

LONG ISLAND POWER AUTHORITY
NATURAL GAS PURCHASE REVENUE BONDS
(CUSIP #542690YC0)
OCTOBER 1, 2008

SURVEILLANCE REPORT

The Long Island Power Authority has released its audited financial statement for Fiscal Year 2008. The financial data highlights the Authority's sound financial profile, despite a significant narrowing of operating results over the last year.

In FY 2008, the Authority posted narrowed financial results as the 2.7% growth in operating revenues was outpaced by a 4.5% increase in operating expenses. The growth in expenses was led by an increase in fuel and purchased power costs—the largest single component of the Authority's operating budget—which expanded by 11.7%. The increase reflects the substantial run-up in power costs experienced throughout world markets during the first half of 2008. As a result of this imbalance, the Authority posted operating income of approximately \$283.7 million, or 85.9% of the \$330.1 million of FY 2007 operating income.

After accounting for certain non-operating items, including interest costs of \$323.4 million, the Authority posted an overall increase in net assets of just \$26.3 million. This figure is far smaller than the comparable figures posted for both FY 2007 (\$93.0 million) and FY 2006 (\$118.2 million).

Although the Authority posted a net increase in net assets, other elements of the Authority's balance experienced some weakening. For example, as of FYE 2008, the Authority posted cash, cash equivalents and investments totaling \$257.7 million or 7.7% of annual expenditures. This reflected a marked decrease from the comparable figure of \$814.4 million recorded at FYE 2007, the equivalent of 25.3% of expenditures. According to the Authority, the decrease in liquidity and investments reflected in large part the increased fuel and purchased power costs, required collateral posting with various counterparties, the return of prior year excess power supply costs to ratepayers and the redemption of debt with cash on hand. Also noted, while net assets increased by approximately 10.0% to \$289.2 million, unrestricted net assets fell sharply, declining by almost 75% to \$116.2 million or a minimal 3.5% of annual operating expenditures.

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