS

Long Island experiences seasonal conditions typical of the northeast United States. Summers are usually hot with high temperatures in excess of 90°F, accompanied by high levels of humidity. Winters include snow and icing conditions that can be damaging to overhead power lines. In addition, the Service Area experiences severe storms, including “nor’easters” and hurricanes, which can be particularly damaging due to Long Island’s coastal location. In response to these conditions, the T&D System has been constructed and maintained to minimize damage from high winds and icing and LIPA has adopted storm response procedures that are designed to restore service expeditiously.

CUSTOMER BASE

As of December 31, 2011, LIPA served approximately 1.1 million retail electric customers, of whom approximately 89 percent were residential users. During the year ending December 31, 2011, residential customers provided approximately 54 percent of LIPA’s annual retail electric revenues and commercial and industrial customers provided approximately 44 percent of annual retail electric revenues. The balance of retail electric revenues is derived from electric sales for public lighting and sales to public authorities.

Although commercial and industrial customers provide a significant portion of annual electric sales revenues, these customers account for only 10 percent of the retail electric customers served by LIPA. In general, individual commercial and industrial customers are relatively small; with approximately 93 percent of these customers having peak demands less than 75 kilowatts (“kW”). The Service Area contains little traditional “industrial” loads, and customers served under this rate classification are primarily large commercial customers. The single largest customer in the Service Area (the Long Island Rail Road) accounted for less than two percent of total electric sales during 2011 and less than two percent of total retail electric revenues during the same period.

LIPA also provides electric transmission service to the New York Power Authority (“NYPA”) for the delivery of NYPA capacity and energy to the three municipal utilities and other NYPA-power recipients on Long Island, including the Suffolk County Electrical Agency (“SCEA”) and the Nassau County Public Utility Agency (“NCPUA”).

Table 1 provides summary information on annual retail energy sales and retail electric revenues within the Service Area during the 2007 through 2011 period. Included in Table 1 is

information on numbers of retail electric customers for this period, as well as annual peak demand for electricity and annual energy requirements.

**TABLE 1
HISTORICAL STATISTICS¹**

	2007	2008	2009	2010	2011
Peak Demand (MW)	5,247	5,130	5,034	5,719	5,771
Energy (MWh) ²					
Residential.....	9,508,341	9,511,874	9,211,453	9,971,614	9,848,965
Commercial and Industrial	10,131,849	9,911,583	9,599,501	9,950,557	9,818,456
Other	452,717	465,033	460,188	453,569	489,362
Total Sales	20,092,907	19,888,490	19,271,142	20,375,740	20,156,783
Lost and Unaccounted For ³	1,516,368	1,501,406	1,456,144	1,293,646	1,203,364
Total Energy Requirements	21,609,275	21,389,896	20,727,286	21,669,386	21,360,147
System Load Factor (Percent).....	47.0	47.6	47.0	43.3	42.3
Customers ⁴					
Residential.....	989,727	991,398	995,351	996,790	997,599
Commercial and Industrial	115,121	115,350	115,528	115,565	115,370
Other	5,055	5,462	5,784	5,428	5,446
Total Customers	1,109,903	1,112,210	1,116,663	1,117,783	1,118,415
Retail Electric Revenues (\$000) ⁵	\$3,497,480	\$3,639,684	\$3,312,160	\$3,853,056	\$3,688,725

¹ Provided by LIPA.

² Megawatt-hour or MWh.

³ Includes Company service.

⁴ Numbers of meters at year-end.

⁵ Includes impact of fuel and purchased power adjustment clause.

TRANSMISSION AND DISTRIBUTION SYSTEM

The T&D System is an integrated electric system consisting of overhead and underground facilities, vehicles, equipment, land parcels, easements, contractual arrangements, and other assets used to provide the transmission and distribution of electric capacity and energy to and within the Service Area. The T&D System includes seven transmission interconnections that link the T&D System to utilities outside the Service Area. These transmission interconnections are owned in part or under contract to LIPA. A more complete description of the T&D System is provided in Section 4 of this Biennial Report.

SECTION 3

MANAGEMENT AND OPERATION OF THE SYSTEM

The Authority manages the operations, performance, and costs of the System with a senior management team comprised of engineering, legal, financial, accounting, and management professionals. The organization and performance of this senior management team is described below. Also included below is a discussion of the responsibilities of the service providers under the terms of certain key outsourcing agreements.

AUTHORITY MANAGEMENT AND ORGANIZATION

The Authority is governed by a fifteen-member board of Trustees who are required under the Act to be residents of the Service Area. The Governor appoints nine of the Trustees. Of the six remaining, three are appointed by the Majority Leader of the New York State Senate, and three are appointed by the Speaker of the New York State Assembly. A chairman of the Trustees is also appointed by and serves at the pleasure of the Governor. Each Trustee serves for a staggered term of four years. A Trustee whose term expires continues to serve until his or her successor is appointed. Pursuant to the Act, the Trustees and the officers of the Authority are not subject to any personal or civil liability resulting from the exercise, carrying out, or advocacy of any of the Authority's purposes or powers. Trustees serve without compensation, but are entitled to reimbursement for reasonable expenses in the performance of their duties. The LIPA Act, as well as the By-laws and other instruments of the Authority, and LIPA provide for the indemnification of the Trustees, officers, and/or employees of the Authority and LIPA.

The Authority uses a combination of (i) a core group of senior managers; (ii) internal professional and administrative support staff; and (iii) outsourced services by specialists to meet the wide variety of skills and experience required to guide the management of the electric utility. The Authority's organization includes the following senior management positions: (i) President and Chief Executive Officer (currently vacant); (ii) Chief Operating Officer; (iii) Chief Financial Officer and Vice President of Finance; (iv) General Counsel and Secretary; (v) Vice President of Environmental Affairs; (vi) Vice President of Customer Services (currently vacant); (vii) Vice President of Power Markets; (viii) Vice President of Transmission and Distribution Operations; and (ix) Controller. The Authority employs experienced support personnel to assist the senior management team in its day-to-day activities.

The Authority's President and Chief Executive Officer position has been vacant since the resignation of the former President and Chief Executive Officer, effective September 8, 2010. During this vacancy, the Chief Operating Officer is performing the duties of the President and Chief Executive Officer in accordance with the Authority's By-Laws.

The Authority and LIPA are parties to an Administrative Services Agreement (the "Administrative Services Agreement"), which sets forth the terms and conditions under which the Authority provides personnel, personnel-related services, and other services (including management, supervisory, payroll, and other services) necessary for LIPA to provide electric service in the Service Area. Except for services of the type and nature provided to LIPA by outside independent agents, attorneys, and consultants, and for any other services provided under agreements approved by the Authority, LIPA meets its personnel and personnel-related needs exclusively through the Administrative Services Agreement. The Administrative Services Agreement may be amended from time to time to reflect the changing needs of the Authority and LIPA.

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

A wide variety of skills and experience are required by the Authority to establish policy, evaluate System needs, assess System operations, and handle various other matters as they arise. These requirements are periodic and vary in the level of effort required. The Authority employs outside consultants and advisors in these areas to assist its own staff of 98 personnel. This enables the Authority to have the skills needed without the expense of committing to full-time positions.

OPERATING AGREEMENTS

To assist the Authority (acting through LIPA) in providing electric service in the Service Area, the Authority has entered into several agreements for outsourced services by specialists in various functions necessary for the management and operation of LIPA's electric utility business (the "Operating Agreements"). The overall purpose of the Operating Agreements is to provide the Authority and LIPA with the operating personnel, facilities and other resources necessary for LIPA to provide electric service in the Service Area. The Authority assigned its rights and obligations under the Operating Agreements to LIPA.

In 1997, the Authority entered into a Management Services Agreement (the "MSA"), a Power Supply Agreement (the "PSA"), and an Energy Management Agreement (the "EMA"), each with separate subsidiaries of KeySpan Corporation, as assumed by National Grid in 2008. The Authority has also entered into a Fuel Management and Bidding Services Agreement (the "FMBSA") with a subsidiary of National Grid pursuant to which National Grid procures and manages fuel supplies for certain generating facilities that LIPA has under contract. Additionally, the Authority entered into agreements with Consolidated Edison Energy, Inc. ("CEE") to provide services related to the sale and purchase of capacity and energy (including off-system sales as such opportunities may arise); and Pace Global Energy Risk Management, LLC ("Pace") to assist in formulating hedging strategies and administering LIPA's energy risk management program. Many of these functions were previously performed by National Grid under the EMA. Detailed information on the MSA, PSA, EMA, FMBSA, and the agreements with CEE and Pace can be found on LIPA's web Site (www.lipower.org). Additional details concerning the MSA follow.

OPERATION OF THE T&D SYSTEM

National Grid (the "Manager") is responsible for the operation and maintenance of the T&D System through the MSA, as amended and restated in 2006 (the "Amended and Restated MSA").

The Amended and Restated MSA provides for the day-to-day operation and maintenance of the T&D System in accordance with policies and procedures adopted by LIPA.

The Authority oversees the performance of the Manager through specific standards for performance contained in the Amended and Restated MSA. These standards include adherence to capital budgets, the frequency and duration of outages on the T&D System, and customer satisfaction.

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

Under the Amended and Restated MSA, the Authority is responsible for, among other things, (i) setting rates and charges; (ii) establishing line extension policies; (iii) developing service rules and regulations; (iv) approving long-term strategic plans; (v) developing customer service programs; (vi) approving annual operating and capital budgets; (vii) approving the Manager's load forecast and power resource models and plans; (viii) determining all energy efficiency, conservation, and load management policies and plans; (ix) managing governmental relations and reporting; (x) managing overall legal responsibilities; (xi) overseeing the Manager's operations and performance; and (xii) managing community and public relations. The Authority has the right to approve the appointment of key personnel of the Manager. For a more complete description of the Manager's responsibilities under the Amended and Restated MSA please see LIPA's web Site (www.lipower.org).

TRANSITION TO A NEW MANAGER

The Amended and Restated MSA expires on December 31, 2013. Based on a competitive procurement process, the Authority selected Public Service Electric Group ("PSEG"), along with its subcontractor, Lockheed Martin Services Inc. ("Lockheed Martin"), to assume operation of the T&D System for a ten-year period beginning January 1, 2014. LIPA and PSEG (through its subsidiary PSEG Long Island LLC - "PSEGLI"), executed a Transition Services Agreement (the "TSA") and an Operations Services Agreement (the "OSA") to provide for transition services through December 31, 2013 and operations services from January 1, 2014 through December 31, 2023, respectively. The Authority has obtained a ruling from the Internal Revenue Service that the OSA does not result in private business use of the Authority's tax-exempt bonds within the meaning of Section 141(b) of the Internal Revenue Code of 1986. The TSA and OSA were approved by the New York State Comptroller and the New York State Attorney General's Office on June 27, 2012.

Through the TSA and OSA, LIPA will restructure the manner in which its T&D System is managed and operated. Beginning with the commencement of the OSA, the Authority will adopt a business model which includes a dedicated business unit created and owned by PSEGLI that will provide services exclusively to LIPA. This business unit, currently referred to as "ServCo," will employ the bulk of the personnel providing operation and maintenance services for the T&D System, including back-office services. A small group of senior management personnel will be

employed by PSEGLI and Lockheed Martin to direct the activities of ServCo. For services provided under the OSA, PSEGLI will receive a Management Services Fee consisting of fixed and incentive compensation components, which will cover PSEGLI's and Lockheed Martin's senior management costs, including associated overheads, and profit. Costs incurred by or on behalf of ServCo will be passed directly through to LIPA and will not be recovered through the Management Services Fee. Upon expiration or earlier termination of the OSA, ServCo and its employees will be transitioned to the successor service provider or to LIPA and will continue to provide operation and maintenance services for the T&D System.

PSEGLI is currently engaged in the provision of services to LIPA to transition to the above new business model. Among other benefits, the change in business model, including the creation of ServCo, is expected to provide a substantial increase in financial and operational transparency to the Authority and LIPA, as well as enhance the quality of customer service, provide long-term workforce stability, allow the Authority to more effectively manage costs, and facilitate a more efficient and timely transition to either a new service provider at the end of the OSA, or to a different business model, such as privatization or municipalization. For more comprehensive information on the TSA and OSA, include the scope of services to be provided under each, please see LIPA's web Site (www.lipower.org).

REORGANIZATION OF LIPA

In concert with the transition to a new business model, New York Governor Cuomo has directed the Authority to review its organization and consider possible changes that include refocusing its core responsibilities as a holding company. One goal is to find synergies with the Authority's and LIPA's service providers and other state agencies. LIPA's organization may also be affected by the results of any future management and operations audit of LIPA conducted by the New York Division of Public Service ("DPS") that is scheduled to be completed by August 2013. The DPS audit is to be conducted in the context of LIPA's duty to set rates consistent with the standards and procedures provided in the LIPA Act. At this time Navigant cannot predict the extent to which the Authority's organization and responsibilities may be changed, or the impact any such changes would have on LIPA's operations, if any, including its ability to repay outstanding bonds. Notwithstanding possible changes to the Authority's organization, LIPA is pursuing that transition to PSEGLI as the organization's top priority at this time.

SECTION 4

TRANSMISSION AND DISTRIBUTION SYSTEM

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

TRANSMISSION INTERCONNECTIONS

Electricity is transmitted to and from the Service Area over seven transmission interconnections that are owned in part or are under contract to LIPA. These interconnections link the T&D System to other utilities and enable delivery of: (i) capacity and energy produced by NMP2; (ii) additional off-system capacity resources needed to meet the peak demands of the electric customers; (iii) favorably-priced energy to supplement or displace generation from on-island generating resources; and (iv) excess generation from on-island generating facilities to off-island purchasers, when conditions merit. Table 2 provides summary information on the transmission interconnections.

**TABLE 2
SERVICE AREA TRANSMISSION INTERCONNECTIONS**

Name	Off System Terminal Locations	Interconnecting Utility ¹	Voltage Level ²	AC/DC ³
Dunwoodie to Shore Road (“Y-50”).....	Westchester County, NY	Con Edison	345 kV	AC
East Garden City to Sprain Brook (“Y-49”)..	Westchester County, NY	NYPA ⁴	345 kV	AC
Northport to Norwalk Harbor (“NCC”).....	Norwalk, CT	CL&P ⁵	138 kV	AC
Shoreham to East Shore (Cross Sound Cable) ⁶	New Haven, CT	UI ⁷	138 kV	DC
Jamaica to Lake Success.....	Queens, NY	Con Edison	138 kV	AC
Jamaica to Valley Stream.....	Queens, NY	Con Edison	138 kV	AC
Sayreville to Levittown (Neptune Cable) ⁸ ...	Sayreville, NJ	JCP&L ⁹	345 kV	DC

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

² Kilovolt or “kV.”

³ AC = Alternating Current. DC = Direct Current.

⁴ NYPA = New York Power Authority.

⁵ CL&P = Connecticut Light and Power. CL&P is a wholly owned subsidiary of Northeast Utilities.

⁶ This cable is a +/-150 kV bi-directional high voltage direct current system. Electricity is converted to 138 kV alternating current at LIPA’s Shoreham substation for transmission and delivery to LIPA’s customers.

⁷ UI = United Illuminating.

⁸ This cable carries high voltage direct current, which is converted and delivered at 345 kV.

⁹ JCP&L = Jersey Central Power & Light. JCP&L is a wholly-owned subsidiary of First Energy.

Four submarine cables installed under Long Island Sound form part of the interconnection between the T&D System and other utility systems in upstate New York and Connecticut: (i) Dunwoodie to Shore Road; (ii) East Garden City to Sprain Brook; (iii) Northport to Norwalk Harbor; and (iv) Shoreham to East Shore. A fifth submarine cable (Sayreville to Levittown) connects LIPA’s service area with New Jersey and allows for the purchase of energy and capacity from resources in the Pennsylvania-New Jersey-Maryland region (“PJM”).

The Dunwoodie to Shore Road line, designated as the “Y-50” line and placed in operation in August 1978, is an 18-mile 345-kilovolt (“kV”) cable jointly owned with Con Edison. This cable is of pipe-type construction in which dielectric fluid is circulated to cool the conductors and maintain the electrical insulation. The cable operates at full capacity with a 653 MW normal rating and a 914 MW emergency rating. Power is wheeled over this cable to the two 138 kV cables to Jamaica (the Jamaica to Lake Success and the Jamaica to Valley Stream cables) for delivery to LIPA.

The East Garden City to Sprain Brook 345 kV interconnection (“Y-49”) was installed in 1991 and is approximately 23 miles long. This cable is comprised of a submarine portion and a land-based portion. The submarine portion is constructed of self-contained dielectric fluid-filled cables that operate under high pressure, while the land-based portion is of conventional pipe-type construction. This line is owned entirely by NYPA and is used by LIPA under the terms of a contract with NYPA. Over its life, the Y-49 cable has generally performed well with only a few instances of outages due to terminal equipment failures and one interruption due to an anchor dragging across the submerged portion of the cable.

The Northport to Norwalk Harbor cable (“NNC”) is a double circuit 138 kV submarine cable installed in 2008 to replace an older cable. This line extends approximately 12 miles under the Long Island Sound from the Northport Electric Generating Station (“Northport”) in Suffolk County, New York to Norwalk Harbor, Connecticut. LIPA owns that portion of the line from Northport to the New York-Connecticut state boundary, at which point ownership is held by Connecticut Light and Power (“CL&P”), a wholly-owned subsidiary of Northeast Utilities. The circuit has a normal rating of 450 MW, but, due to constraints in southwest Connecticut, is operated at the prior cable’s rating of 286 MW. One of the three new cables failed on May 20, 2009. The cost of repairs was covered by warranty and the damaged cable was back on line on April 26, 2011.

The Shoreham to East Shore line (the “Cross Sound Cable” or “CSC”) is a 24-mile, +/-150 kV bi-directional high voltage direct current system utilizing voltage source converter technology with a capability of 330 MW. The Cross Sound Cable is connected between the converter stations installed adjacent to United Illuminating’s 345 kV East Shore substation in Connecticut and LIPA’s Shoreham 138 kV substation. Construction of this line began in 2000 pursuant to a firm transmission capacity purchase agreement (the “CSC Agreement”) entered into between LIPA and Cross Sound Cable Company, LLC pursuant to which LIPA agreed to purchase up to 330 megawatts of transmission capacity. The CSC Agreement, as amended, expires in 2032. The Cross Sound Cable became operational in June 2004.

The Sayreville to Levittown cable allows LIPA to import power from New Jersey over an undersea high-voltage direct current transmission cable (the “Neptune Cable”). The Neptune Cable was constructed, and is owned, by Neptune Regional Transmission System, LLC. The Neptune Cable is capable of carrying 660 MW of electricity and runs from Sayreville, New Jersey, under the Atlantic Ocean and connects with LIPA at its Newbridge Road substation in Levittown. The Neptune Cable became operational in July 2007.

The two remaining Service Area transmission interconnections (the Jamaica to Lake Success and the Jamaica to Valley Stream cables) are linked to the Con Edison transmission system in Queens County, New York. LIPA owns these facilities to the border of Nassau and Queens Counties, at which point ownership transfers to Con Edison. These ties are employed primarily for the delivery of power to Con Edison from its portion of energy flowing across Y-50.

TRANSMISSION FACILITIES

The transmission facilities provide for the delivery of capacity and energy from the transmission interconnections and the on-Island generating stations to LIPA's electric distribution system. As of December 31, 2011, LIPA reported the transmission system consisted of approximately 1,350 miles of overhead and underground lines, with voltage levels ranging from 23 kV to 345 kV. This transmission system has been constructed following standards similar to those employed by other major electric utilities in the Northeast and includes wood poles, steel poles, and lattice steel towers. Many of the existing transmission structures support distribution circuits and/or connections for telephone, cable television, or fiber optics.

The transmission system includes transformation equipment at 20 generating sites that is used to step up the generation voltage to transmission voltage levels. With the exception of certain facilities (e.g., auxiliary and starting transformers) at generating facilities previously owned by LILCO and now under contract to LIPA, transformation equipment at these sites is owned by LIPA.

DISTRIBUTION FACILITIES

LIPA reports the distribution system included approximately 14,000 primary circuit miles of overhead and underground line (9,000 miles of overhead line and 5,000 miles of underground line) at December 31, 2011. As of December 31, 2011, there were 168 substations providing service to load via distribution transformers connected to the 138 kV and 69 kV buses. Approximately 43.5 percent of the poles on which LIPA's distribution facilities have been installed are owned by Verizon and used by LIPA pursuant to a joint-use agreement.

THE MANAGER'S PERFORMANCE UNDER THE MSA

The Manager's performance in key areas of the Amended and Restated MSA during the Historical Period is described below.

Reliability

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

Two standard industry criteria for measuring transmission and distribution system reliability are: (i) System Average Interruption Frequency Index ("SAIFI"), which is a measure of the number of times the average customer's service is interrupted in a year; and (ii) Customer Average Interruption Duration Index ("CAIDI"), which is a measure of the average number of minutes required to restore service to a customer whose service has been interrupted. For both SAIFI and CAIDI, a low value is favorable. A low SAIFI value indicates a longer time period between service interruptions, and a low CAIDI value indicates a shorter average duration, less elapsed time, associated with the outages that have occurred. The MSA establishes incentive measures for the Manager to maintain SAIFI and CAIDI indices for the T&D system within prescribed levels. Information on these incentives may be found in Appendix A.

For 2010, the system-wide SAIFI index was 0.723 (or 16.5 months between interruptions), and the CAIDI index was 67 minutes. For 2011, the system-wide SAIFI index was 0.755 (or 15.9 months between interruptions), and the CAIDI index was 68 minutes.

Over the five-year period 2007 through 2011, LIPA's customers experienced an average of 15.5 months between interruptions and an average interruption time of 72 minutes. For all New York State utilities (other than Con Edison, whose system is predominately underground), the average time between interruptions during this five-year period was 12.1 months and the average duration of an interruption was 120 minutes.

Maintenance

The Manager's substation maintenance group is responsible for the operation and maintenance of the transmission and distribution substations throughout the Service Area. The Manager employs a preventive maintenance program that calls for the inspection and major maintenance of over 2,000 individual pieces of substation equipment annually.

The Manager uses a computerized work scheduling system known as Maximo for the substation maintenance group. This maintenance system is used for work order management, planning and scheduling, asset management and tracking, resource management, and integration with the Manager's financial system. The preventive maintenance program considers equipment criticality, load, number of operations, age, and test diagnostics.

Storm Restoration

The Manager is responsible for storm response and storm restoration programs. During these restoration efforts, the Manager utilizes, as necessary, appropriately trained personnel not normally assigned to field duties, as well as gas and generation department personnel when storm severity warrants, in order to perform electric distribution emergency restoration services. In addition, the Manager may utilize tree trimming or construction vendors to assist in storm restoration and rebuild activities. This utilization of personnel increases the availability of local field forces to restore service to customers affected by the storm damage. The Manager, on behalf of LIPA, also relies on the upstate resources of National Grid and standard electric utility industry mutual aid programs wherein neighboring and regional utilities provide emergency assistance to one another in the event of widespread outages due to major storms. Table 5 provides a summary of the total cost of storm damage within the Service Area for the 2007 through 2011 period.

**TABLE 3
HISTORICAL STORM DAMAGE COSTS
FOR THE T&D SYSTEM**

<u>Year</u>	<u>Total T&D System Damage (\$000)</u>	<u>Paid by LIPA (\$000)¹</u>
2007	\$ 32,622	\$ 30,156
2008	46,067	51,900
2009	45,028	39,721
2010	215,493	162,493
2011	225,385	105,727

¹ Differences between the total amount of storm damage and the amount paid by LIPA reflects funds received or to be received from the Federal Emergency Management Agency.

Condition of the Facilities

During the January 2010 through September 2011 period, Navigant observed selected T&D System facilities as part of capital project reviews. These observations consisted of visual examinations of facilities that Navigant deemed adequate to allow it to assess the status of completion of the capital projects. Navigant did not identify any material deficiencies in the condition of these facilities as a result of these observations. Navigant did not conduct a detailed review of historical operation and maintenance records, nor did it observe T&D System facilities other than those associated with the capital project reviews. However, based on the review of the monthly operating reports and transmission reliability reports, as well as its daily interactions with LIPA, Navigant is not aware of any conditions within the control of LIPA that would threaten the integrity of the T&D System during the Forecast Period.

Capital Expenditures

During the 2010 through 2011 period, LIPA reported that an average of approximately \$285 million per year was spent on capital additions and improvements, including NMP2 expenditures. Table 4 provides a summary comparison of actual capital expenditures during 2010 and 2011 and amounts estimated by LIPA to be expended during 2012 and 2013.

TABLE 4
HISTORICAL AND ESTIMATED CAPITAL EXPENDITURES^{1,2}
(\$Millions)

Year	Actual		Estimated	
	2010	2011	2012	2013
T&D System				
System Enhancements	\$174	\$207	\$257	\$274
Interconnections	2	3	6	5
New Customers	21	20	25	26
Public Works	12	3	8	8
Total T&D System	\$209	\$233	\$296	\$313
NMP2 ³	34	39	19	40
LIPA Internal ⁴	39	16	6	20
Total Capital Expenditures.....	\$282	\$288	\$321	\$373

¹ Amounts shown for 2012 reflect values in LIPA's approved capital budget. Amounts for 2013 are estimated. Values do not include capitalized interest. Beginning in 2013, includes information technology ("IT") costs related to the transition to PSEGLI. IT costs were previously included in LIPA Internal costs.

² Amounts shown exclude transition-related operating costs incurred under the TSA, which will be deferred and recovered over a ten-year period beginning 2014, and most transition-related capital costs, which have not been determined at the time of this Biennial Report.

³ Represents LIPA's 18 percent ownership interest. Includes fuel purchases and asset expenditures.

⁴ Capital expenditures and deferred charges for information systems, non-owned interconnection facilities, furniture, and equipment.

Capital expenditures during 2010 and 2011 included reliability enhancements, capability expansion, new customer connections, facility replacements, and public works. Amounts for 2012 and 2013 reflect a continuation of these improvements and additions at levels consistent with work plans developed by the Manager and LIPA.

T&D System capital expenditures are subject to the Authority's annual approval process under the terms of the Amended and Restated MSA. LIPA employs a capital planning and review process that takes into account the priority and benefits of individual capital projects relative to alternative investments. This capital planning process allows LIPA to identify, rank, fund, and manage capital investments. The process involves three phases: (i) selection, in which capital projects are screened, ranked, and selected; (ii) control, whereby an ongoing monitoring process manages selected capital projects to ensure that each investment continues to be required and is completed on schedule and within budget; and (iii) evaluation, wherein projects are reviewed upon completion to determine if the capital investment realized its expected mission and business performance goals, and provide feedback to continually improve the capital planning and execution process. The 2012 capital budget was reviewed and approved using an industry-accepted process of ranking projects according to the probability of the occurrence of an outage, the number of customers that would be affected by the outage, and the outage's duration. By utilizing this process, capital investments may be targeted to the most critical projects which provide for the most reliability benefit.

Adequacy of Performance

Operation of the T&D System during the Historical Period was generally consistent with past experience, and no materially adverse conditions or occurrences were noted. Such results reflect the relative success of the Manager in operating and maintaining the T&D System under the Amended and Restated MSA. LIPA believes that the Manager will provide for continued adequate operation and management of the T&D System.

SECTION 5

NINE MILE POINT NUCLEAR POWER STATION, UNIT 2

NMP2 is part of a two-unit nuclear power station (“Nine Mile Point”) located on the south shore of Lake Ontario near the Town of Scriba, New York. Unit 1 (“NMP1”) began commercial operation in 1969. NMP2 began commercial operation in 1988 and uses a boiling water reactor and turbine generator supplied by General Electric Corporation.

NMP2 operates under a license from the Nuclear Regulatory Commission (“NRC”) that was originally set to expire in 2026. In 2006, the NRC approved a request by Constellation Nuclear LLC (“Constellation”), the majority owner of Nine Mile Point, to extend NMP2’s operating license by 20 years to October 31, 2046. The operating license for NMP1 has also been extended by the NRC and will expire August 2029.

NMP2 OWNERSHIP AND MANAGEMENT

NMP1 and NMP2 are operated under different ownership interests. LIPA’s ownership interest is limited to NMP2, in which LIPA has an undivided 18 percent interest. Constellation owns 100 percent of NMP1 and 82 percent of NMP2.

LIPA has entered into an operating agreement with Constellation for NMP2. Among other things, the agreement provides for a management committee comprised of representatives from LIPA and Constellation who meet regularly on plant matters. Constellation controls the operating and maintenance decisions of NMP2 in its role as operator. The annual NMP2 business plan and associated operating and capital budgets are developed by Constellation and submitted to LIPA for review and approval. LIPA receives electric generation from NMP2 and is responsible for operating and capital costs in proportion to its ownership interest. In addition to its involvement through the management committee, LIPA engages the Manager (through the Amended and Restated MSA) to provide on-site support to protect its interests.

Subsequent to the Historical Period (May 2012), Exelon Corporation acquired Constellation. Exelon is a diversified electric and natural gas utility with operations and business in 47 states, the District of Columbia, and Canada. Exelon has the largest fleet of nuclear generating stations in the United States, representing approximately 20 percent of the nation’s nuclear capacity. LIPA anticipates no material differences in NMP2 operation due to this change of ownership. For purposes of the remainder of this report, Constellation will be referred to as the majority owner of NMP2.

NMP2 PERFORMANCE

During the Historical Period, NMP2 operated at an annual mean capacity rating of approximately 1,148 MW. LIPA and Constellation have been undertaking modifications to NMP2 that will produce an increase of 150 MW in NMP2’s capacity rating. LIPA is paying 18 percent of the costs of the upgrade and will receive 18 percent of the increased output of the plant. Following completion of the upgrade, which is expected to occur following the 2012 refueling outage, NMP2 will have a capacity rating of approximately 1,298 MW, of which LIPA’s share will be approximately 234 MW.

Table 5 sets forth capacity factors and generation levels associated with LIPA’s 18 percent share of NMP2 for the period 2007 through 2011. This table also presents comparative industry data for all nuclear generating units in the United States.

TABLE 5
HISTORICAL NMP2 PERFORMANCE

<u>Calendar Year</u>	<u>Annual Net Generation (MWh) ^{1,2}</u>	<u>Annual Net Capacity Factor ^{1,3}</u>	<u>Three-Year Average Net Capacity Factor ^{1,4}</u>	<u>Industry Average Net Capacity Factor ⁵</u>
2007	1,665,023	92.1	93.9	91.5
2008	1,627,384	90.1	90.9	91.8
2009	1,785,945	99.2	93.8	90.5
2010	1,610,096	89.3	92.9	91.1
2011	1,716,753	92.9	94.6	89.1

¹ Source: National Grid. *Note: Data for NMP2 net generation and Capacity Factor was obtained through Constellation's Generation Availability Data System. The metering point for such data is at the revenue meter and annual net capacity is 1,147.4 MW. These numbers may be slightly different from those recorded by other sources.*

² LIPA's 18 percent share of NMP2 net output.

³ Net capacity factor is a measure of the utilization of NMP2's theoretical maximum annual output.

⁴ The three-year average evens out the effects of refueling outages.

⁵ Source: Energy Information Administration. *Includes all nuclear plants operating during the respective year.*

NMP2 Maintenance Programs and Condition

The NRC uses a formal Reactor Oversight Process to evaluate plant performance in three key strategic performance areas: reactor safety, radiation safety, and security safeguards. Within each strategic performance area are cornerstones that reflect the essential safety aspects of facility operation. These cornerstones include: initiating events, mitigating systems, barrier integrity, emergency preparedness, public radiation safety, occupational radiation safety, and physical protection. Satisfactory licensee performance in the cornerstones provides reasonable assurance of safe facility operation. Each cornerstone contains inspection procedures and performance indicators to ensure that their objectives are being met. Performance is graded "Green", "White", "Yellow", or "Red". Green signifies satisfactory performance requiring minimal NRC resources for oversight. At the opposite end, Red signifies unsatisfactory performance requiring the most NRC resources for oversight. In 2010 and 2011, NMP2 was graded overall as Green and the NRC stated that both Nine Mile Point units had "operated in a manner that preserved public health and safety, and fully met all cornerstone objectives."

Quarterly Quality Performance Assessments ("QPA") were conducted by Constellation during 2010 and 2011. This is an ongoing self-improvement program wherein processes associated with ten areas of plant performance are reviewed (Operations, Maintenance, Engineering, Work Management, Radiation Protection, Chemistry, Emergency Preparedness, Security, Training, and the Corrective Action Program). QPA Assessments for 2010 and 2011 identified three areas for improvement:

1. Work Management - Planning of work to be performed during an on-line work week, or during a forced or planned outage, does not always meet its milestone objectives. This may result in work not being performed as planned. A multi-discipline team is reviewing the entire work management process to identify gaps that can be closed to

improve the process. Once this review is completed, a plan and schedule will be developed to make the necessary improvements.

2. In Plant Lighting – In plant lighting has not been maintained to assure adequate lighting is available in all areas of the plant to facilitate maintenance or operator rounds. This is recognized as an industry safety issue. A plan has been developed to re-lamp the plant and to maintain the lighting.
3. Personnel Qualification Data Base Issues – The data base that is used to track employees' qualifications for performing various tasks in the plant has not always been accurate. While no unqualified personnel have performed work that they should not have, an accurate data base is necessary to assure that personnel can check their qualifications prior to performing assigned work. Software improvements have been implemented to prevent re-occurrence and are being monitored to assure that the problem has been corrected.

Fukushima Accident Response

In March 2012, the NRC issued additional safety enhancement requirement orders as a result of the disaster at the Fukushima Daiichi facility. These orders are applicable to operating reactors in the United States. The orders require safety enhancements to mitigate the response to natural events resulting in the loss of power at plants, ensure reliable hardened containment vents, and enhance spent fuel pool instrumentation, among other measures. Implementation of all safety enhancements is required to start promptly and be completed within two refueling outages after submittal of an integrated plan for the enhancements or by December 31, 2016, whichever comes first. The NRC has also requested that each reactor be re-evaluated for seismic and flooding hazards using present-day methods and information, that walk downs of the facilities be conducted to ensure protection against hazards in the current design basis, and that emergency communications systems and staffing levels be re-evaluated. Constellation is preparing a response to these new regulations in accordance with NRC rules and indicates that they will comply with all NRC requirements within the allotted time-frame. LIPA believes that the costs of such safety enhancements, if any, will not have a material impact on the LIPA's operations or cash flows.

Capital Expenditures

NMP2's historical capital expenditure levels vary with the schedule of refueling and maintenance outages for the facility. Major maintenance activities, including replacement of major plant components and facility improvements, are undertaken concurrent with the refueling outages. Nuclear fuel purchases are capitalized and subsequently expensed based on expended heat content of the fuel rods.

During the 2007 through 2011 period, LIPA reported an average of approximately \$24 million per year was spent for its 18 percent share of NMP2 nuclear fuel, capital additions, and improvements. NMP2 capital expenditures for 2010 and 2011 were reported by LIPA to be approximately \$34 million and \$39 million, respectively, and reflect added expenditures associated with an uprating of NMP2 as well as nuclear fuel purchases. Estimates for LIPA's share of 2012 and 2013 NMP2 capital expenditures are approximately \$19 million and \$40 million, respectively.

NMP2 Decommissioning Funding

Provisions for decommissioning costs for NMP2 are based on the most current site-specific study prepared in 2010. LIPA's estimated share of the total decommissioning costs (in 2011 dollars) for both the contaminated and non-contaminated portions is \$69 million. This value reflects the lengthening of the expected period prior to the commencement of decommissioning activities as a result of the license extension, partially offset by additional costs associated with the expected delay by the U.S Department of Energy ("DOE") in providing a permanent centralized repository for spent nuclear fuel and the reduction in the credit-adjusted risk-free interest rate. LIPA maintains nuclear decommissioning trust funds for its share of the decommissioning costs of NMP2, which as of December 31, 2011, had an approximate value of \$85 million (approximately \$70 million for the contaminated trust fund and \$15 million for the non-contaminated trust fund). Based on deposits and assumed investment returns related to these funds, LIPA believes that the value of these trusts will be sufficient to meet the LIPA's expected decommissioning obligations.

NMP2 Radioactive Waste

Constellation has contracted with the DOE for disposal of high-level radioactive waste (spent fuel) from NMP2. Despite a court order reaffirming the DOE's obligation to accept spent nuclear fuel by January 31, 1998, the DOE has not forecasted the start of operations of its high-level radioactive waste repository. The Authority was advised by Constellation that the NMP2 spent fuel storage pool was no longer able to accept a total fuel off-load as of May 2012. In order to regain this capability and to provide for future spent fuel storage, a dry fuel storage facility was constructed for NMP2 spent fuel at the site. The original storage facility license approved by the NRC is for 20 years. The facility may subsequently be re-licensed in up to 40-year increments. The cost of the current facility, which is designed to service both Nine Mile Point 1 and NMP2, was \$58 million, with LIPA's share being approximately \$6 million. This facility will provide sufficient storage capacity with provisions for expansion, when needed, through the end of commercial operation in 2046. Spent fuel transfers from NMP2 spent fuel storage pool to the storage facility is scheduled for the third quarter of 2013. Spent fuel will remain in this storage facility at the site until such time as an ultimate repository is provided by DOE. The Authority reimburses Constellation for its 18 percent share of the disposal costs of spent fuel at a rate of \$1.00 per MWh of net generation, less a factor to account for transmission line losses. Such costs are included in the cost of fuel and purchased power.

SECTION 6

ADEQUACY OF RATES AND CHARGES

The Authority's retail rates generally reflect traditional rate designs and include fixed customer charges for all customer classes, seasonal energy rates for all customer classes except lighting, and seasonally differentiated demand charges for non-residential customer classes (greater than seven kW). Voluntary time-of-use rates are available to all residential and nonresidential customers. Mandatory time-of-use rates apply to nonresidential customers with demands in excess of 145 kW in the summer or 500 kW in any two of the previous 12 months. The summer months are June through September, inclusive. Economic development and load retention incentives are provided to a small number of commercial customers. The Authority also assesses various service charges, pole attachment charges, and rental rates, as well as specific rates for wholesale users of its transmission system.

ADJUSTMENT CLAUSES AND RIDERS

In addition to the base retail rates, the Authority's Tariff for Electric Service ("Tariff") includes a variety of adjustment clauses and riders. These provisions enable LIPA to recover costs that are otherwise difficult to predict and/or control, as well as recoup the costs of assessments and programs mandated by local and state governmental entities. These adjustment clauses and riders include the following.

Fuel and Purchased Power Cost Adjustment Clause

The Authority has designed its base electric rates so that substantially all elements of its fuel and purchased power costs are recovered through the Fuel and Purchased Power Cost Adjustment Clause (the "FPPCA"). The FPPCA is designed to allow the Authority to recover from or return to customers all current year fuel and purchased power costs, including certain load reduction program costs, up to an amount sufficient to achieve a targeted level of net income for each year. This approach is consistent with the investor owned utilities in New York State, which have unbundled their rates and present power supply charges separately from delivery service charges.

During the Historical Period, the FPPCA mechanism provided for the recovery of fuel and purchased power costs in the period incurred in amounts sufficient to achieve a targeted financial reserve of \$75 million per year, with a deadband of \$50 million around this target. The purpose of the deadband was to create some degree of rate stability within the calendar year. So long as the projected financial reserve was greater than \$25 million and less than \$125 million, the FPPCA remained unchanged and the Authority's projected financial reserve was impacted accordingly. If less than 100 percent of current year fuel and purchased power costs were recovered and the projected financial reserve fell below the deadband, the FPPCA would be increased up to 100 percent of current year fuel and purchased power costs such that the financial reserve would fall within the deadband. If the projected financial reserve was above the deadband, the FPPCA would be decreased so that the financial reserve would fall within the deadband. In no event did LIPA recover more than 100 percent of its actual fuel and purchased power costs.

Effective November 1, 2012, LIPA expects to revise the FPPCA mechanism to provide for 100 percent recovery of fuel and purchased power costs. The FPPCA will be set monthly to recover the projected costs for that month, plus a reconciliation of positive or negative variances in recovery of actual costs from prior months. With this change, the FPPCA will ensure that fuel and purchased power costs have no effect on the Authority's net income, as the recovery of actual

costs will be achieved in the current month to the extent that such actual costs can be anticipated, and the recovery or refund of variations will be incorporated into the FPPCA as soon as those variances are calculated.

Efficiency and Renewables Charge

In October 2009, the Trustees approved a separate charge to recover the costs of the Efficiency Long Island (“ELI”) program and various renewable generation programs. This charge was implemented effective January 1, 2010. The Authority has established substantial energy efficiency and renewable energy targets and, similar to the rest of the State, has determined that the cost of these programs should be separately recovered from customers and explicitly shown on the customer bills. The Efficiency and Renewables Charge provides for the recovery of program expenditures attributable to the efficiency and renewable programs authorized by the Trustees each year and lost revenues attributable to the efficiency programs and provides for the true-up of recoveries in subsequent years. Although most other electric utilities in the state have done so, the Authority has not instituted a Renewable Portfolio Standard (“RPS”) recovery rider. Presently, any costs for compliance with RPS initiatives are recoverable as a cost of fuel and purchased power through the FPPCA mechanism.

Shoreham Property Tax Settlement Rider

The Authority and certain taxing jurisdictions in Suffolk County previously reached an agreement settling various matters related to prior property tax assessments on the Shoreham Nuclear Power Station (the “Settlement”). The Settlement results in a rate differential between non-Suffolk County ratepayers (Nassau County and Rockaway Peninsula) and ratepayers in Suffolk County. Under the Settlement, all ratepayers initially received a credit on their monthly electric bills relating to the property tax settlement, with ratepayers in Nassau County and Rockaway Peninsula receiving a greater credit than ratepayers in Suffolk County. Beginning in June 2003, the billing credits were eliminated for all ratepayers and a surcharge was added to electric bills for Suffolk County ratepayers.

The Authority’s rates include a rider that implements the Settlement. The rider describes the calculation of percentage factors to be applied to bills, including the FPPCA portion thereof. Under this rider, the Authority expects to collect approximately \$35 to \$40 million during each 12-month period from customers in Suffolk County. This cost recovery is estimated to last until approximately 2028. No revenues will be recovered from customers residing in Nassau County and the Rockaway Peninsula under the terms of the Settlement.

PILOT Payment Recovery Rider

The Authority is obligated to make payments in lieu of taxes (“PILOTs”) to municipalities and school districts equal to the property taxes that would have been received by each such jurisdiction from LILCO if the acquisition by the Authority had not occurred, and to make PILOTs for certain State taxes (including gross receipts taxes) and local taxes (including temporary transit station maintenance surcharges charged by the Metropolitan Transportation Authority of New York (the “MTA”)) which would otherwise have been imposed on LILCO. The Authority’s rates include a PILOT payments recovery rider that allows the Authority to recover the applicable gross receipts tax PILOTs from each ratepayer. This rider also allows for the recovery of the MTA surcharge from each ratepayer. All other PILOTs are recovered in the Authority's base electric rates.

New York State Assessment

The New York State Legislature imposed a “temporary conservation assessment” on the Authority’s revenues, effective April 1, 2009, as part of a general increase in assessments against all electric, gas, and water utilities in the State. The assessment applicable to the Authority was established at one percent of intrastate revenues from the prior calendar year and covers the five-year period from April 1, 2009 through March 31, 2014. The Authority approved the New York State Assessment to be effective January 1, 2010, calculated as a percentage of revenue on the customer’s bill. The Authority’s Board of Trustees also approved the deferral of the 2009 assessment to be recovered in equal dollar amounts over the subsequent four calendar year period (2010 through 2013)

LEGAL AUTHORITY TO SET RATES

The Authority is empowered under current State law to set electric rates for service without being required to obtain approval of the New York Public Service Commission (the “PSC”) or other State regulatory body. However, in connection with the State’s approval of the LIPA/LILCO merger in 1997, the Public Authorities Control Board (the “PACB”) required as a condition of the approval and agreed to by the Authority, that LIPA would not impose any permanent increase, or extend or reestablish a temporary increase, in average customer rates in excess of 2.5 percent over a 12-month period without approval of the PSC following an evidentiary hearing. The Authority has interpreted this condition as allowing it to exclude any costs paid by customers through pass-through adjustments and riders (discussed below). The New York Department of Public Service (the “DPS”) has advised the Authority that the PACB condition does not confer ratemaking jurisdiction to the PSC.

In June 2011, the State Legislature passed an amendment to the State Public Service Law which, among other things, required the Authority to formally seek approval from the PSC of any increase in customer rates in excess of the 2.5 percent level described above. Such approval would be required to be supported by a full evidentiary hearing held by the PSC. This provision of the law was subsequently repealed in February 2012 when the State Legislature approved a bill requiring the Authority to periodically undergo an audit of its management and operations conducted by the DPS. The Authority is obligated to implement the findings and recommendations of such audit, unless it determines any recommendation or finding is inconsistent with sound fiscal practices, existing contractual obligations, or the provision of safe and adequate service. This legislation does not limit the Authority’s ability to establish rates for service within its Service Area.

Effective March 1, 2011, the Trustees approved an increase in the Authority’s base rates for delivery service that caused average customer bills to increase approximately 1.9 percent to 2.2 percent overall for most rate classes. The Trustees approved an additional increase in base rates for delivery service effective April 1, 2012. This increase resulted in average residential customer bills increasing approximately 1.8 percent.

FINANCIAL RESULTS – REASONABLENESS OF RATES

Section 702(b)(iii) of the General Bond Resolution sets forth the duties of the Rate Consultant in preparing its respective portion of the Biennial Report. Specifically, Section 702(b)(iii) states that the Biennial Report shall contain:

“(iii) the Rate Consultant’s recommendation as to any necessary or advisable revisions of rates, fees, rents, charges and surcharges and such other advise and recommendation as it may deem desirable;”

The General Bond Resolution itself however is silent regarding the criteria or standards upon which the recommendations of the Rate Consultant are to be based. As a general matter, Navigant believes there are many quantitative and qualitative factors to consider when assessing rates, fees, charges, and surcharges, including: (i) the adequacy of total revenue recovery to meet all costs; (ii) each rate’s (service classification’s) ability to produce revenue sufficient to cover an appropriate portion of total costs; (iii) the timeliness of cost recovery; (iv) regional competitiveness of the rate levels; (v) understandability of the rates among ratepayers; and (vi) the stability and predictability of the rates, among other factors. Among these, Navigant believes the single most important factor is whether the Tariff will produce revenues that are adequate to cover all costs reasonably expected to be incurred. This is predominately a forward-looking test.

For purposes of the Biennial Report, Navigant refers to Article VII, Sections 701 and 702 of the General Bond Resolution, which set forth both a minimum standard for assessing the adequacy of Tariff revenue in total and an expectation that the Rate Consultant will, in the preparation of the Biennial Report, make a determination as to whether that minimum standard is satisfied. Furthermore, Navigant believes that the determinations required by these sections of the General Bond Resolution as to the satisfaction of the minimum standard along with the findings and recommendations of the Rate Consultant are to be measured on both a historical and forward-looking basis. Section 701(a) of the General Bond Resolution states, in part:

“The Authority shall establish and maintain System fees, rates, rents, charges and surcharges sufficient in each Fiscal Year so that Revenues reasonably expected to be produced in such Fiscal Year, will be at least equal to the sum of (i) 120% (except, after the Authority shall have retired, other than from proceeds of Bonds or Subordinated Indebtedness, an amount equal to 25% of the Acquisition Debt net of the then outstanding balance of the Promissory Notes, 100%) of Debt Service, and amounts under all Parity Contract Obligations, payable by the Authority in such Fiscal Year, (ii) 100% of the Operating Expenses payable in such Fiscal Year, (iii) 100% of the amount necessary to pay all PILOTS payable in such Fiscal Year, and (iv) 100% of the amount necessary to pay other Required Deposits, all other payments required pursuant to the Resolution and the Financing Agreement, and all other payments required for the System, for such Fiscal Year; ...”

During 2005, the Authority’s cumulative retirement of Acquisition Debt (as defined in the General Bond Resolution) exceeded 25 percent of the original issued amounts. Pursuant to the provision cited above, the Authority’s requirement to establish and set rates equal, among other requirements, to 120 percent of Debt Service has been reduced to 100 percent of Debt Service.

With reference to the expectation that the Rate Consultant will make a determination regarding the requirements of Section 701(a), Section 701(b) states, in part:

“If ...the report of the Rate Consultant pursuant to Section 702 [Biennial Report], indicates that the rates, fees, rents, charges and surcharges are, or will be, insufficient to meet the requirements of this section 701 ...”

For purposes of preparing this portion of the Biennial Report relating to the adequacy of the currently effective system of rates and surcharges, Navigant, as Rate Consultant, utilized the

provisions established in the aforementioned Section 701(a) as the basis of its determinations. Specifically, the test is whether the requirements (minimum standards or Rate Covenants) set forth in Section 701(a) of the General Bond Resolution have been satisfied for the Historical Period and can reasonably be expected to be satisfied for the Forecast Period. In conducting this test, Navigant utilized the currently effective Tariff in developing the level of estimated revenues each year of the Forecast Period. To the extent the Trustees have approved waivers of certain provisions of the Tariff during the Historical Period, the effect of these waivers on the reported results and related findings have been recognized in the appropriate year. Navigant's analysis for the Forecast Period is based upon the assumption that no provision of the currently effective Tariff will be waived. To the extent the Trustees approve any waiver of the Tariff that would impact either the amount or timing of the recovery of any incurred expense during the Forecast Period, such waiver would have a direct effect on the results of the revenue adequacy test and the related advice and recommendations derived there from. The results of the analyses for the Historical Period and Forecast Period are shown on Exhibit 1. In accordance with the Authority's accounting practices, annual operating results shown in Exhibit 1 are presented on an accrual basis and include operating expenses, depreciation and amortization, interest income, PILOTs, and interest charges, among other expenses.

Navigant's estimate of operating results for the Forecast Period is based on numerous assumptions with respect to the Authority's future operations and activities. These assumptions are summarized below based conditions known to have existed as of August 31, 2012.

1. Any changes to LIPA's organization will not diminish LIPA's ability to effectively manage the various outsourced service providers nor will they have any effect on LIPA's ability to repay outstanding bonds.
2. National Grid, Con Edison, and Pace Global will carry out their obligations in accordance with the terms of the Operating Agreements.
3. LIPA will fund repairs, renewals, and replacements to the T&D System, and the Manager will make such repairs, renewals, and replacements in accordance with prudent utility practices and the Amended and Restated MSA, as may be required, to continue the safe and reliable operation of the T&D System.
4. The Authority will retain staff, advisors, and consultants, as necessary, to carry out its responsibilities for financing, contract administration, planning, public relations, and other matters in connection with the ownership, operation, and maintenance of the System.
5. The Authority will approve capital expenditures, and make such repairs, renewals, and replacements as necessary to provide a reliable and available supply of capacity and energy from power supply resources under contract to the Authority.
6. LIPA and Constellation will provide operating and capital funds in a timely manner as needed and required by contract to maintain the reliable, cost effective operation of NMP2 and to meet applicable regulations, including environmental and safety standards.
7. The Trustees will not waive any provision of the Tariff that would impact the recovery of incurred expenses during the Forecast Period.
8. Natural gas transportation facilities to deliver gas to and within the Service Area will, during the Forecast Period, be maintained, improved, and expanded to enable operation of on-island generating facilities as forecast by the Manager in its resource planning

calculations as well as for the operation of other power supply resources under contract or available to LIPA.

9. LIPA will incur fuel and purchased power expenses as set forth in Exhibit 1 for the Forecast Period.
10. The Authority will modify and apply its rates and charges as necessary to maintain targeted net income of \$75 million per year during the Forecast Period.
11. Third party costs, PILOTs, incentive payments, and escalation rates for labor and other costs, as applicable, associated with the Amended and Restated MSA, PSA, and EMA will be as reflected in Exhibit 1 for the Forecast Period.
12. Amounts held in the decommissioning funds for NMP2, together with earnings thereon, will be sufficient to fund LIPA's share of NMP2 decommissioning costs at the end of the facility's useful life.
13. LIPA will not materially alter its financing, accounting, or operational policies and practices from those relied upon during the Historical Period.
14. LIPA will realize earnings on its invested funds as reflected in Exhibit 1.
15. There will be no changes in applicable federal, State, or local laws that will establish new limits on the operation and maintenance of the generating facilities under contract to LIPA during the Forecast Period.
16. The Authority will maintain regulations, policies, procedures, and rates and charges that will preclude the undue shifting of fixed costs among retail customers or rate classes as a result of individual customers or groups of customers electing to select power suppliers other than LIPA.
17. There will be no changes in regulations or policies of federal, State, or local agencies with jurisdiction over NMP2 that will cause new capital additions or operation and maintenance costs to exceed the estimated amounts of such costs reflected in Exhibit 1 of this Biennial Report.
18. NMP2's regulatory performance will be sufficient to make increased NRC regulation of NMP2 unnecessary.
19. The Authority will fund the transition efforts of PSEGLI and other pertinent parties as necessary and appropriate to ensure the completion of all activities necessary to allow PSEGLI to assume responsibility for the management and operations of the T&D System under the OSA on January 1, 2014.
20. Any legislation enacted by the federal government will not preclude the use of tax-exempt debt by the Authority for the funding of capital improvements or for other purposes contemplated during the Forecast Period and will not preclude LIPA from owning or operating the System as contemplated in this Biennial Report.

As shown on Exhibit 1, the actual level of revenues recovered through the Authority's retail electric rates were sufficient during the Historical Period to meet the Authority's operating expenses, PILOTs, and other financial obligations as well as provide debt service coverage levels in excess of 170 percent of debt service payments on outstanding senior lien bonds, parity reimbursement obligations, and parity contract obligations. During the Forecast Period, the level of revenue estimated to be recovered through the Authority's retail rates are estimated to be

sufficient to meet the Authority's estimated operating expenses, PILOTs, and other financial obligations and provide debt service coverage levels in excess of 200 percent of debt service payments on outstanding senior lien bonds, parity reimbursement obligations, and parity contract obligations.

SECTION 7 FINDINGS

The results of the analyses performed in the preparation of this Biennial Report and the findings presented herein are predicated upon the general condition that the assumptions presented herein are reasonable and will continue, as stated, for the period covered by the analyses, without major modification or change except as noted herein. Although Navigant believes the assumptions made are reasonable, Navigant makes no representation that the assumed conditions will, in fact, occur. Furthermore, the waiver of any provision of the Tariff by the Trustees that would impact the recovery of incurred expenses during the Forecast Period could impact the adequacy of LIPA's revenue recovery and, therefore, LIPA's ability to satisfy the requirements of Article VII, Sections 701 and 702 of the General Bond Resolution. Navigant's studies, analyses, investigations, and projections have been based upon its understanding of certain documents and information provided to Navigant by the Authority, and National Grid. While Navigant believes these sources to be reliable, they have not been independently verified for either accuracy or validity, and no assurances are offered with respect thereto. To the best of Navigant's knowledge, the data and summaries presented herein accurately reflect the information furnished to Navigant by the Authority, the Authority's legal, financial, and accounting advisors, National Grid, and others. Further, Navigant has assumed that all contracts, agreements, or ordinances that have been relied upon in the conduct of its investigations will be fully enforceable in accordance with their terms and conditions. Navigant makes no representations or warranties, and provides no opinion concerning the enforceability or legal interpretations of such contractual and legal requirements.

Pursuant to Section 702(b) of the General Bond Resolution and Section 7.02 of the General Subordinated Resolution, Navigant's findings are as follows:

OPERATION, MAINTENANCE, AND REPAIR OF THE SYSTEM

1. The Manager has provided services adequate for the operation, maintenance, and repair of the System during the Historical Period.
2. During the Forecast Period, it is reasonable to expect the Manager will provide services adequate for the operation, maintenance, and repair of the System consistent with that experienced during the Historical Period.
3. The amounts included in Exhibit 1 to this Biennial Report for operation, maintenance, and repair expense are expected to be adequate to properly operate, maintain, and repair the System during the Forecast Period.

IMPROVEMENTS TO THE SYSTEM

1. During the Historical Period, LIPA's capital improvement programs: (i) maintained system reliability and quality of service at or near the best ratings in New York State; and (ii) provided reasonable levels of expenditures for capability expansion, new customer connections, and public works projects.
2. LIPA has approved capital expenditure programs for 2012 (and is expected to approve capital programs for 2013) intended to: (i) maintain system reliability and quality of service; and (ii) provide adequate levels of expenditures for capability expansion, new customer connections, facility replacement, and public works projects.

3. The amounts included in Exhibit 1 and estimated to be available from the proceeds of Bonds during the Forecast Period, together with funds estimated to be available from net revenues of the System, are reasonably expected to be adequate to fund LIPA's identified capital expenditure programs during the Forecast Period.

RATES, FEES, CHARGES, AND SURCHARGES

1. As of the date of this Biennial Report, LIPA's currently effective system of rates and surcharges (if applied without waiver) are expected to be adequate without change to satisfy during the Forecast Period the requirements of Section 701(a) of the General Bond Resolution and Section 7.01 of the General Subordinated Resolution, which provide that the Authority will establish and maintain rates sufficient to produce revenues at least equal to (i) 100 percent of its annual operating expenses, PILOTs, and other financial obligations; and (ii) 100 percent of annual debt service payments on outstanding senior lien bonds, parity reimbursement obligations, and parity contract obligations.

CONDITION OF THE SYSTEM

1. As of the date of this Biennial Report, the System is in good repair and sound operating condition and, precluding any unforeseen major events, can reasonably be expected to reliably deliver capacity and energy to LIPA's customers during the Forecast Period.

SECTION 8
SUBSEQUENT EVENTS

On October 28 and 29, 2012, the Service Area was hit by Hurricane Sandy, resulting in massive flooding and extensive wind damage in many parts of the Service Area. At the height of the outages, more than 90 percent of LIPA's customers were without electric service due to damage to the T&D System. Temporary restoration of electric service took from several days to three or more weeks in some cases, with permanent repairs to the T&D System extending well beyond this time frame. LIPA's estimates its costs of repairing the damage caused by Hurricane Sandy to be approximately \$806 million. LIPA expects to recover at least 75 percent of all allowable costs (which could increase to 90 percent) from the federal government. Amounts not reimbursed by the federal government may be deferred and recovered in the future through customer electric rates. LIPA estimates it lost approximately \$43 million in electric revenue and other service charges that will not be recovered as a result of the service outages caused by Hurricane Sandy.

During the last quarter of 2012, , the Authority's COO and acting President and CEO announced his resignation as did the Authority's Vice President of Customer Service , two members of the Board of Trustees and the Chairman of the Board of Trustees. The Governor appointed a new Chairman of the Board of Trustees who then appointed the Authority's CFO as acting COO; he will continue to perform his duties as CFO while acting as COO. The Board of Trustees and the Authority expect to begin a search for a permanent COO and a Vice President of Customer Services immediately.

LIPA cannot predict what effect, if any, the above events may have on LIPA during the Forecast Period, including the need to adjust electric rates or the effect these events could have on the credit rating of the Bonds.

EXHIBIT 1
HISTORICAL AND ESTIMATED OPERATING RESULTS
STATEMENT OF OPERATIONS
(\$000)

	Historical		Estimated	
	2010	2011	2012	2013
Retail Sales of Electricity (MWh) ¹	20,375,740	20,156,783	20,614,152	20,859,259
Electric Revenues ²	\$3,853,052	\$3,684,596	\$3,731,529	\$3,842,087
Operating Expenses				
Fuel and Purchased Power Costs ³	\$1,879,839	\$1,743,248	\$1,663,101	\$1,686,623
Operations and Maintenance ⁴	1,123,434	1,149,533	1,035,035	1,078,045
General and Administrative ⁵	41,852	42,537	47,772	50,990
Revenue Taxes ⁶	64,244	59,587	64,759	67,357
Payments In-Lieu of Taxes ⁷	217,365	241,697	264,466	287,091
Depreciation and Amortization ⁸	251,117	267,845	274,329	284,282
Total Operating Expenses	<u>\$3,577,851</u>	<u>\$3,504,447</u>	<u>\$3,349,462</u>	<u>\$3,454,388</u>
Operating Income	\$ 275,201	\$ 180,149	\$ 382,067	\$ 387,699
Other Income and Deductions, Net ⁹	<u>112,739</u>	<u>170,045</u>	<u>\$ 42,854</u>	<u>\$ 45,783</u>
Excess of Revenues Over Expenses Before				
Interest Expense	\$ 387,940	\$ 350,194	\$ 424,921	\$ 433,482
Interest Expense				
Debt Service Interest Expense ¹⁰	\$ 331,383	\$ 336,155	\$ 351,386	\$ 360,290
Other Interest Expense and Fees ¹¹	<u>7,183</u>	<u>3,313</u>	<u>6,610</u>	<u>6,267</u>
Subtotal Interest Expense	\$ 338,566	\$ 339,468	\$ 357,996	\$ 366,557
Promissory Notes Receipts ¹²	<u>(8,075)</u>	<u>(8,075)</u>	<u>(8,075)</u>	<u>(8,075)</u>
Net Interest Expense	<u>\$ 330,491</u>	<u>\$331,393</u>	<u>\$ 349,921</u>	<u>\$ 358,482</u>
Excess of Revenues Over Expenses ¹³	<u>\$ 57,449</u>	<u>\$ 18,801</u>	<u>\$ 75,000</u>	<u>\$ 75,000</u>
Debt Service Coverage				
Senior Lien Debt Service ¹⁴	\$ 491,994	\$ 513,463	\$ 575,035	\$ 476,377
Coverage on Senior Lien Debt Service.....	2.74 x	1.93 x	2.28 x	2.82 x
Senior Lien and Subordinate Debt Service ^{14,15}	\$ 536,350	\$ 552,419	\$ 599,193	\$ 503,052
Coverage on Senior Lien and Subordinate Debt Service.....	2.51 x	1.79 x	2.19 x	2.67 x
Total Debt Service ^{14,15,16}	\$ 544,426	\$ 560,494	\$ 607,269	\$ 511,127
Coverage on Total Debt Service.....	2.47 x	1.77 x	2.16 x	2.63 x

EXHIBIT 1
HISORICAL AND ESTIMATED OPERATING RESULTS
STATEMENT OF OPERATIONS
(CONTINUED)
(\$000)

FOOTNOTES:

- ¹ Includes bundled and Long Island Choice electric sales. Estimates developed by National Grid.
- ² Includes revenues from bundled services, Long Island Choice services, Shoreham property tax settlement surcharge, and recoverable fuel and purchased power costs. Also includes transmission of electricity for others ("wheeling"), pole attachment fees, late payment charges, service activation charges, and other miscellaneous revenues. Projections assume that electric rates, including the FPPCA, will be set at levels sufficient to allow LIPA to earn a financial target of \$75 million per year. Please see LIPA's 2011 Audited Financial Statement for additional information on the Shoreham property tax settlement surcharge and associated regulatory asset.
- ³ Includes LIPA's cost for fossil and nuclear fuel, cost of purchased capacity and energy, wheeling charges, independent system operator charges, hedging costs, and deferred fuel cost recovery. Estimates developed based on information provided by National Grid.
- ⁴ Includes costs in accordance with the Amended and Restated MSA and PSA, NMP2 operation and maintenance expenses and accretion of the asset retirement obligation, Clean Energy and Energy Efficiency Programs costs, assessments, research and development, storm damage reserve, uncollectible accounts, customer service economic development, and other miscellaneous expenses.
- ⁵ Includes employee salaries and benefits, utilities, rent, legal and consulting fees, and similar administrative and general costs.
- ⁶ Gross receipts taxes.
- ⁷ Includes payments in lieu of property taxes to various taxing jurisdictions for the T&D System, NMP2, and merchant power plants.
- ⁸ Consists of amortization of the acquisition adjustment and depreciation of plant-in-service.
- ⁹ Includes interest earned on investments from available cash balances and the Nuclear Decommissioning Trust Fund. Also includes carrying charges related to the Shoreham property tax settlement regulatory asset and income from the sales of emission credits.
- ¹⁰ Interest expense on Senior Lien Bonds, subordinate indebtedness, commercial paper, and certain financing notes. Includes accretion of capital appreciation bonds and amortized interest expense. Also includes amortization of upfront swap payments on derivative financial transactions.
- ¹¹ Bank and letter of credit fees, debt administration costs, interest on customer deposits, amortization of costs associated with bond issuance and redemptions, and reduction for capitalized interest.
- ¹² Receipts from National Grid for certain promissory notes held by LIPA for repayment of certain assumed debt. LIPA's Audited Financial Statements reflect these receipts as an offset to interest expense.
- ¹⁴ Debt service on Senior Lien Bonds.
- ¹⁵ Debt service on subordinated indebtedness. Subordinated indebtedness consists of variable rate debt and commercial paper.
- ¹⁶ Debt service on certain financing notes.