LIPA 2014 Performance Evaluation

In 2014, the Long Island Power Authority (“Authority”) established goals and measurements to evaluate its performance relative to its mission. Those goals were divided into four categories (i) ensure the provision of reliable, economical and responsive electric service; (ii) meet the expectations of bondholders; (iii) maintain a focus on energy efficiency and renewable energy; and (iv) transparency. As set forth below, the Authority’s self-evaluation demonstrates progress in meeting the goals established.

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<tr>
<th>Long Island Power Authority Goal #1</th>
<th>2014 Performance Measurements</th>
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| Ensure the provision of reliable, economical and responsive electric service | ▪ Establish and implement an organization at the Authority that works with stakeholders including PSEG-LI, customers, and public officials  
▪ Develop and implement an OSA Contract Oversight Process  
▪ Establish a policy planning process that will lead to a comprehensive Strategic Plan  
▪ Monitor and ensure that the Authority and PSEG-LI Management Audit Recommendations are accomplished |

PSEG Long Island (“PSEG-LI”) began operating the Long Island electric transmission and distribution system as the Authority’s service provider under the Amended & Restated Operations Services Agreement (“OSA”) on January 1, 2014. PSEG-LI and the Authority have been working with stakeholders, including customers and public officials, to achieve improved customer service and storm response, while maintaining reliable and economic electric service.

The Authority developed and implemented an OSA contract oversight process that is carried out by the Authority’s Contract Oversight (“CO”), Finance, and Legal departments. The CO department is dedicated to overseeing PSEG-LI’s performance of operations services. It administers the OSA and associated performance metrics and advises staff and the Board of Trustees on OSA matters requiring the Authority’s approval.

During 2014, the Authority adopted a strategic planning process that defines department-specific goals and Authority-wide strategic goals for each year. The 2015 department and strategic goals were developed during 2014 and presented to the Trustees on the Authority’s Governance Committee in March 2015.

The Authority has continued to monitor progress in completing the 2013 NorthStar management audit recommendations. As of December 31, 2014, 35 of the 43 recommendations directed to the Authority had been completed; and 22 of the 40 recommendations directed to PSEG-LI had
been completed. All outstanding recommendations are scheduled to be completed by December 31, 2015.

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<th>Long Island Power Authority Goal #2</th>
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| Meet the expectations of bondholders| ▪ Review PSEG-LI’s proposed 2015 operating budget
▪ Review long-term capital forecast
▪ Maximize FEMA and CDBG funding for Sandy, NEMO, and mitigation work
▪ Monitor and limit the risks from variations in revenue
▪ Manage rating agency and investor relationships during transition to new business model and 2016-18 rate plan filing
▪ Calculate the monthly Power Supply Charge and manage the Securitization Charge
▪ Issue 2013 audited financial statements and A-133 federal grant audit |

In 2014, the Authority worked with PSEG-LI to reorganize the utility business model under the LIPA Reform Act, including the transition of significant operational responsibility for budget and capital plan development to the service provider. The Authority reviewed PSEG-LI’s proposed 2015 operating and capital budgets, including the multi-year capital budget submitted as part of the rate plan filing in January 2015, with the goal of a third year of delivery rate stability, which was successfully achieved in the 2015 budget approved by the Board in December 2014.

The Authority completed negotiations and signed grant agreements for $1.4 billion of federal grants during 2014. These grants fund storm restoration expenses incurred by the Authority for recent declared weather events, including Superstorm Sandy, Hurricane Irene, and Winter Storm Nemo. These funds also provide 90% reimbursement for a $730 million storm hardening program, which will begin major construction during 2015. These storm hardening funds will increase the resiliency of the Long Island electric system during severe weather events while also benefiting day-to-day system reliability. These grants, available only to municipal utilities, reduce electric rates for our customers from those that would be required had these costs and investments been incurred without such grants.

The Authority reviewed the risks from variations in revenue for both power supply costs and delivery revenues during 2014. Variations in power supply costs are principally related to commodity costs, and the Authority undertook a comprehensive review of the design and implementation of its power supply hedging program with its service provider during 2014 in anticipation of the transition of certain responsibilities for the hedging program to PSEG Energy Resources & Trade LLC in January 2015. The Authority implemented changes to the operating procedures of its power supply hedging program in February 2015 based on the work performed during 2014 that will over time further reduce the volatility of monthly power supply costs to its customers, which are already the least volatile of the major New York State utilities. Additionally, the Authority reviewed the volatility of delivery service revenues from implementation of energy efficiency and renewable energy investments as well as the
uncontrollable effects of weather and general economic conditions on sales. As is common for electric utilities, the Authority recovers a large percentage of its fixed costs in the sales-related variable component of its electric rates rather than from fixed charges to customers. As such, higher or lower sales from efficiency, renewable, weather, or economic effects can lead to over and under recoveries from customers relative to fixed costs. In November 2014, the Authority recommended a revenue decoupling mechanism as part of the 2015 Budget process. The revenue decoupling mechanism was approved by the Authority’s Board as part of the 2015 Budget in December 2014 and the necessary electric tariff changes were implemented in March 2015. The Authority was the last major electric or gas utility in New York to adopt such a revenue decoupling mechanism. Revenue decoupling ensures that utilities collect no more or less than their required delivery service revenues, regardless of the level of sales, ensuring customers pay the necessary fixed costs of providing electric service but no more or less.

The year 2014 was a year of transition for the Authority, with a new service provider, under a new unique public-private business model, with a new Board of Trustees, a new Authority management team, and the required preparation of a three-year rate filing in January 2015 under a new rate setting process involving the newly created Long Island Office of the Department of Public Service. As such, the Authority made significant efforts to keep investors and rating agency analysts informed of developments and positive changes at the Authority throughout the year. This involved numerous outreach activities and in-person meetings with the rating agencies and investors, including participation in four local investor conferences, one-on-one calls, a web-based investor roadshow, and other activities. Notably, Moody’s reflected the positive developments at the Authority in September 2014 by changing its outlook from “negative” to “stable” at a Baa1 rating and commented that the positive change in outlook reflected a “smooth transition to operations under PSEG-LI and our assumption that this relationship will continue to bear fruit…” and “the utility’s improved liquidity position” and expectation that “the rate case filing and ultimate outcome will enable LIPA to maintain or improve its financial position.” The Authority successfully accessed the bond and bank markets to refinance debt and finance capital projects during 2014, achieving much lower interest rates and credit spreads than those available during 2013.

In April 2014, the Authority implemented the Securitization Charge associated with the Utility Debt Securitization Authority financings (which were completed in December 2013). Additionally, the Authority continued the monthly implementation of the Power Supply Charge during 2014 and successfully transitioned this responsibility to its service provider in January 2015.

The Authority completed its required independent audits of its financial statements by March 2014 and a Circular A-133 audit of federal grants by September 30, 2014. The Authority’s independent auditor, KPMG, had no audit findings.
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<th>Long Island Power Authority Goal #3</th>
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| Maintain a focus on energy efficiency and renewable energy | - Oversee clean energy performance including ongoing independent evaluation  
- Monitor monthly performance results  
- Effective OSA oversight including Utility 2.0, Clean Energy Advisory Board and Government and stakeholder coordination of initiatives |

During 2014, the Authority continued its commitment to investing in energy efficiency and renewable energy. Adding to the recent successes of the Authority’s expanded Clean Solar feed-in tariff initiative, the Authority made continued progress with its competitive procurement of new, on-island, renewable capacity to come on line by 2018. Specifically, the Authority selected proposals submitted by 11 solar energy producers for negotiation of power purchase agreements representing a total of 122 megawatts of installed capacity. In addition, the Authority has directed its service provider, PSEG Long Island, to begin plans to procure an additional 160 megawatts of renewable resources during 2015.

As discussed above, in connection with preparation of the Authority’s 2015 budget, the Authority began work on developing a change to its tariff to introduce a revenue decoupling mechanism, which will allow for greater flexibility in the development of energy efficiency programs while preserving the Authority’s ability to recover its budgeted revenues.

Throughout 2014, consistent with its oversight responsibilities, the Authority has met with PSEG Long Island on a regular basis to review and discuss the performance of the customer sided energy efficiency and renewables programs. In addition, as has been done in the past, an independent review and analysis of these energy efficiency and renewables programs for 2014 will be conducted by Opinion Dynamics Corporation during 2015.

In 2014, PSEG Long Island submitted a preliminary Utility 2.0 plan to the Authority and DPS as required by the LIPA Reform Act. The Authority reviewed and provided input regarding the plan throughout its development, and the Authority incorporated funding for a number of planned Utility 2.0 programs in its 2015 budget. An updated version of the Utility 2.0 plan will be released in July, 2015.

Pursuant to the LIPA Reform Act, PSEG Long Island and the Authority established the Clean Energy Advisory Board, which has met on multiple occasions throughout the year. The Authority continues to be an active participant in the Advisory Board.
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<th>Long Island Power Authority Goal #4</th>
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| Transparency                      | • Website information availability, including meeting webcasts  
                                      • Compliance with all aspects of New York State’s Open Meetings Law  
                                      • Public Dissemination of Pertinent Information |

Promoting effective management, improving accountability and oversight, encouraging transparent and full disclosure, and establishing a culture of ethical behavior and personal responsibility are all core values of the Authority. In that regard, the Authority continues to meet all of its disclosure, compliance and reporting obligations pursuant to requirements set forth by the LIPA Reform Act, the Public Authorities Reform Act, the State Finance Law, the New York State Attorney General’s Office, the New York State Comptroller’s Office, Executive Orders and other various federal and state entities and organizations.

Working closely with other state authorities and the Authorities Budget Office, the Authority continually monitors best practices for transparency and accountability, and has been working with the Governance Committee of the Board of Trustees to determine, develop and implement such best practices and policies.

**Website Information Availability, Including Meeting Webcasts**
The Authority is committed to the principles of public disclosure and the transparent reporting of its financial and management information. This information is available in a manner that enables the public to easily find and navigate through it. In compliance with Executive Order No. 3, all meetings that are subject to the Open Meetings Law are broadcast via the internet and are available on-demand for more than the required thirty (30) days. Company information, including meeting webcasts can be found online at the following address: [http://www.lipower.org/company/profile/transparency.html](http://www.lipower.org/company/profile/transparency.html).

**Compliance With All Aspects of New York State’s Open Meetings Law**
The Authority is committed to complying with New York State’s Open Meetings Law and recognizes that it is essential to the maintenance of a transparent organization. The Authority performs its business in an open and public manner and takes all necessary steps to insure that its customers and other stakeholders are fully aware of and able to observe the performance of the Authority’s Board. This includes being able to attend the meetings and/or listen to the deliberations and decisions that go into the making of the Authority’s policies. Therefore, the following steps are taken to ensure transparency and compliance with the Open Meetings Law:

- All public meetings of the Authority are recorded and broadcast on the internet.
- Public notice of the time and place of each board meeting is given to the news media and is conspicuously posted in one or more designated public locations at least seventy-two hours before such meeting.
- Notice of the time and place of a meeting is also conspicuously posted on the Authority’s website.
• Materials to be discussed at public meetings are posted on the Authority’s website prior to each meeting.

Public Dissemination of Pertinent Customer and Other Information
The Authority’s Board meetings are open to the public and double as public information sessions regarding the Authority’s annual budgets and operating reports. In addition, the Authority holds public hearings on all proposed amendments to its tariff before bringing such amendments before its Board of Trustees for approval, and, together with the Department of Public Service and PSEG Long Island, the Authority has held and will continue to hold public hearings regarding its recent rate plan filing. The Authority, through its service provider, also provides opportunities for public input in the IRP process and provides periodic informational updates regarding the IRP process on its service provider’s website. Finally, through its service provider, the Authority markets its products and programs and has an active presence on social networking sites such as Facebook and Twitter, and Flickr.