



**Long Island Power Authority
Approved 2002 Operating Budget
Approved 2002 and 2003 Capital Budgets**

**George E. Pataki
Governor**

**Richard M. Kessel
Chairman**

LONG ISLAND POWER AUTHORITY APPROVED 2002 OPERATING BUDGET APPROVED 2002 AND 2003 CAPITAL BUDGETS

EXECUTIVE SUMMARY

The revenue and operating expenditure forecasts contained herein represent the Long Island Power Authority's (LIPA) approved operating budget for the year ending December 31, 2002. The capital expenditure forecasts represent the approved capital budgets for the years ending December 31, 2002 and 2003. The revenue forecast incorporates actual and projected results for 2001, as normalized for the effects of weather, and forecasts of electric load additions, the expected impact of the Long Island Choice program and demand side management/energy conservation initiatives. Revenues for 2002 also reflect the accounting deferral of credits being applied to electric usage charges in accordance with the Shoreham property tax settlement reached in 2000. Expenditure forecasts incorporate continuation of current operation and maintenance programs as well as initiatives planned for 2002 to address system growth and safety and to improve system reliability. Highlights of the sales and revenue forecasts and approved operating and capital expenditure plans follow. For comparative purposes, where applicable, 2001 budgeted levels have been restated to reflect the procedure approved by LIPA's Board of Trustees for the recovery of 2000's excess fuel and purchased power costs. The procedure was approved subsequent to the adoption of the 2001 budget.

Electric sales are forecasted at 18,792,819 MWH, an increase of 362,735 MWH, or 1.97% over 2001's original budget and 2.03% over the projected normalized level for 2001. Sales in the Commercial and Industrial market are expected to grow by 2.4% versus the 2001 projection, while Residential sales will increase by approximately 1%.

Revenues are budgeted at \$2.424 billion, an increase of \$19.4 million over the 2001 budget level, and are primarily from retail sales of electricity to the Residential, Commercial and Industrial markets. Also included are sales to Public Authorities and revenues from electric sales for Street Lighting as well as revenues from non-electric sources, such as pole attachments and late payment charges. An additional component of revenues relates to the accounting deferral of credits applied to customers' electric usage charges in accordance with the Shoreham property tax settlement. These credits are being deferred in the budget year for subsequent recovery consistent with the terms of the settlement. Also included in projected 2002 revenues is the recovery of a portion of prior years' excess fuel and purchased power costs as is permitted under LIPA's tariff. These costs had been deferred in accordance with the provisions of the tariff. Although a final decision has not been made with respect to the treatment of excess fuel and purchased power costs incurred subsequent

to 2000, this budget assumes continuation of the procedure approved by LIPA's Board of Trustees relative to the recovery of pre-2001 excess costs. Finally, Revenues reflect \$8.7 million of discounts provided to qualified customers under the Power-for-Jobs program as well as the effect of lower New York State gross receipts taxes, the product of legislation advocated and approved by Governor Pataki.

Fuel and Purchased Power costs are budgeted at \$1.020 billion, an increase of \$78 million over the 2001 budgeted level, and are based on forecasted natural gas, fuel oil and nuclear fuel prices and the cost of purchased power. Also included are costs related to: electric power wheeling; existing and new generation capacity; non-owned transmission cable operation and maintenance activities; insurance to protect against higher spot market energy costs related to extreme weather and a power plant interruption(s); Bill Credit Adjustment true-up payments made to ESCO's under the Long Island Choice program; services received under the Energy Management Agreement; Peak Load Reduction program rebates/bill credits to participating customers; LIPA's share of New York ISO operating and administrative costs; LIPA's fuel hedging program; commissions paid on off-system sales; and an accounting-related charge to match the revenues, before associated taxes, related to the recovery of prior years' excess fuel and purchased power costs (see Revenues, above). Partially offsetting these costs are budgeted revenues from the sale of such ancillary services as providing operating reserves, regulation and frequency response services and the sale of transmission congestion credits. Total costs are adjusted in accordance with the provisions of LIPA's tariff, which requires that the effect of higher fuel and purchased power prices be deferred and subsequently recovered from customers. As previously discussed, pending a final decision on the matter, the budget assumes continuation of the procedure used for pre-2001 excess costs, whereby less than 100% is being recovered from electric customers. Consistent with this approach, the amount deferred for 2002 is budgeted at \$127.5 million, less than 100% of the forecasted overage.

Operations and Maintenance expenses are budgeted at \$653.4 million, an increase of \$658,000 over the 2001 budgeted expenditure level. O&M expenses are comprised primarily of costs associated with the transmission and distribution system management and power supply agreements with KeySpan Corporation. In addition to the costs associated with operating LIPA's T&D system and providing generated and purchased power, these agreements provide for management fees and various performance incentives related to system reliability, customer service and worker safety. Other major costs include those related to: retail programs and market research activities; the Clean Energy Program; reserve accruals for potential losses related to storm damage; bad debt losses; and the operation and maintenance activities associated with the Nine Mile Point 2 nuclear generating plant.

General and Administrative expenses are budgeted at \$39.6 million, an increase \$7.8 million over the 2001 budgeted level. These costs consist primarily of outside engineering, financial and other consulting services utilized by LIPA and salaries, benefits and other

employee-related costs. Also included are expenses related to LIPA's share of premiums to provide insurance against losses suffered as a result of damage to the cross-sound cable shared with a unit of Northeast Utilities and office rent, communications, the cost of public liability damage claims and other general and administrative activities. The year-to-year increase in consulting costs is primarily due to the project management and siting activities related to providing new sources of on-Island generation and cross-sound cable transmission capability to meet LIPA's customers' electric needs.

Depreciation and Amortization is budgeted at \$216.5 million, an increase of \$4.8 million versus the budgeted 2001 level, and is comprised of the amortization of the Acquisition Adjustment, depreciation of the T&D system assets and the budget year's contributions to the Nine Mile Point 2 decommissioning fund. The higher expense level as compared with the 2001 budget is attributable to increased capital investments in the transmission and distribution system.

Revenue Taxes are budgeted at \$72.4 million, a decrease of \$11.1 million as compared with the 2001 budgeted expense level. The taxes are based on gross revenues received from the sale of electricity and tax assessments levied on other sources of revenues, including the recovery of fuel and purchased power costs incurred in prior years. The expense included in the budget is net of tax credits associated with sales made under the Power-for-Jobs program. The decrease is due primarily to lower gross receipts tax rates, which is the result of legislation enacted in 2000.

Payments in-lieu-of Taxes, or PILOTS, are budgeted at \$143.4 million, a decrease of \$888,000 versus the 2001 budgeted level, and reflect forecasts of real property-based taxes presently incurred by LIPA from various jurisdictions, including New York City, Nassau and Suffolk counties, towns, villages, school districts and special purpose districts. The decreased expense level reflects the lower Shoreham PILOT payments being made in accordance with the provisions of the Shoreham property tax settlement.

Other Income and Deductions are budgeted at \$45.2 million, a decrease of \$18.5 million as compared with the budgeted 2001 level. This category consists of earnings on LIPA's short-term cash investments and Nine Mile Point 2 decommissioning fund balances, as well as non-cash carrying charges accrued on deferred balances related to the Shoreham property tax settlement. Also included is LIPA's share of budgeted revenues from the sales of emissions credits expected during 2002. The effect of the income items is being offset partially by two non-operating expense items, donations and government lobbying consultant costs. The decrease in Other Income and Deductions is due primarily to discontinuing the accrual of carrying charges on excess fuel and purchase power not yet recovered from customers, since cost recovery is limited according to the procedure assumed in the budget. Another factor contributing to the year-to-year decrease is the significant reduction in rates of return on our short-term investments as compared with the higher rates used in the 2001 budget.

Interest Expense is budgeted at \$324 million, a decrease of \$41.1 million as compared with the 2001 budgeted level, and is based on forecasted levels of outstanding debt and related fees as well as the amortization of deferred charges associated with the early redemption of prior indebtedness. The lower expense level reflects the significant savings we have been able to achieve by restructuring our debt to take advantage of today's lower interest rates. The average level of debt outstanding during 2002 is forecasted at \$7.030 billion, carrying an effective interest rate of 4.434%. This compares with a budgeted debt level of \$6.994 billion at an effective interest rate of 5.003% for 2001.

Excess of Revenues Over Expenditures of \$496,000 is the result of the items discussed above. The decrease of \$37.1 million from last year's budget is due to higher costs related to producing and acquiring electric power and the limited recovery of those costs in excess of the fuel recovery included in our base rates. Since this budget follows accrual accounting, a number of the year-to-year variances reflect changes in accounting deferrals and other non-cash items (see Cash Flow from Operations, below).

Cash Flow from Operations is budgeted at \$132.9 million, and reflects cash generated from LIPA's budgeted operating results as well as the budgeted provision for recovery of fuel and purchased power costs deferred in prior years.

Capital expenditures, comprised primarily of construction and removal projects, are budgeted at \$331.8 million for 2002. This represents an increase of \$89.9 million, or 37% over the expenditure level approved for 2001. The capital expenditure budget for 2003 is \$240.2 million, a decrease of \$91.6 million, or 28% as compared with expenditure level approved for 2002. Transmission and distribution system projects, which include the construction of new supply transmission interconnections and major substation and transmission system upgrades, total \$317.6 million for 2002, before cost-sharing offsets of \$7.1 million. This higher spending level is related to the required interconnections and other system improvements to accommodate the new generating facilities scheduled to come on line in time for the summer of 2002. The level approved for 2003 is \$228.9 million, a decrease of \$88.7 million versus the 2002 level. These investments underscore LIPA's commitment to provide safe and reliable electric service, and to expand and upgrade the electric T&D system to serve the energy needs of existing and new customers. Capital expenditures, including the cost of capitalized nuclear fuel, related to LIPA's 18% share of the upstate Nine Mile Point 2 nuclear power plant are budgeted at \$13.7 million in 2002 and \$5.6 million in 2003. These expenditure levels represent an increase of \$6.4 million in 2002 and a decrease of \$8.1 million in 2003 as

compared to the level for the prior year. The remainder of the capital budget includes provisions for LIPA leasehold improvements, furniture, computer and other equipment and capitalized interest.

These operating and capital budgets reflect LIPA's commitment to the provision of safe, reliable and affordable electric service to the residents and businesses of Long Island and the Rockaways. They incorporate the outlays necessary to provide additional sources of electricity as well as a commitment to the role of conservation and new technologies in meeting the growing energy needs of our customers. Expenditures for the Clean Energy program, including peak load reduction rebates, will total \$37 million in 2002, an increase of 16% over the approved spending level for 2001. Additionally, these budgets continue the 20 percent across-the-board rate reduction put in place by Governor Pataki and LIPA in 1998. The coming year will no doubt present a host of challenges as we work hard to meet the growing energy needs of Long Island and to make certain our customers continue to receive service quality second to none. We will also face unprecedented financial pressures as a result of the events of September 11th and a slowdown in the national and regional economies. We look forward to these challenges and to the privilege of continuing to serve the people of Long Island and our customers in the Rockaways.

**Long Island Power Authority
Approved 2002 Operating Budget
Approved 2002 and 2003 Capital Budgets**

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Schedule

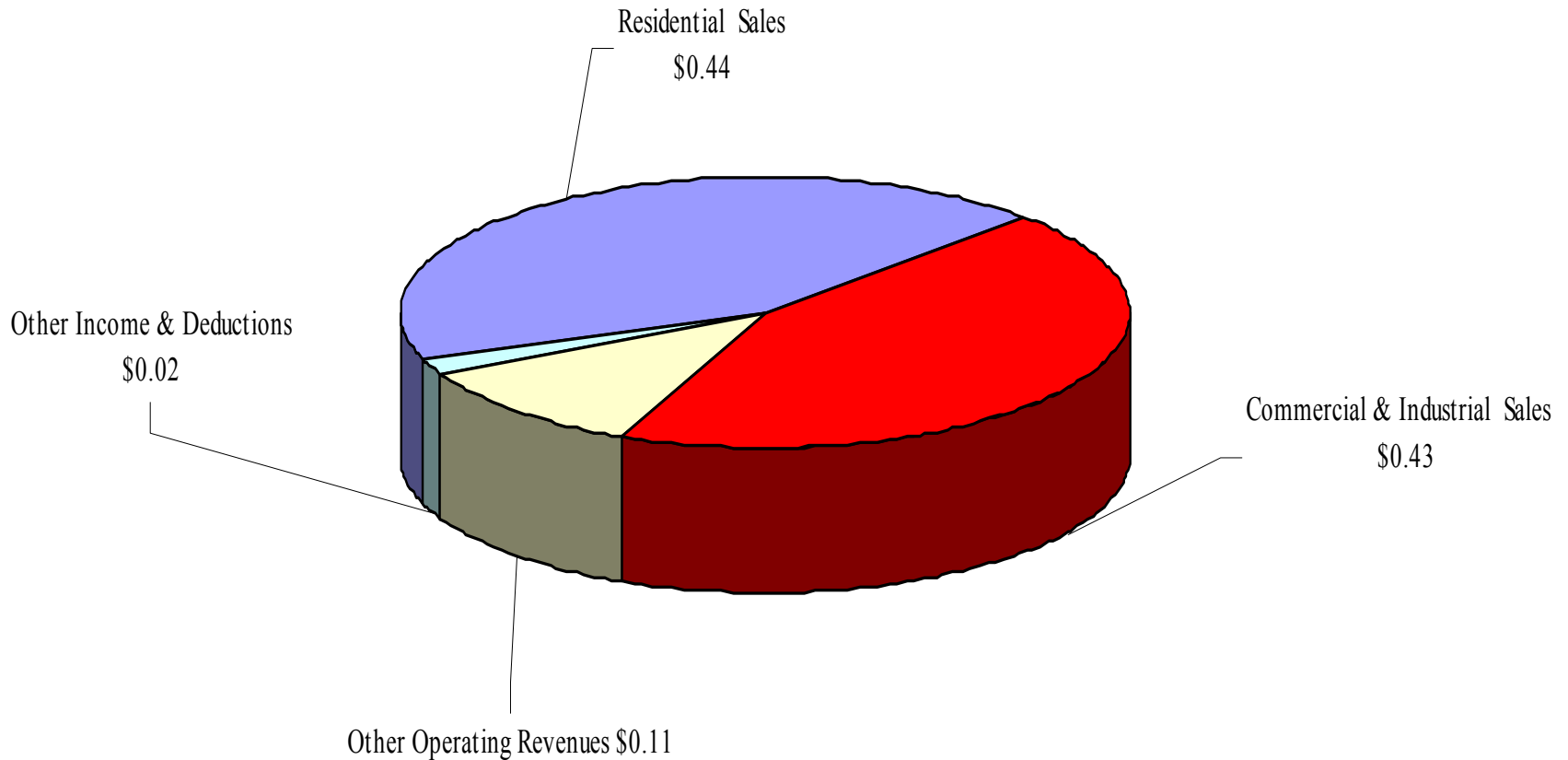
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Long Island Power Authority
Budgeted Statements of Revenues and Expenses
Consolidated
(Thousands of Dollars)

	Approved 2001- Restated (1)	Approved 2002	Variation from 2001	Reference
Revenues (2)	2,404,827	2,424,242	19,415	A-3
Expenses				
Fuel and Purchased Power Costs (3)	941,701	1,019,669	77,968	A-5
Operations and Maintenance Expenses (4)	652,738	653,396	658	A-6
General and Administrative Expenses (5)	31,761	39,561	7,800	A-7
Depreciation and Amortization (6)	211,740	216,500	4,760	A-8
Revenue Taxes (7)	83,502	72,367	(11,135)	A-9
Payments in Lieu of Taxes (PILOTS) (8)	144,335	143,447	(888)	A-9
Total Operating Expenses	2,065,777	2,144,940	79,163	
Operating Income	339,050	279,302	(59,748)	
Other Income and Deductions (9)	63,721	45,211	(18,510)	A-10
Interest Expense (10)	365,135	324,017	(41,118)	A-11
Excess of Revenues Over Expenses	37,636	496	(37,140)	
Debt Service Coverage:				
Senior Lien Debt	2.15	1.87	(0.28)	
Senior Lien and Subordinated Debt	1.63	1.61	(0.02)	
Total Debt	1.63	1.59	(0.04)	

- Notes: (1) Restated to reflect limited recovery of excess fuel and purchased power costs, as implemented for 2001. Original 2001 approved budget had assumed full recovery of these costs. Restatements affect Revenues, Fuel and Purchased Power Costs and Revenue Taxes
- (2) Based on a forecast of 18,793 million megawatt hours, which reflects an assumed growth rate of 1.97% versus budgeted 2001 and 2.03% versus projected 2001 experience, normalized for the effects of weather.
- (3) Based on forecasted fuel and purchased power prices and other related costs, adjusted according to the provisions of the tariff.
- (4) Reflects terms and conditions of contracts with KeySpan and other costs relating to operating and maintaining the electric T&D system.
- (5) Employee salaries and benefits, consulting costs, insurance and other internal expenses of LIPA.
- (6) Includes depreciation of T&D plant and equipment and the reserve provision for LIPA's share of the forecasted decommissioning cost of the Nine Mile Point 2 nuclear power plant. Also included is the amortization of the Acquisition Adjustment.
- (7) State and local taxes assessed on revenues associated with the retail sale of electricity and other operating revenues. Included is a surcharge assessed on sales made within the localities serviced by the Metropolitan Transportation Authority.
- (8) Payments made to New York City, the counties, towns and villages and other taxing districts in-lieu-of property taxes.
- (9) Interest on short-term investments, carrying charge accruals on deferred cost balances and non-operating expenses.
- (10) Interest expense associated with outstanding debt securities.

LONG ISLAND POWER AUTHORITY
SOURCE OF 2002 BUDGETED REVENUE DOLLAR



Long Island Power Authority Budgeted Sales and Revenues Consolidated

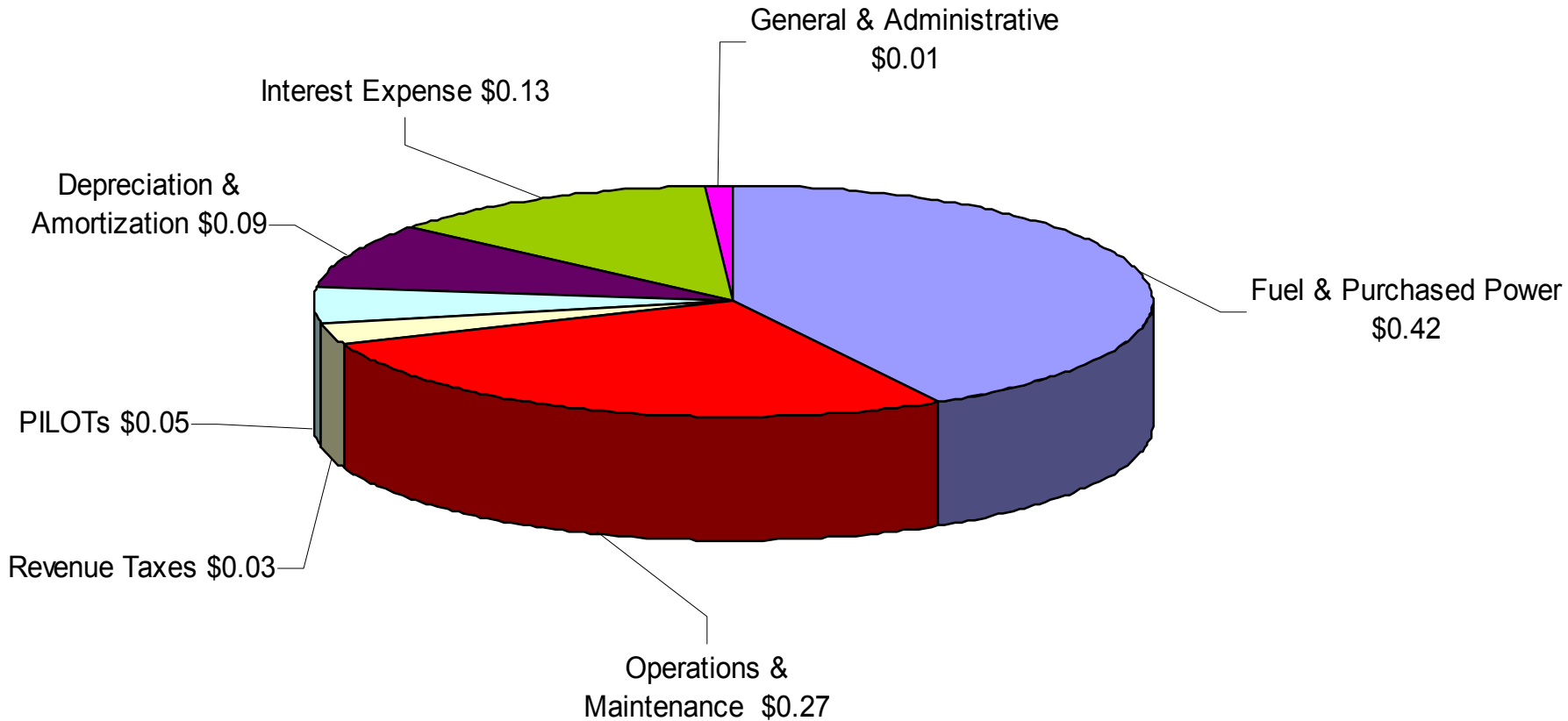
	Approved 2001	Approved 2002	Variation from 2001
<u>Sales of Electricity (MWh)</u> ⁽¹⁾			
Residential Sales	8,321,765	8,504,382	182,617
Commercial & Industrial Sales	9,679,117	9,857,069	177,952
Other Sales to Public Authorities/Street Lighting	429,202	431,368	2,166
Total Sales of Electricity	18,430,084	18,792,819	362,735
<u>Revenues (\$ thousands)</u>			
Residential Sales	1,098,222	1,103,745	5,523
Commercial & Industrial Sales	1,061,144	1,055,436	(5,708)
Other Sales to Public Authorities/Street Lighting	38,838	38,743	(95)
Deferred Shoreham Property Tax Settlement Credits	80,000	80,000	-
Deferred Fuel and Purchased Power Cost Recovery ⁽²⁾	111,067	130,598	19,531
Postage-Paid Remittance Envelope Reimbursement	1,982	-	(1,982)
Miscellaneous Revenues	13,574	15,720	2,146
Total Revenues	2,404,827	2,424,242	19,415

Notes: (1) Megawatt hours, or 1,000 kilowatt hours (KWh). A kilowatt hour is the unit of measure for retail sales of electricity.

The average monthly bill for a residential customer will range from 610 KWh to 820 KWh, depending upon season.

(2) The approved 2001 budget level has been restated to reflect limited recovery of excess fuel and purchased power costs, as implemented for 2001. The original 2001 approved budget had assumed full recovery of these costs.

**LONG ISLAND POWER AUTHORITY
USE OF 2002 BUDGETED REVENUE DOLLAR**



Long Island Power Authority
Budgeted Fuel and Purchased Power Costs
Consolidated
(Thousands of Dollars)

	Approved 2001	Approved 2002	Variation from 2001
Total Fuel and Purchased Power (excl. Nine Mile)	842,364	741,112	(101,252)
Wheeling and Capacity Charges (excl. Nine Mile)	78,455	140,432	61,977
Nine Mile Nuclear Fuel (incl. Disposal and Decomm. Costs)	8,624	7,645	(979)
Nine Mile Wheeling Charges	7,328	7,258	(70)
Y-49 and Y-50 Cable Operating Costs	19,586	21,548	1,962
Insurance for Power Plant Interruption	-	4,248	4,248
Maximum Temperature Event Option Insurance	-	2,400	2,400
ESCO Bill Credit Adjustment Payments	5,663	33,449	27,786
Ancillary Service Revenues-Net	(12,000)	(13,500)	(1,500)
Energy Management Agreement	7,957	8,255	298
Clean Energy Peak Load Reduction Rebates (1)	2,207	3,200	993
ISO-Related Costs	-	45,900	45,900
Fuel Hedging Program Costs	-	14,000	14,000
Cost of Off-System Sales	-	4,440	4,440
Barge Lease and Transportation Costs	-	535	535
Deferred Fuel and Purchased Power Expense (2)	(125,243)	(127,480)	(2,237)
Deferred Fuel and Purchased Power Cost Recovery (2)	106,760	126,227	19,467
Total Fuel and Purchased Power Costs	941,701	1,019,669	77,968

Notes: (1) Peak Load Reduction Program Rebate costs for 2001 and 2002 have been reclassified from Clean Energy Program expenses to Fuel and Purchased Power costs.

(2) The approved 2001 budget level has been restated to reflect limited recovery and deferral of excess fuel and purchased power costs, as implemented for 2001. The original 2001 approved budget had assumed full recovery and deferral of these costs.

Long Island Power Authority
Budgeted Operations and Maintenance Expenses
Consolidated
(Thousands of Dollars)

	Approved 2001	Approved 2002	Variation from 2001	<u>Ref.</u>
KeySpan Management Services Agreement	260,599	252,761	(7,838)	A-6.1
KeySpan Power Supply Agreement	298,692	304,410	5,718	A-6.1
Assessments	2,176	2,317	141	A-6.2
Nine Mile Point 2 O&M	27,320	27,889	569	A-6.3
Research & Development	5,869	5,745	(124)	A-6.4
Clean Energy Program (2)	29,780	33,800	4,020	A-6.5
Storm Damage Reserve	9,000	9,000	-	(1)
Uncollectible Accounts	13,330	12,872	(458)	(1)
Long Island Choice Program	350	200	(150)	(1)
Customer Service	287	367	80	(1)
Economic Development	357	70	(287)	(1)
Retail Programs and Market Research Activities	2,393	970	(1,423)	(1)
Load Research/Rates Tariffs	50	240	190	(1)
Power Quality Program	-	200	200	(1)
Postage-Paid Remittance Envelopes	1,982	1,900	(82)	(1)
Fuel Storage Rentals	53	35	(18)	(1)
O & M Y49 Cable	-	120	120	(1)
Miscellaneous	500	500	-	(1)
Total Operations and Maintenance Expenses (3)	652,738	653,396	658	

Notes: (1) Not detailed on separate schedule.

(2) Clean Energy Program costs for 2001 and 2002 do not include Peak Load Reduction Rebate costs as those costs have been reclassified to Fuel and Purchased Power costs.

(3) Consulting expenses for 2001 and 2002 have been reclassified from Operations & Maintenance expenses to General & Administrative expenses.

**Budgeted O&M and Generation Expenses Incurred Under
Management and Power Agreements with KeySpan Corporation
Consolidated
(Thousands of Dollars)**

	Approved 2001	Approved 2002	Variation from 2001
Management Services Agreement			
T&D System Operating Costs	273,847	272,963	(884)
Management Fee	10,000	10,000	-
Synergy Savings	(28,748)	(35,702)	(6,954)
Non-Cost Performance Incentives	5,500	5,500	-
Total Management Services Agreement	260,599	252,761	(7,838)
Power Supply Agreement			
Operation and Maintenance Expenses	298,203	303,884	5,681
Synergy Savings	(3,511)	(3,474)	37
Non-Cost Performance Incentives	4,000	4,000	-
Total Power Supply Agreement	298,692	304,410	5,718
Energy Management Agreement (1)			
Operating Expenses	2,340	2,439	99
Management Fees	1,500	1,500	-
Synergy Savings	(2,883)	(2,684)	199
Non-Cost Performance Incentives	7,000	7,000	-
Total Energy Management Agreement	7,957	8,255	298
Total Contracts with KeySpan	567,248	565,426	(1,822)

Note: (1) Expenses incurred under the Energy Management Agreement are included as Fuel and Purchased Power costs. See schedule A-5.

Long Island Power Authority Budgeted Assessments Consolidated

(Thousands of Dollars)

	Approved 2001	Approved 2002	Variation from 2001
NYS Administrative Cost Assessment	1,675	1,516	(159)
Transmission Providers Committee	300	495	195
New York ISO	5	5	-
NYS Office of Real Property Services	-	130	130
ESEERCO	10	10	-
New England Power Pool	10	15	5
New York State Reliability Council	110	86	(24)
Northeast Power Coordinating Council	5	5	-
Penn NJ Maryland (PJM) ISO	11	15	4
PSC Article VII & X Studies	50	40	(10)
Total Assessments	2,176	2,317	141

Long Island Power Authority Budgeted Nine Mile Point 2 O&M Expenses Consolidated

(Thousands of Dollars)

	Approved 2001	Approved 2002	Variation from 2001
Refueling Outage Amortization	3,360	3,264	(96)
Non-Refueling Outage Expense	20,804	21,076	272
Materials and Supplies Carrying Costs	1,016	-	(1,016)
Insurance	98	107	9
Management, Analytical and Technical Services	497	1,046	549
Other Expenses	1,545	2,396	851
Total Nine Mile Point 2 O&M Expenses	27,320	27,889	569

Long Island Power Authority Budgeted Research & Development Expenses Consolidated

(Thousands of Dollars)

	Approved 2001	Approved 2002	Variation from 2001
Transmission and Distribution System Projects	4,871	4,695	(176)
Clean Energy/Energy Efficiency Projects	4,210	8,650	4,440
Base KeySpan Labor Included in MSA Budget	998	1,050	52
Total Research and Development Budget	10,079	14,395	4,316
Less: R&D Projects Included in Clean Energy Program	(4,210)	(8,650)	(4,440)
Total Research & Development Expenses	5,869	5,745	(124)

Long Island Power Authority

Budgeted Clean Energy Program Expenses

Consolidated

(Thousands of Dollars)

	Approved 2001	Approved 2002	Variation from 2001
Conservation	18,026	18,060	34
Low Income Conservation	3,178	2,100	(1,078)
Research & Development	4,210	8,650	4,440
Design, Promotion and Administration	1,518	2,117	599
Base KeySpan Labor Included in MSA Budget	2,848	2,873	25
Total Clean Energy Program Expenses	29,780	33,800	4,020

Note: Peak Load Reduction Program Rebate costs for 2001 and 2002 have been reclassified from Clean Energy Program expenses to Fuel and Purchased Power costs.

Consolidated

(Thousands of Dollars)

	Approved 2001	Approved 2002	Variation from 2001
Employee Salaries and Benefits	7,754	8,456	702
Other Employee Expenses	1,331	356	(975)
Consulting Expenses (1), (2)	15,545	24,720	9,175
Office Rent	1,168	1,206	38
Telephone	217	258	41
Office Supplies, Printing, Postage and Messenger	283	252	(31)
Meetings, Conferences and Seminars	385	459	74
Equipment Leases and Maintenance	117	103	(14)
Dues/Memberships/Subscriptions	181	232	51
Repairs & Maintenance	7	18	11
Insurance	519	529	10
Injuries and Damages Reserve	780	1,200	420
T&D Insurance	1,557	-	(1,557)
NUSCO Cable Insurance	799	1,067	268
Communications	537	356	(181)
Board and Other Public Meetings	81	44	(37)
Community Relations	226	149	(77)
Sponsorships/Special Events	36	72	36
Investor Relations/Bond Trustee Expense	45	30	(15)
Miscellaneous	193	54	(139)
Total Administrative and General Expenses (3)	31,761	39,561	7,800

Notes: (1) Consulting expenses for 2001 and 2002 have been reclassified from Operations & Maintenance expenses to General & Administrative expenses. See schedule A-7.1 for details.

(2) Government lobbying costs for 2001 and 2002 have been reclassified from Consulting expenses to Other Income and Deductions.

(3) Donations for 2001 and 2002 have been reclassified from General & Administrative expenses to Other Income and Deductions.

(Thousands of Dollars)

	Approved 2001	Approved 2002	Variation from 2001
Accounting and Audit Services	1,600	1,950	350
Legal	3,635	3,393	(242)
Communications	372	348	(24)
Information Technology	100	975	875
Engineering	7,944	14,742	6,798
Risk Management	125	-	(125)
Financial Advisor/Investments	1,325	2,650	1,325
Human Resources	60	60	-
Strategic Planning	20	-	(20)
Market Research	-	275	275
Storm Review Panel	150	150	-
Miscellaneous	214	177	(37)
Total Consulting Expenses	15,545	24,720	9,175

Notes: (1) Excludes Consulting expenses included under the MSA budget.

(2) Consulting expenses related to the Clean Energy Program have been budgeted under the Clean Energy Program.

(3) Government Lobbying costs for 2001 and 2002 have been reclassified from Consulting expenses to Other Income and Deductions.

Long Island Power Authority

Budgeted Depreciation and Amortization

Consolidated

(Thousands of Dollars)

	Approved 2001	Approved 2002	Variation from 2001
Amortization of Acquisition Adjustment	113,000	112,700	(300)
Depreciation Expense-Plant-in-Service	94,500	99,300	4,800
Depreciation Expense-Decommissioning Fund-Nine Mile Point 2	4,240	4,500	260
Total Depreciation and Amortization	211,740	216,500	4,760

Long Island Power Authority

Budgeted Taxes and Payments in-lieu-of Taxes

Consolidated

(Thousands of Dollars)

	Approved 2001	Approved 2002	Variation from 2001
Revenue Taxes	83,502	72,367	(11,135)
Payments in-lieu-of Taxes (PILOTS)			
Long Island and New York City	128,800	136,100	7,300
Nine Mile PILOTS	5,994	5,984	(10)
Shoreham PILOTS	9,541	1,363	(8,178)
Total PILOTS	144,335	143,447	(888)

Note: The approved 2001 budget level for revenue taxes has been restated to reflect limited recovery of excess fuel and purchased power costs as implemented for 2001. The original 2001 approved budget had assumed full recovery of these costs.

Long Island Power Authority

Budgeted Other Income and Deductions

Consolidated

(Thousands of Dollars)

	Approved 2001	Approved 2002	Variation from 2001
Short-Term Investment Income	25,438	16,043	(9,395)
Carrying Charges on Deferred Shoreham Property Tax Settlement Rebates	10,064	10,350	286
Carrying Charges on Deferred Shoreham Property Tax Settlement Credits	10,544	15,955	5,411
Carrying Charges on Deferred Fuel and Purchased Power Expense	14,599	-	(14,599)
Carrying Charges on Deferred Debt Issuance Costs	562	752	190
Sales of Emission Credits	2,680	1,072	(1,608)
Interest Income on Nuclear Decommissioning Trust Fund	-	1,200	1,200
Donations (1)	(125)	(125)	-
Government Lobbying Consultant (2)	(41)	(36)	5
Total Other Income and Deductions	63,721	45,211	(18,510)

Notes: (1) Donations for 2001 and 2002 have been reclassified from General & Administrative expenses to Other Income and Deductions.

(2) Government lobbying consulting costs for 2001 and 2002 have been reclassified from Consulting expenses to Other Income and Deductions.

Long Island Power Authority Budgeted Interest Expense Consolidated

(Thousands of Dollars)

	Approved 2001	Approved 2002	Variation from 2001
LIPA Interest Expense from Page A-12	349,945	311,694	(38,251)
Other Interest Expense			
NYSERDA	20,661	20,664	3
Debentures	22,140	22,140	-
Amortization of Deferred Debt Issue Costs (Premiums)	(1,624)	(805)	819
Amortization of Deferred Losses on Debt Redemptions	9,067	7,569	(1,498)
Letters of Credit Fees	10,260	6,000	(4,260)
Broker/Dealer Fees on Auction Rate Bonds	-	1,750	1,750
Interest on Customer Security Deposits	630	711	81
Bond Administration Costs and Bank Fees	1,192	1,092	(100)
Remarketing Fees	1,265	772	(493)
Promissory Note due from KeySpan	(42,801)	(42,804)	(3)
Carrying Charges on Deferred Credits	-	2,634	2,634
Total Other Interest Expense	20,790	19,723	(1,067)
Capitalized Interest	5,600	7,400	1,800
Total Interest Expense	365,135	324,017	(41,118)

Long Island Power Authority
Estimated Average Cost of Debt
Year Ending December 31, 2002
(Thousands of Dollars)

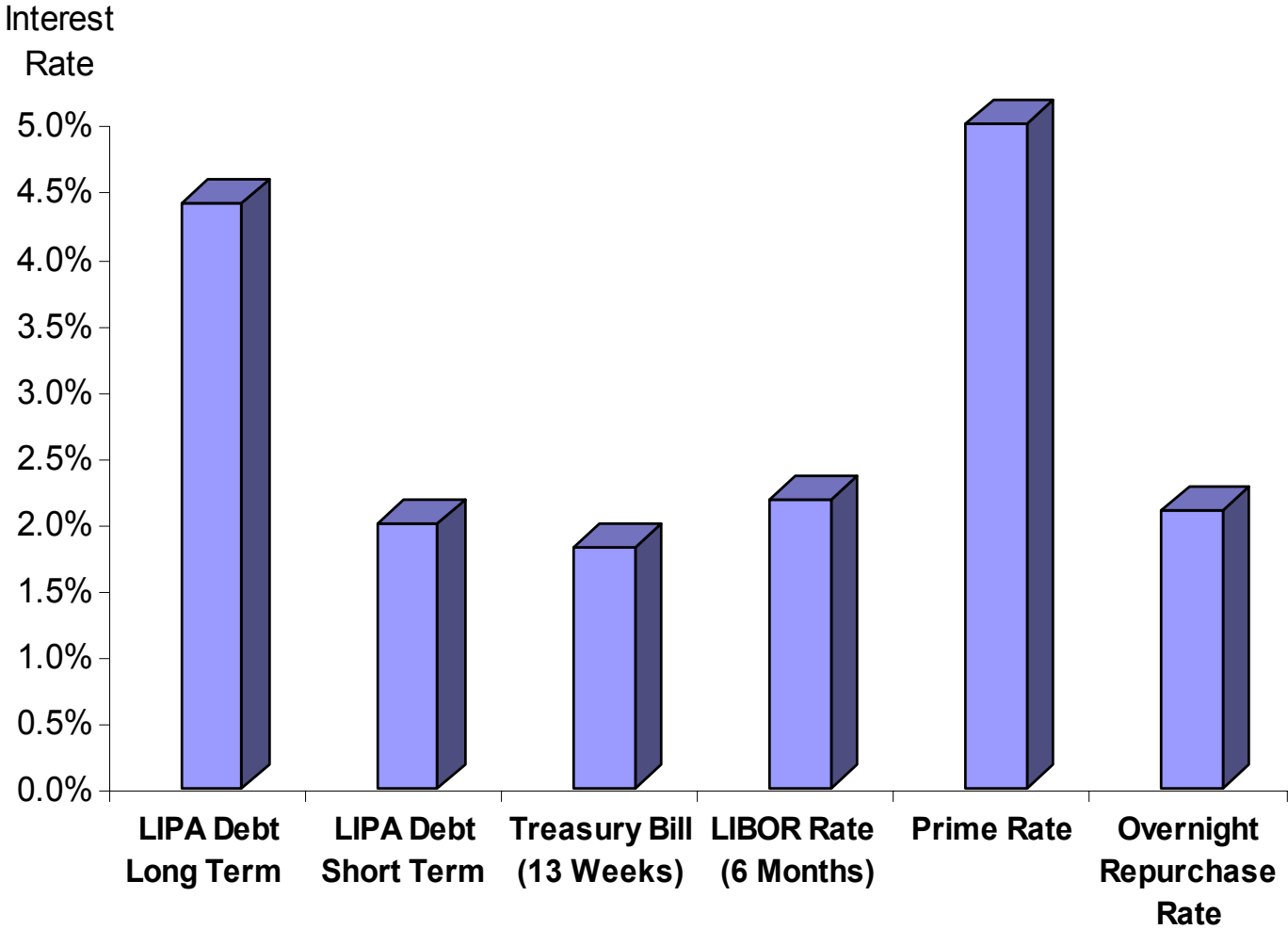
<u>Series</u>	<u>Type</u>	<u>Maturity</u>	<u>Average Principal Outstanding</u>	<u>Effective Interest Rate</u>	<u>2002 Interest Expense</u>
<u>Senior Debt</u>					
1998 A	Serial Bonds	2002-2016	1,131,877	5.216%	59,040
1998 A	Term Bonds	2018-2029	1,850,575	5.319%	98,433
1998 A	Capital Appreciation Bonds	2003-2028	176,119 *	4.980%	8,771
1998 B	Serial Bonds	2002-2016	1,040,836	4.769%	49,636
1998 B	Term Bonds	2018	57,145	4.749%	2,714
2000 A	Capital Appreciation Bonds	2003-2028	361,297 *	5.583%	20,170
2001A	Serial Bonds	2013-2021	21,960	5.064%	1,112
2001 A	Term Bonds	2025-2029	278,040	5.162%	14,353
2001 (B-K) (M-P)	Auction Rate Bonds	2033	700,000	2.250%	15,750
2001 L	Term Bonds	2033	<u>116,000</u>	<u>2.438%</u> **	<u>2,828</u>
Total Senior Debt			<u>5,733,849</u>	<u>4.758%</u>	<u>272,807</u>
<u>Subordinate Debt</u>					
Series 7A & 7B	Variable Rate	2025	250,000	4.208% ***	10,520
Series 8	Mandatory Purchase	2002-2008	196,385	4.706%	9,242
Series 2001 1A-3B	Variable Rate	2033	<u>700,000</u>	<u>2.250%</u>	<u>15,750</u>
Total Subordinated Debt			<u>1,146,385</u>	<u>3.098%</u>	<u>35,512</u>
<u>Short-Term Debt</u>					
Commercial Paper	Variable Rate	Various	<u>150,000</u>	<u>2.250%</u>	<u>3,375</u>
Total Average Debt			<u>7,030,234</u>	<u>4.434%</u>	<u>311,694</u>

* Represents accreted value of original proceeds of \$145.793 million and \$325.165 million on Series 1998A and Series 2000A, respectively. Effective interest rate based on accreted value.

** The Authority has entered into a fixed-to-floating rate agreement in connection with the Series L bonds whereby the Authority makes a floating rate payment based on the Bond Market Association index in exchange for the fixed rate of 5.1875%. The coupon rate on the bonds is 5.375%.

*** The Authority has entered into interest rate swap agreements in connection with the Series 7A & 7B Bonds pursuant to which the Authority makes a fixed rate payment based on a rate of 4.208%.

**LONG ISLAND POWER AUTHORITY
COMPARATIVE INTEREST RATES
(AS OF 11/16/2001)**

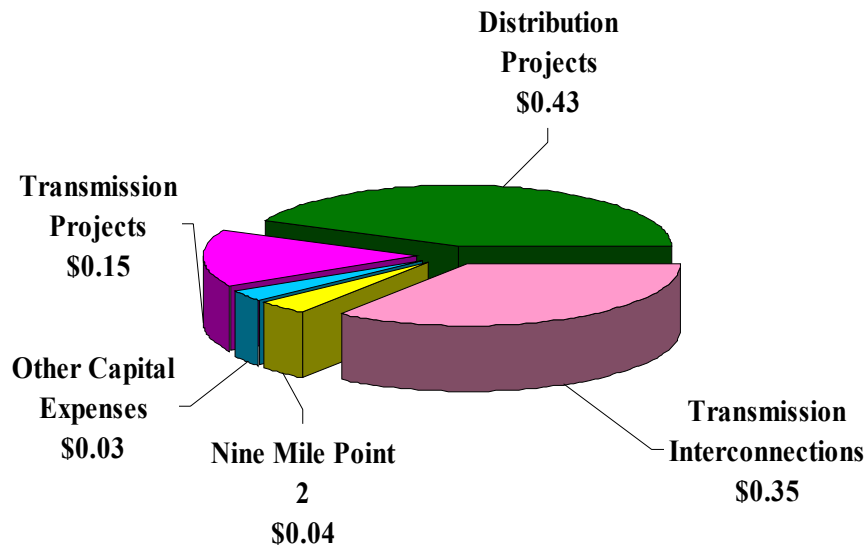


Long Island Power Authority
Budgeted Cash Flow from Operations
Consolidated
(Thousands of Dollars)

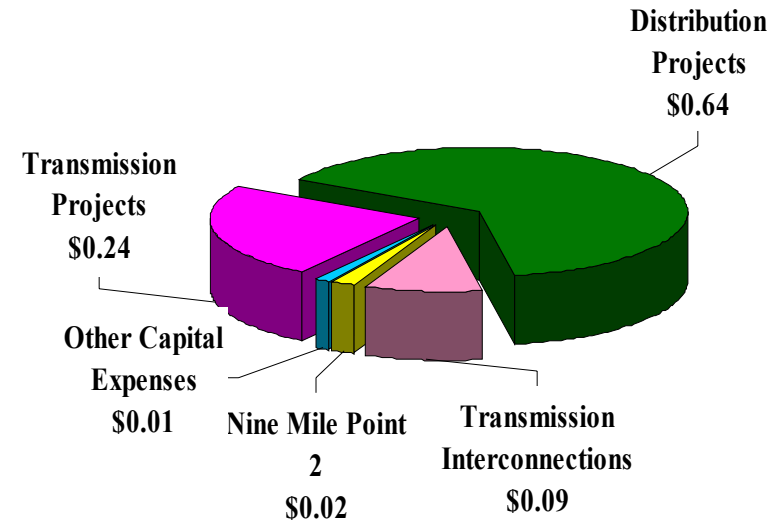
	Approved 2001	Approved 2002	Variation from 2001
Excess Of Revenues Over Expenses	37,636	496	(37,140)
Add Back (Deduct) Non-Cash Items:			
Deferred Shoreham Property Tax Settlement Credits	(80,000)	(80,000)	-
Deferred Fuel and Purchased Power Expense	(125,243)	(127,480)	(2,237)
Deferred Fuel and Purchased Power Cost Recovery	106,760	126,227	19,467
Nine Mile Point 2 Refueling Outage Amortization	3,360	3,264	(96)
Prepaid Insurance Premiums-Net of Amortization	(404)	(85)	319
Shoreham PILOT's Amortization	9,541	1,363	(8,178)
Shoreham PILOT's Cash Payments	(12,268)	(4,089)	8,179
Depreciation and Amortization	211,740	216,500	4,760
Depreciation Expense-Decommissioning Fund-Nine Mile Point 2	(4,240)	(4,500)	(260)
Carrying Charges on Deferred Shoreham Property Tax Settlement Rebates	(10,064)	(10,350)	(286)
Carrying Charges on Deferred Shoreham Property Tax Settlement Credits	(10,544)	(15,955)	(5,411)
Carrying Charges on Deferred Fuel and Purchased Power Expense	(14,599)	-	14,599
Carrying Charges on Deferred Debt Issuance Costs	(562)	(752)	(190)
Amortization of Deferred Debt Issue Costs (Premiums)	(1,624)	(805)	819
Amortization of Deferred Losses on Debt Redemptions	9,067	7,569	(1,498)
Interest on Capital Appreciation Bonds	27,436	28,941	1,505
Capitalized Interest	(5,600)	(7,400)	(1,800)
Total Non-Cash Items	102,756	132,448	29,692
Excess of Revenues Over Expenses-Cash Basis	140,392	132,944	(7,448)

Long Island Power Authority Use of Budgeted Capital Dollar Budget Years 2002 and 2003

2002



2003



Long Island Power Authority Budgeted Capital Expenditures Consolidated

(Thousands of Dollars)

	Approved 2001	Approved 2002	Variation from 2001	Approved 2003	Variation from 2002
Transmission Projects					
Transmission Interconnection-New Power Plants (Major Capital)	6,897	83,001	76,104	20,000	(63,001)
Transmission Interconnection-Cable Projects (Major Capital)	25,000	32,000	7,000	0	(32,000)
Western Suffolk Substations and Lines (Major Capital)	10,100	10,449	349	164	(10,285)
Eastern Suffolk Northfork Substation and Lines (Major Capital)	2,451	3,801	1,350	8,100	4,299
Other Transmission (Routine Capital)	32,708	19,132	(13,576)	30,925	11,793
Other Transmission (Major Capital)	14,299	16,192	1,893	17,766	1,574
Total Transmission Projects	91,455	164,575	73,120	76,955	(87,620)
Distribution Projects					
Substations (Major Capital)	39,107	35,227	(3,880)	50,707	15,480
Substations (Routine Capital)	967	1,444	477	1,445	1
Electric Lines-New Customer Load (Routine Capital)	32,033	31,384	(649)	30,087	(1,297)
Electric Lines-Other (Routine Capital)	54,336	43,647	(10,689)	37,020	(6,627)
Purchase and Install Meters/Transformers (Routine Capital)	19,019	19,507	488	20,299	792
Public Works	2,436	2,449	13	2,453	4
Other Distribution (Routine Capital)	2,691	8,397	5,706	8,967	570
Total Distribution Projects	150,589	142,055	(8,534)	150,978	8,923
Project Funding for Emerging Work	0	10,000	10,000	0	(10,000)
Additional Public Works Projects (beyond MSA)	1,000	1,000	-	1,000	-
Total Transmission and Distribution Projects	243,044	317,630	74,586	228,933	(88,697)
Cost-Sharing and Other Contributions	(14,550)	(7,115)	7,435	0	7,115
Capitalized Interest	5,600	7,400	1,800	5,500	(1,900)
Nine Mile Point Two Plant Additions/Replacements/Capitalized Nuclear Fuel	7,301	13,680	6,379	5,601	(8,079)
LIPA Leasehold Improvements /Furniture and Equipment	500	200	(300)	200	-
Total Capital Expenditures	241,895	331,795	89,900	240,234	(91,561)