

## Executive Summary

The revenue and expenditure forecasts contained herein represent the approved operating budget of the Long Island Power Authority and its subsidiaries (LIPA) for the year ending December 31, 2003 and the approved capital budgets for the years ending December 31, 2003 and 2004. The revenue forecast incorporates actual and projected results for 2002, as normalized for the effects of weather, and forecasts of electric load additions, the expected effects of the Long Island Choice program and LIPA's demand side management/energy conservation initiatives. The revenue forecast also reflects the recovery of a portion of excess fuel and purchased power costs incurred in prior years as well as a plan to recover from or refund to customers on a current, or "real-time" basis those fuel and purchased power costs which vary from the level contained in LIPA's base electric rates. Expenditure forecasts incorporate those operation and maintenance programs, including initiatives planned for 2003, that are designed to meet system growth requirements and to further improve the levels of service provided to LIPA's customers. Highlights of the sales and revenue forecasts and approved operating and capital expenditure plans follow.

**Electric sales** are forecasted at 19,097,365 MWH, an increase of 304,546 MWH, or 1.6% over 2002's budget and 2.1% over the projected normalized level for 2002. Sales to residential customers are expected to grow by 1.4% while sales to commercial and industrial customers are forecasted to grow by 1.8% versus the levels contained in the 2002 budget. Finally, other electric sales are forecasted to grow by 1.7% as compared with the 2002 budget.

**Revenues** are budgeted at \$2.566 billion, an increase of \$142.0 million, or 5.9% over the 2002 budgeted level. Revenues are primarily from retail sales of electricity to the residential, commercial and industrial markets. Also included are revenues from electric sales to public authorities and for street lighting and revenues from non-electric sources, such as pole attachments and late payment charges. An additional component of revenues relates to the deferral and amortization of credits/surcharges applied to customers' electric usage charges in accordance with the Shoreham property tax settlement. Credits are scheduled to expire and a surcharge is scheduled to be imposed on Suffolk County customers beginning in mid-2003. Also included in budgeted revenues is the recovery of a portion of prior years' excess fuel and purchased power costs

as permitted under LIPA's tariff, subject to final decision by LIPA's Board of Trustees. These costs had been deferred in accordance with the provisions of the tariff. Additionally, the budget includes revenues of \$75 .0 million (before associated revenue taxes), to be derived under a plan to recover from or refund to customers, on a current basis, a significant portion of fuel and purchased power costs which exceed or are lower than the level included in LIPA's base electric rates. This change to LIPA's tariff requires the approval of LIPA's Board of Trustees before it can be implemented. Finally, budgeted revenues reflect \$7.3 million of discounts provided to qualified customers under the Power-for-Jobs program and 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 \$1.109 billion, an increase of \$89.2 million, or 8.8% over the 2002 budgeted level. The budget is based on forecasted natural gas, fuel oil and nuclear fuel prices and the cost of purchased power. Also included are costs related to: generation capacity added during 2002 and 2003; electric power wheeling; non-owned transmission cable capacity payments and operations and maintenance activities; Bill Credit Adjustment true-up payments made to energy service companies under the Long Island Choice program; LIPA's share of New York ISO operating and administrative costs; services received under the Energy Management Agreement with KeySpan Corporation (KeySpan); Peak Load Reduction program rebates/bill credits to participating customers; LIPA's fuel hedging program, partially offset by forecasted financial settlements under the program; commissions paid on off-system sales; and a non-cash 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 allows LIPA to defer the effect of higher fuel and purchased power prices and to subsequently recover the excess costs from its customers. The budget also includes an additional deferral of \$127.3 million, which will be recovered from customers over a ten-year period beginning in 2004. This is part of a mechanism that will phase in, over a two-year period, a somewhat higher recovery level of LIPA's excess fuel and purchased power costs, including current recovery of costs as they are incurred. As indicated earlier, the modifications to LIPA's tariff to effect the mechanism require the approval of LIPA's Board of Trustees.

**Operations and Maintenance** expenses are budgeted at \$671.0 million, an increase of \$17.6 million, or 2.7% over the 2002 budget. O&M expenses are comprised primarily of costs associated with the transmission and distribution system management and power supply agreements with KeySpan. In addition to the costs associated with operating LIPA's T&D system and providing generated and purchased power, these agreements include management fees and performance incentives related to system reliability, customer service and worker safety. Other major costs include those related to: LIPA's Clean Energy Program; the operation and maintenance activities associated with the Nine Mile Point 2 nuclear

generating plant; research and development activities; reserve accruals for potential losses related to bad debts and storm damage; and retail programs and market research activities.

**General and Administrative** expenses are budgeted at \$42.1 million, an increase of \$2.5 million, or 6.4%, over the budget for 2002. General and administrative costs consist primarily of outside engineering, financial, legal and other consulting services utilized by LIPA and salaries, benefits and other employee-related costs. Also included are expenses related to the cost of public liability damage claims, LIPA's share of premiums to provide insurance protection against losses suffered due to damage to the under-Sound transmission line shared with a unit of Northeast Utilities and office rent, communications, and other general and administrative activities.

**Depreciation and Amortization** is budgeted at \$233.0 million, an increase of \$16.5 million, or 7.6% versus the budgeted 2002 level. This category of expense is comprised of depreciation of the T&D system assets, the amortization of the acquisition adjustment, and the budget year's contributions to the Nine Mile Point 2 decommissioning fund.

**Revenue Taxes** are budgeted at \$61.4 million. This level reflects a decrease of \$11.0 million, or 15.1%, as compared with the prior year. The taxes are based on gross revenues received from the sale of electricity and tax assessments 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 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 \$152.3 million, an increase of \$8.9 million, or 6.2% as compared with the budgeted level for 2002. The expense levels 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. They also reflect the real property-based taxes being incurred by LIPA on the merchant-owned generation for which LIPA has entered into purchase power agreements.

**Other Income and Deductions** are budgeted at \$45.8 million. This represents an increase of \$.5 million, or 1.2% as compared with the budgeted 2002 level. This category consists of non-cash carrying charges accrued on deferred balances related to the Shoreham property tax settlement, earnings on LIPA's short-term cash investments and Nine Mile Point 2 decommissioning fund balances, net proceeds from the sales of emissions allowances and miscellaneous sources, such as rental income. The higher 2003 level is primarily the result of higher deferred Shoreham tax settlement balances, partially offset by reduced earnings on LIPA's short-term investments due to lower interest rates.

**Interest Expense** is budgeted at \$323.3 million, a decrease of \$.7 million, or 0.2% as compared with the 2002 budgeted level. The budgeted expense is based on forecasted levels of outstanding debt and related fees and the amortization of debt-related deferred charges and credits. The lower expense level reflects the savings LIPA has been able to achieve by restructuring its debt to take advantage of today's lower interest rates. This is being partially offset by the effect of debt securities LIPA plans to issue in 2003 to finance a portion of its capital spending program. The average level of debt outstanding during 2003 is forecasted at \$7.013 billion. The effective interest rate is 4.354%. This debt level and rate compare with a budgeted debt level of \$7.030 billion and an effective interest rate of 4.434% for 2002.

**Excess of Revenues Over Expenses** of \$20.0 million is the result of the items discussed above. The increase from the 2002 budget reflects the implementation of the plan discussed earlier related to the recovery of LIPA's excess fuel and purchased power costs. While resulting in an increase in the portion of the excess costs that LIPA will recover as compared with past years, the plan is a reasonable approach that balances the need to maintain the strong financial condition of LIPA with LIPA's commitment to mitigate bill impacts on its customers.

**Cash Flow from Operations** is budgeted at \$181.2 million and reflects cash generated from LIPA's budgeted operating results and the recovery of costs deferred in prior years.

**Capital** expenditures, comprised primarily of construction and removal projects, are budgeted at \$251.0 million for 2003. This represents a decrease of \$80.8 million, or 24.4% versus the expenditure level approved for 2002. The capital expenditure budget for 2004 is \$239.6 million, a decrease of \$11.4 million, or 4.5% as compared with the expenditure level approved for 2003. Transmission and distribution system projects, which include the construction of new supply transmission interconnections and major substation and transmission system upgrades, total \$243.6 million for 2003 and \$237.4 million for 2004, before cost-sharing offsets of \$5.2 million and \$21 million, respectively. These lower spending levels reflect reduced funding requirements for interconnections and other system improvements to accommodate the new generating facilities. The spending programs contained within LIPA's capital budgets continue to 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 \$5.1 million in 2003 and \$16.2 million in 2004, when a fuel reloading is scheduled to take place. These expenditure levels represent a decrease of \$8.6 million in 2003 and an increase of \$11.1 million in 2004 as compared to the level for the prior year. The remainder of the capital budget includes provisions for LIPA information systems, furniture, computer and other equipment and capitalized interest.

The spending programs that comprise these budgets underscore 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 operating and capital outlays necessary to provide additional and reliable sources of electricity. At the same time, they reflect LIPA's strong commitment to the role of conservation and new technologies in meeting the growing energy needs of its customers. Expenditures for the Clean Energy program, including peak load reduction rebates, will total \$34 million. LIPA is ready to meet the challenges that the coming years will no doubt present. As we have since our beginning, we will continue to 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. This is our commitment to our customers, a commitment we are confident we will continue to meet.

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### Schedule

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## Statements of Revenues and Expenses

(Thousands of Dollars)

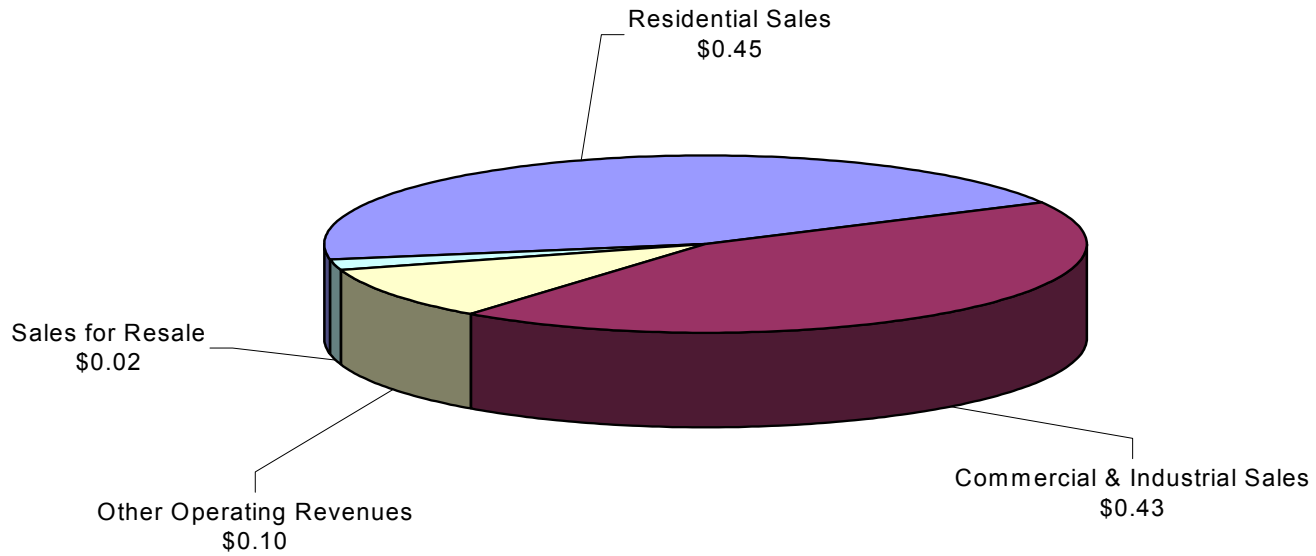
	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>	<u>Ref.</u>
<b>Revenues</b>	<b>\$ 2,424,242</b>	<b>\$ 2,566,281</b>	<b>5.86</b>	A-2
<b>Expenses</b>				
Fuel and Purchased Power Costs	1,019,669	1,108,883	8.75	A-5
Operations and Maintenance Expenses	653,396	670,996	2.69	A-6
General and Administrative Expenses	39,561	42,073	6.35	A-7
Depreciation and Amortization	216,500	233,018	7.63	A-8
Revenue Taxes	72,367	61,414	(15.14)	A-9
Payments in Lieu of Taxes (PILOTS)	143,447	152,313	6.18	A-9
<b>Total Operating Expenses</b>	<b>2,144,940</b>	<b>2,268,697</b>	<b>5.77</b>	
<b>Operating Income</b>	<b>279,302</b>	<b>297,584</b>	<b>6.55</b>	
Other Income and Deductions	45,211	45,750	1.19	A-10
Interest Expense	324,017	323,312	(0.22)	A-11
<b>Excess of Revenues Over Expenses</b>	<b>\$ 496</b>	<b>\$ 20,022</b>	<b>3,936.69</b>	
<b>Debt Service Coverage Ratios (x):</b>				
Senior Lien Debt	1.66	2.42	0.76	
Senior Lien and Subordinated Debt	1.42	2.22	0.80	
Total Debt	1.42	1.82	0.40	

## Sales and Revenues

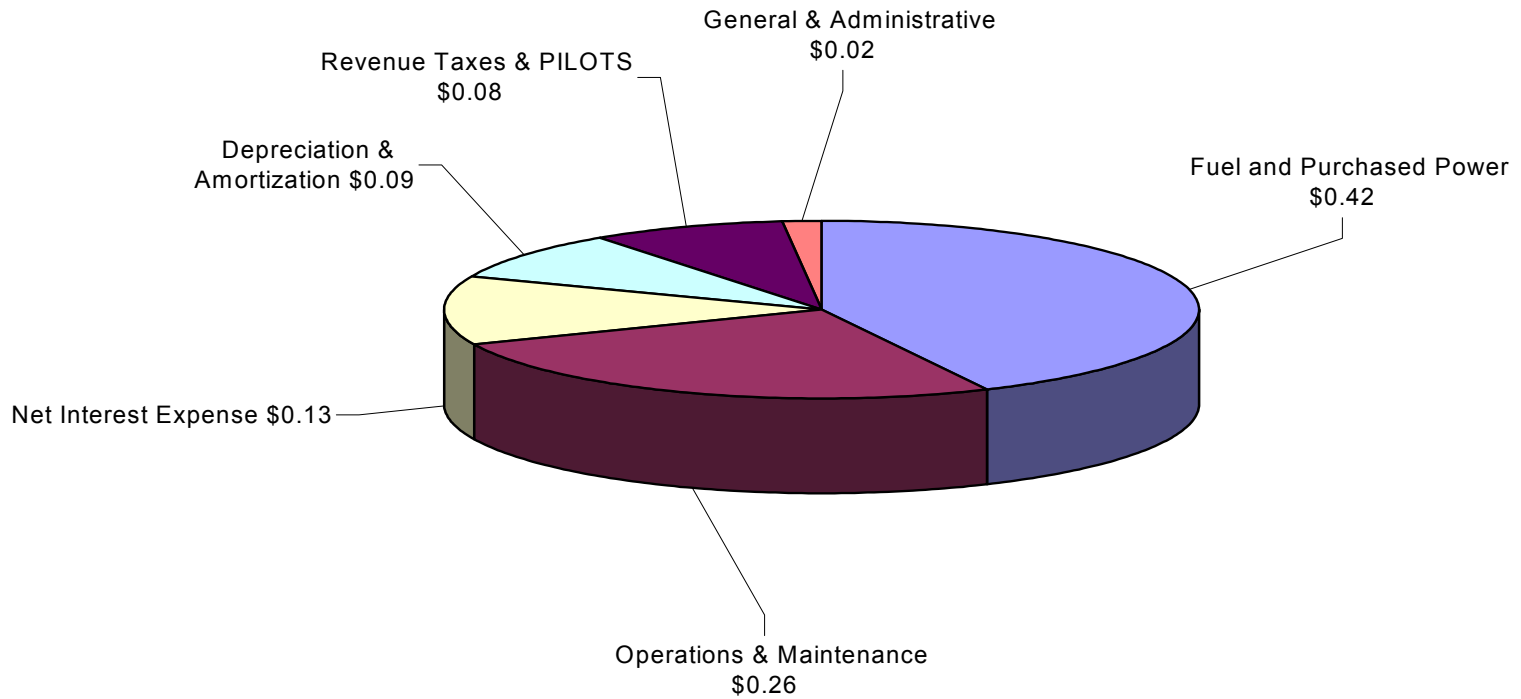
	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>
<b><u>Sales of Electricity (MWh)</u></b>			
Residential Sales	8,504,382	8,627,189	1.44
Commercial & Industrial Sales	9,857,069	10,031,697	1.77
Other Sales to Public Authorities/Street Lighting	431,368	438,479	1.65
<b>Total Sales of Electricity</b>	<b>18,792,819</b>	<b>19,097,365</b>	<b>1.62</b>
<b><u>Revenues (\$ thousands)</u></b>			
Residential Sales	\$ 1,103,745	\$ 1,152,093	4.38
Commercial & Industrial Sales	1,055,436	1,113,947	5.54
Other Sales to Public Authorities/Street Lighting	38,743	40,150	3.63
Sales for Resale	-	2,110	N/M
Deferred Shoreham Property Tax Settlement Credits	80,000	25,265	(68.42)
Recovery of Deferred Shoreham Property Settlement Costs	-	(13,385)	N/M
Recovery of Deferred Fuel and Purchased Power Costs	130,598	154,471	18.28
Wheeling Revenues	6,993	7,274	4.02
Pole Attachment Fees	3,756	3,178	(15.39)
Late Payment Charges	3,558	3,204	(9.95)
Miscellaneous Revenues	1,413	1,350	(4.46)
Current Recovery of Excess Fuel and Purchased Power Costs	-	76,624	N/M
<b>Total Revenues</b>	<b>\$ 2,424,242</b>	<b>\$ 2,566,281</b>	<b>5.86</b>

N/M=Not meaningful

### Source Of Revenue Dollar



## Use Of Revenue Dollar



## Fuel and Purchased Power Costs

(Thousands of Dollars)

	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>
Fuel Oil	\$ 167,329	\$ 156,563	(6.43)
Natural Gas	278,463	264,985	(4.84)
Purchased Power	301,385	414,045	37.38
Wheeling and Capacity Charges (excl. Nine Mile)	140,432	196,037	39.60
Nine Mile Nuclear Fuel (incl. Disposal and Decomm. Costs)	7,645	9,112	19.19
Nine Mile Wheeling Charges	7,258	7,328	0.96
Y-49 and Y-50 Cable Operating Costs	21,548	21,597	0.23
Fuel Hedging Program Costs	14,000	21,968	56.91
Fuel Hedging Program Financial Settlements	(6,065)	(19,553)	222.39
Power Plant Interruption Insurance	4,248	-	(100.00)
Maximum Temperature Event Option Insurance	2,400	-	(100.00)
Emissions Allowances Purchases	-	3,598	N/M
ESCO Bill Credit Adjustment Payments	33,449	7,835	(76.58)
Ancillary Service Revenues-Net	(13,500)	(5,930)	(56.07)
Energy Management Agreement	8,255	11,079	34.21
ISO-Related Service Costs	45,900	48,470	5.60
NYP&A Transmission Adjustment Charge	-	10,913	N/M
Cost of Off-System Sales	4,440	5,180	16.67
Barge Lease and Transportation Costs	535	100	(81.31)
Clean Energy Peak Load Reduction Rebates	3,200	1,610	(49.69)
Deferred Fuel and Purchased Power Expense	(127,480)	(70,000)	(45.09)
Recovery of Deferred Fuel and Purchased Power Costs	126,227	151,196	19.78
Additional Cost Deferral	-	(127,250)	N/M
<b>Total Fuel and Purchased Power Costs</b>	<b>\$ 1,019,669</b>	<b>\$ 1,108,883</b>	<b>8.75</b>

N/M=Not meaningful

## Operations and Maintenance Expenses

(Thousands of Dollars)

	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>	<u>Ref.</u>
KeySpan Management Services Agreement (1)	\$ 252,761	\$ 257,459	1.86	A-6.1
KeySpan Power Supply Agreement	304,410	317,865	4.42	A-6.1
Nine Mile Point 2 O&M	27,889	27,328	(2.01)	A-6.2
Research & Development	5,745	4,853	(15.53)	A-6.3
Clean Energy Program	33,800	32,608	(3.53)	A-6.4
Storm Damage Reserve	9,000	9,000	-	(2)
Uncollectible Accounts	12,872	12,524	(2.70)	(2)
Assessments	2,317	2,731	17.87	(2)
Long Island Choice Program	200	500	150.00	(2)
Customer Service Telephone Response System	367	287	(21.80)	(2)
Economic Development	70	104	48.57	(2)
Retail Programs and Market Research Activities	970	2,246	131.55	(2)
Load Research/Rates Tariffs	240	266	10.83	(2)
Power Quality Program	200	220	10.00	(2)
Postage-Paid Remittance Envelopes	1,900	2,092	10.11	(2)
Fuel Storage Rentals	35	-	(100.00)	(2)
Operation and Maintenance- Y49 Cable	120	120	-	(2)
Miscellaneous	500	793	58.60	(2)
<b>Total Operations and Maintenance Expenses</b>	<b>\$ 653,396</b>	<b>\$ 670,996</b>	<b>2.69</b>	

Notes: (1) Excludes expenditures related to the R&D and Clean Energy programs.  
 (2) Not detailed on separate schedule.

## KeySpan Contracts-Operating Expenses

(Thousands of Dollars)

	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>
<b>Management Services Agreement (1)</b>			
T&D System Operating Costs	\$ 272,963	\$ 284,453	4.21
Management Fee	10,000	10,000	-
Synergy Savings	(35,702)	(42,494)	(19.02)
Non-Cost Performance Incentives	5,500	5,500	-
<b>Total Management Services Agreement</b>	<b>\$ 252,761</b>	<b>\$ 257,459</b>	<b>1.86</b>
<b>Power Supply Agreement (1)</b>			
Operation and Maintenance Expenses	\$ 303,884	\$ 317,253	4.40
Synergy Savings	(3,474)	(3,388)	2.48
Non-Cost Performance Incentives	4,000	4,000	-
<b>Total Power Supply Agreement</b>	<b>\$ 304,410</b>	<b>\$ 317,865</b>	<b>4.42</b>
<b>Energy Management Agreement (2)</b>			
Operating Expenses	\$ 2,439	\$ 2,636	8.08
Management Fees	1,500	3,693	146.20
Synergy Savings	(2,684)	(2,250)	16.17
Non-Cost Performance Incentives	7,000	7,000	-
<b>Total Energy Management Agreement</b>	<b>8,255</b>	<b>11,079</b>	<b>34.21</b>
<b>Total Contracts with KeySpan</b>	<b>\$ 565,426</b>	<b>\$ 586,403</b>	<b>3.71</b>

Notes: (1) Expenses incurred under the Management Services and Power Supply Agreements are included as Operations and Maintenance Expenses. See schedule A-6.

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

## Nine Mile Point 2 Operations & Maintenance Expenses

(Thousands of Dollars)

	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>
Refueling Outage Amortization	\$ 3,264	\$ 3,569	9.34
Non-Outage Operating Expenses	23,472	22,904	(2.42)
Insurance	107	105	(1.87)
Management, Analytical and Technical Services	1,046	750	(28.30)
<b>Total Nine Mile Point 2 O&amp;M Expenses</b>	<b>\$ 27,889</b>	<b>\$ 27,328</b>	<b>(2.01)</b>

## Research & Development Expenses

(Thousands of Dollars)

	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>
Transmission, Distribution and Customer Utilization Projects	\$ 4,695	\$ 3,125	(33.44)
NYSERDA	-	1,000	N/M
Clean Energy/Energy Efficiency Projects	8,650	4,300	(50.29)
Base KeySpan Labor Included in MSA Budget	1,050	728	(30.67)
<b>Total Research &amp; Development Program</b>	<b>14,395</b>	<b>9,153</b>	<b>(36.42)</b>
Less: R&D Projects Included in Clean Energy Program	(8,650)	(4,300)	50.29
<b>Total Research &amp; Development Expenses</b>	<b>\$ 5,745</b>	<b>\$ 4,853</b>	<b>(15.53)</b>

N/M=Not meaningful

**Clean Energy Program Expenses**  
 (Thousands of Dollars)

	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>
Energy Efficiency Programs	\$ 17,260	\$ 19,165	11.04
Peak Load Reduction Program (1)	800	687	(14.13)
Low Income Conservation	2,100	2,800	33.33
Research & Development	8,650	4,300	(50.29)
Advertising & Promotion	1,329	2,000	50.49
Program Administration	788	690	(12.44)
Base KeySpan Labor Included in MSA Budget	2,873	2,966	3.24
<b>Total Clean Energy Program Expenses</b>	<b>\$ 33,800</b>	<b>\$ 32,608</b>	<b>(3.53)</b>

Note: (1) Excludes the cost of customer rebates, which are provided for under Fuel and Purchased Power costs.

## General and Administrative Expenses

(Thousands of Dollars)

	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>
Employee Salaries and Benefits	\$ 8,456	\$ 12,375	46.35
Other Employee Expenses	356	609	71.07
Consulting Expenses (1)	24,720	19,151	(22.53)
Office Rent	1,206	1,251	3.73
Telephone	258	245	(5.04)
Office Supplies, Printing, Postage and Messenger	252	457	81.35
Meetings, Conferences and Seminars	459	516	12.42
Equipment Leases and Maintenance	103	370	259.22
Dues/Memberships/Subscriptions	232	170	(26.72)
Repairs and Maintenance	18	36	100.00
Insurance	529	1,498	183.18
Injuries and Damages Reserve	1,200	1,500	25.00
NUSCO Cable Insurance	1,067	1,254	17.53
Communications	356	598	67.98
Board and Other Public Meetings	44	72	63.64
Community Relations	149	175	17.45
Sponsorships/Special Events	72	292	305.56
Investor Relations/Bond Trustee Expense	30	30	-
Miscellaneous	54	1,474	2,629.63
<b>Total Administrative and General Expenses</b>	<b>\$ 39,561</b>	<b>\$ 42,073</b>	<b>6.35</b>

Note: (1) See schedule A-7.1 for details.

**Consulting Expenses**  
 (Thousands of Dollars)

	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>
Accounting and Audit Services	\$ 1,825	\$ 2,900	58.90
Forensic Accounting Reviews	-	1,000	N/M
Rates and Tariffs	-	200	N/M
Legal	4,401	4,332	(1.57)
Communications	348	348	-
Information Technology	975	1,085	11.28
Engineering	13,734	6,140	(55.29)
Risk Management	125	742	493.60
Financial Advisor/Cash Management	2,650	1,650	(37.74)
Human Resources	60	150	150.00
Market Research	275	50	(81.82)
Storm Review Panel	150	150	-
Business Continuity	-	75	N/M
Records Management	-	50	N/M
Miscellaneous	177	279	57.63
<b>Total Consulting Expenses</b>	<b>\$ 24,720</b>	<b>\$ 19,151</b>	<b>(22.53)</b>

N/M=Not meaningful

Notes: - Excludes consulting expenses included under the MSA budget.

- Consulting expenses related to the Clean Energy Program have been budgeted under the Clean Energy Program.

## Depreciation and Amortization

(Thousands of Dollars)

	<u>Approved</u> <u>2002</u>	<u>Approved</u> <u>2003</u>	<u>% Chg.</u>
Amortization of Acquisition Adjustment	\$ 112,700	\$ 112,681	(0.02)
Depreciation Expense-Plant-in-Service	99,300	115,837	16.65
Depreciation Expense-Decommissioning Fund-Nine Mile Point 2	4,500	4,500	-
<b>Total Depreciation and Amortization</b>	<b>\$ 216,500</b>	<b>\$ 233,018</b>	<b>7.63</b>

## Taxes and Payments in-lieu-of Taxes

(Thousands of Dollars)

	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>
<b>Revenue Taxes</b>	<b>\$ 72,367</b>	<b>\$ 61,414</b>	<b>(15.14)</b>
<b>Payments in-lieu-of Taxes (PILOTS)</b>			
Long Island and New York City	\$ 136,100	\$ 137,812	1.26
Nine Mile PILOTS	5,984	4,901	(18.10)
Shoreham PILOTS	1,363	-	(100.00)
Merchant Power Plants	-	9,600	N/M
<b>Total PILOTS</b>	<b>\$ 143,447</b>	<b>\$ 152,313</b>	<b>6.18</b>

N/M=Not meaningful

**Other Income and Deductions**  
 (Thousands of Dollars)

	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>
Short-Term Investment Income	\$ 16,043	\$ 10,583	(34.03)
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	27,057	30,480	12.65
Sales of Emission Credits	1,072	2,593	141.88
Interest Income on Nuclear Decommissioning Trust Fund	1,200	1,700	41.67
Miscellaneous Income and Deductions	(161)	394	(344.72)
<b>Total Other Income and Deductions</b>	<b>\$ 45,211</b>	<b>\$ 45,750</b>	<b>1.19</b>

**Interest Expense**  
 (Thousands of Dollars)

	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>
<b>LIPA Interest Expense from Schedule A-12</b>	<b>\$ 311,694</b>	<b>\$ 305,360</b>	<b>(2.03)</b>
<b>Other Interest Expense</b>			
NYSERDA	\$ 20,664	\$ 20,664	-
Debentures	22,140	22,140	-
Amortization of Deferred Debt Issue Costs (Premiums)	(805)	79	109.81
Amortization of Deferred Losses on Debt Redemptions	7,569	5,662	(25.19)
Letters of Credit Fees	6,000	6,201	3.35
Broker/Dealer Fees on Auction Rate Bonds	1,750	1,750	-
Interest on Customer Security Deposits	711	2,163	204.22
Bond Administration Costs and Bank Fees	1,092	1,258	15.20
Remarketing Fees	772	750	(2.85)
Promissory Note due from KeySpan	(42,804)	(42,804)	-
Carrying Charges on Deferred Credits	2,634	3,592	36.37
Other Interest Expense	-	1,845	N/M
<b>Total Other Interest Expense</b>	<b>\$ 19,723</b>	<b>\$ 23,300</b>	<b>18.14</b>
<b>Capitalized Interest</b>	<b>7,400</b>	<b>5,348</b>	<b>(27.73)</b>
<b>Total Interest Expense</b>	<b>\$ 324,017</b>	<b>\$ 323,312</b>	<b>(0.22)</b>

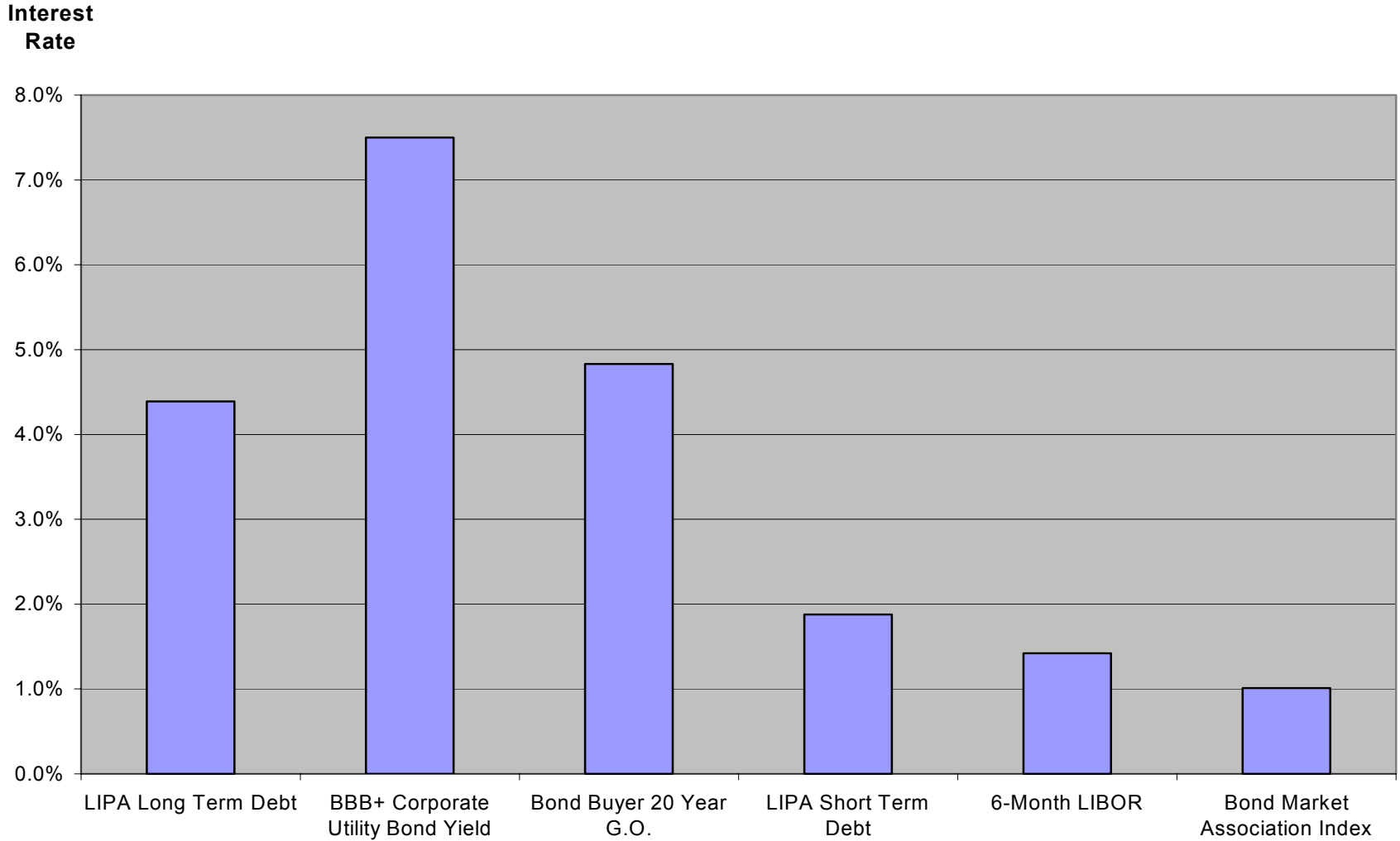
N/M=Not meaningful

### Average Cost of Debt

<u>Series</u>	<u>Type</u>	<u>Maturity</u>	<u>Average Principal Outstanding</u> (\$Thousands)	<u>Effective Interest Rate</u>	<u>Interest Expense</u> (\$Thousands)
<b><u>Senior Lien Debt</u></b>					
1998 A	Serial Bonds	2003-2016	\$ 1,079,435	5.246%	\$ 56,624
1998 A	Term Bonds (1)	2018-2029	1,850,575	5.224%	\$ 96,665
1998 A	Capital Appreciation Bonds (2)	2003-2028	187,028	4.900%	\$ 9,165
1998 B	Serial Bonds	2003-2016	959,209	4.776%	\$ 45,810
1998 B	Term Bonds	2018	57,145	4.746%	\$ 2,712
2000 A	Capital Appreciation Bonds (2)	2003-2028	380,368	5.604%	\$ 21,315
2001A	Serial Bonds	2013-2021	21,960	5.064%	\$ 1,112
2001 A	Term Bonds	2025-2029	278,040	5.160%	\$ 14,346
2001 (B-K) (M-P)	Auction Rate Bonds (3)	2033	700,000	1.875%	\$ 13,122
2001 L	Term Bonds (4)	2033	116,000	2.253%	\$ 2,613
2003	New Issue (5)	-	116,667	5.250%	\$ 6,125
Total Senior Lien Debt			\$ 5,746,427	4.692%	\$ 269,609
<b><u>Subordinate Debt</u></b>					
Series 7A & 7B	Variable Rate (6)	2025	\$ 250,000	4.208%	\$ 10,520
Series 8	Mandatory Purchase	2003-2008	216,720	4.721%	10,231
Series 2001 1A-3B	Variable Rate (3)	2033	700,000	1.875%	13,122
Commercial Paper	Variable Rate (3)	Various	100,000	1.878%	1,878
Total Subordinate Debt			\$ 1,266,720	2.822%	\$ 35,751
<b>Total Average Debt</b>			<b>\$ 7,013,147</b>	<b>4.354%</b>	<b>\$ 305,360</b>

- (1) Net of amortization of swaption proceeds (\$82 million) over the remaining life of refinanced bonds (27 years).
- (2) 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.
- (3) Variable rates ranging from 1.50% to 2.25%.
- (4) 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%.
- (5) Fixed rate financing of \$200 million at 5.25% in June, 2003.
- (6) 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%.

### Comparative Interest Rates (As Of 12/16/2002)



**Cash Flow from Operations**

(Thousands of Dollars)

	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>
<b>Excess Of Revenues Over Expenses</b>	<b>\$ 496</b>	<b>\$ 20,022</b>	<b>3,936.69</b>
<b>Add Back (Deduct) Non-Cash Items:</b>			
Deferred Shoreham Property Tax Settlement Credits	(80,000)	(25,265)	68.42
Recovery of Deferred Shoreham Property Settlement Costs	-	13,385	N/M
Deferred Fuel and Purchased Power Expense	(127,480)	(197,250)	(54.73)
Recovery of Deferred Fuel and Purchased Power Costs	126,227	151,196	19.78
Prepaid Fuel Hedging Program Costs-Net of Amortization	-	(18,782)	N/M
Prepaid Nine Mile Point 2 Refueling Outage Costs-Net of Amortization	3,264	3,569	9.34
PSA Property Taxes-Accrual Net of True-Up for Prior Year	-	5,800	N/M
Prepaid Insurance Premiums-Net of Amortization	(85)	(603)	(609.41)
Shoreham PILOT's Amortization	1,363	-	(100.00)
Shoreham PILOT's Cash Payments	(4,089)	-	100.00
Depreciation and Amortization	216,500	233,018	7.63
Depreciation Expense-Decommissioning Fund-Nine Mile Point 2	(4,500)	(4,500)	-
Carrying Charges on Deferred Shoreham Property Tax Settlement Costs	(27,057)	(30,480)	(12.65)
Amortization of Deferred Debt Issue Costs (Premiums)	(805)	79	109.81
Amortization of Deferred Losses on Debt Redemptions	7,569	5,662	(25.19)
Amortization of Deferred Shoreham Settlement Costs	-	203	N/M
Interest on Capital Appreciation Bonds	28,941	30,480	5.32
Capitalized Interest	(7,400)	(5,348)	27.73
<b>Total Non-Cash Items</b>	<b>132,448</b>	<b>161,164</b>	<b>21.68</b>
<b>Excess of Revenues Over Expenses-Cash Basis</b>	<b>\$ 132,944</b>	<b>\$ 181,186</b>	<b>36.29</b>

N/M=Not meaningful

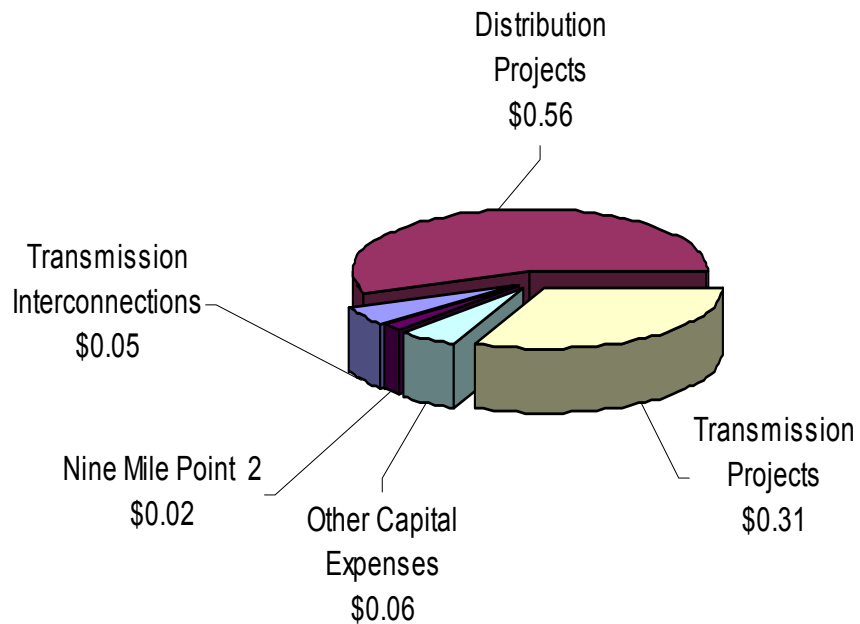
**Capital Expenditures**  
 (Thousands of Dollars)

	Approved <u>2002</u>	Approved <u>2003</u>	<u>% Chg.</u>	Approved <u>2004</u>	<u>% Chg.</u>
<b>Transmission Projects</b>					
Transmission Interconnection-New Power Plants (Major Capital)	\$ 83,001	\$ -	(100.00)	\$ 21,034	N/M
Transmission Interconnection-Cable Projects (Major Capital)	32,000	13,500	(57.81)	-	(100.00)
Queens Substations and Lines (Major Capital)	-	2,075	N/M	3,700	78.31
Nassau Substations and Lines (Major Capital)	-	1,953	N/M	2,350	20.33
Western Suffolk Substations and Lines (Major Capital)	10,449	7,910	(24.30)	4,600	(41.85)
Eastern Suffolk Northfork Substation and Lines (Major Capital)	3,801	7,855	106.66	20,110	156.02
North Fork Substations and Lines (Major Capital)	-	29,350	N/M	-	(100.00)
Other Transmission (Routine Capital)	19,132	15,226	(20.42)	15,901	4.43
Other Transmission (Major Capital)	16,192	14,000	(13.54)	4,550	(67.50)
<b>Total Transmission Projects</b>	<b>164,575</b>	<b>91,869</b>	<b>(44.18)</b>	<b>72,245</b>	<b>(21.36)</b>
<b>Distribution Projects</b>					
Substations (Major Capital)	35,227	28,440	(19.27)	35,313	24.17
Substations (Routine Capital)	1,444	3,404	135.73	2,918	(14.28)
Electric Lines-New Customer Load (Routine Capital)	31,384	30,086	(4.14)	30,086	-
Electric Lines-Other (Routine Capital)	43,647	46,992	7.66	48,115	2.39
Purchase and Install Meters/Transformers (Routine Capital)	19,507	19,507	-	20,038	2.72
Public Works	2,449	2,453	0.16	2,453	-
Other Distribution (Routine Capital)	8,397	9,407	12.03	4,190	(55.46)
<b>Total Distribution Projects</b>	<b>142,055</b>	<b>140,289</b>	<b>(1.24)</b>	<b>143,113</b>	<b>2.01</b>
<b>Project Funding for Emerging Work and Land Acquisitions</b>	<b>10,000</b>	<b>10,435</b>	<b>4.35</b>	<b>21,000</b>	<b>101.25</b>
<b>Additional Public Works Projects (beyond MSA)</b>	<b>1,000</b>	<b>1,000</b>	<b>-</b>	<b>1,000</b>	<b>-</b>
<b>Total Transmission and Distribution Projects</b>	<b>317,630</b>	<b>243,593</b>	<b>(23.31)</b>	<b>237,358</b>	<b>(2.56)</b>
<b>Cost-Sharing and Other Contributions</b>	<b>(7,115)</b>	<b>(5,233)</b>	<b>(26.45)</b>	<b>(21,034)</b>	<b>(301.95)</b>
<b>Capitalized Interest</b>	<b>7,400</b>	<b>5,348</b>	<b>(27.73)</b>	<b>5,290</b>	<b>(1.09)</b>
<b>Nine Mile Point Two Plant Additions/Replacements/ Capitalized Nuclear Fuel</b>	<b>13,680</b>	<b>5,127</b>	<b>(62.52)</b>	<b>16,160</b>	<b>215.19</b>
<b>LIPA Information Systems/Furniture and Equipment</b>	<b>200</b>	<b>2,176</b>	<b>987.75</b>	<b>1,843</b>	<b>(15.31)</b>
<b>Total Capital Expenditures</b>	<b>\$ 331,795</b>	<b>\$ 251,011</b>	<b>(24.35)</b>	<b>\$ 239,617</b>	<b>(4.54)</b>

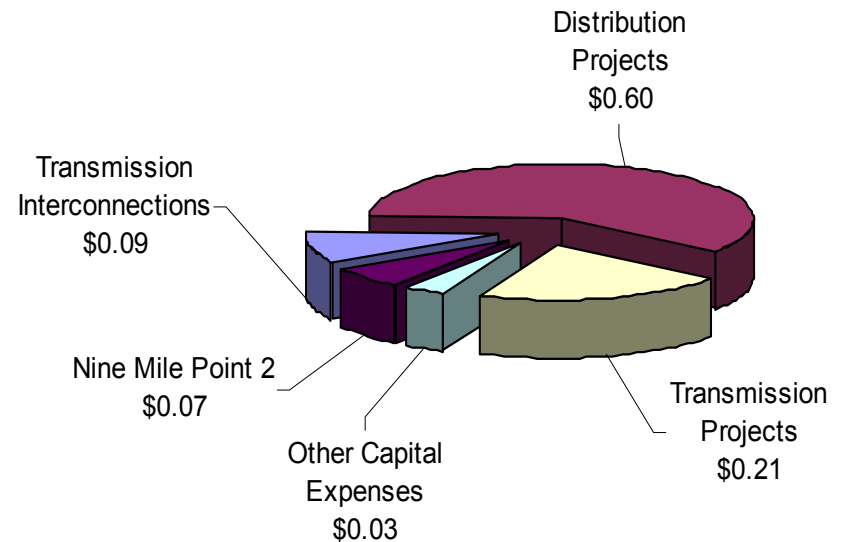
N/M = Not meaningful

## Use of Capital Dollar

**2003**



**2004**



### Cost Comparisons 1999 Through 2004 (based on actual and budgeted values)

