Summary of Audit Results

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*Required Communication to the Finance Committee
2014 Audit Objectives

Audit Report:
- Fair presentation, in all material respects of the Utility Debt Securitization Authority’s (the UDSA) December 31, 2014 financial statements in accordance with U.S. GAAP. We planned and performed the audit to provide reasonable, not absolute, assurance that the financial statements taken as a whole are free from material misstatement, whether from error or fraud.

Complied with:
- The auditing standards generally accepted in the United States of America
- The standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States
- Independence requirements
- KPMG’s approach to quality control

Supported Management by:
- Bringing to management’s attention through a Management Letter suggestions for improving the UDSA’s internal controls and financial reporting policies and procedures and other performance improvement observations identified
- Advise the UDSA on the interpretation and implementation of new accounting or reporting requirements
- Maintained proactive working relationships with senior management and the Finance Committee

Other Deliverables:
- Report on Internal Control over Financial Reporting and Compliance on Other Matters
- Required Communications to those charged with governance
- Investment Guidelines Compliance Report
Summary of Audit Results

- Our audit strategy, risk assessments and audit procedures were executed consistent with our audit plan.
- We will issue an unmodified report on the financial statements of the UDSA as of and for the year ended December 31, 2014.
- We will issue an unmodified Report over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements performed in accordance with Government Auditing Standards.
- We will issue a report in connection with our examination of compliance with the UDSA’s investment guidelines, noting that the UDSA was in compliance with the investment guidelines that were in place and approved by the Board of Trustees in fiscal 2013. However as required by Part 201.3 of Title Two of the New York Code of Rules and Regulations, the UDSA did not review and approve investment guidelines in 2014.
## Audit Focus Areas

<table>
<thead>
<tr>
<th>Audit Area</th>
<th>Audit Focus</th>
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</table>
| Debt       | We confirmed outstanding debt obligations as of December 31, 2014.  
              | Tested debt classified as due within one year.  
              | Tested interest expense payments.  
              | Recalculated current year amortization of bond premiums and issuance costs.  
              | Recalculated current year amortization of the restructuring property. |
| Revenue    | Detailed testing of servicing charge included on customer bills throughout the year.  
              | Utilized data and analytical routines to test 100% of USDA’s revenue recorded to cash receipts.  
              | Assessed internal controls to ascertain the design and operating effectiveness of controls in the revenue process.  
              | Recalculated the revenue allocations from LIPA to USDA based on LIPA’s billed energy usage multiplied by USDA’s securitization charge. |
## Significant Estimates and Management Judgments

We evaluated the key factors, assumptions and other judgments used by management to develop the following significant estimates. We noted that such estimates are reasonable in relation to the financial statements taken as a whole.

<table>
<thead>
<tr>
<th>Significant Estimates/Judgments</th>
<th>Audit Focus &amp; Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unbilled Revenue</td>
<td>- Tested inputs and completeness and accuracy of underlying data in reports used in the estimate.</td>
</tr>
<tr>
<td></td>
<td>- Assessed internal controls to ascertain the design and operating effectiveness of controls in the revenue process.</td>
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<tr>
<td></td>
<td>- Ensured the application of appropriate methodology.</td>
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<tr>
<td></td>
<td>- Performed analytical procedures.</td>
</tr>
</tbody>
</table>
Audit Misstatements

Current Year Uncorrected Audit Misstatements:
- There were no current year uncorrected audit misstatements identified during the audit.

Current Year Corrected Audit Misstatements:
- 2014 was the first year with significant operations for the UDSA. In recording revenue, management did not contemplate an accrual for unbilled revenues as of year-end. It is noted that management quantified UDSA unbilled revenues as of December 31, 2014 as approximately $16M and recorded an adjusting entry to increase operating revenues and accounts receivable by this amount.

Rollover misstatements from prior periods:
- There were no uncorrected audit misstatements from prior periods that had a rollover effect on the current year statement of revenues, expenses and changes in net position.

Omissions or Other Errors in Disclosure:
- Throughout the normal course of our audit of the financial statements we provided management with comments on the financial statements, however during this process no significant omissions or other errors were identified.

Non-GAAP Accounting Policies:
- Neither KPMG nor management have identified policies that are not in accordance with U.S. generally accepted accounting policies.
Control Deficiencies

In connection with our audit we noted deficiencies in general IT controls on the mainframe applications (CAS and EBO) controlled by National Grid and PSEG-LI, which resulted in a change in our audit approach.

– Inappropriate access issues were identified within CAS and EBO systems under PSEG-LI’s control whereby it was noted that there were several administrative access level accounts for individuals who were no longer active employees. Due to the existence of these powerful access rights there is a risk that unapproved or inappropriate changes to system configurations, including financially significant data used for financial reporting could potentially occur.

– As a result of these deficiencies, we were unable to rely on the system-generated reports or the application controls of CAS and EBO.

– In order to ensure that financially significant data was not compromised we redesigned our audit procedures to perform detailed testwork over all system-generated reports utilized to verify the completeness and accuracy of the data. No issues were noted.
Significant Accounting Policies

- Significant accounting policies are disclosed in note 3 to the financial statements.
- We have reviewed the accounting policies utilized by management in preparation of the financial statements and found such policies to be appropriate.

<table>
<thead>
<tr>
<th>Significant Accounting Policy</th>
<th>Financial Statement Account</th>
<th>Alternative Treatments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting for Rate Regulation</td>
<td>Deferred outflows – restructuring property</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Debt issuance cots</td>
<td></td>
</tr>
<tr>
<td>Revenue Recognition</td>
<td>Accounts receivable</td>
<td>None</td>
</tr>
<tr>
<td>Billed and unbilled</td>
<td>Operating revenue</td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents and Investments</td>
<td>Restricted cash</td>
<td>None</td>
</tr>
</tbody>
</table>
## Other Required Communications

<table>
<thead>
<tr>
<th>Matter</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Information in Documents Containing Audited Financial Statements</td>
<td>□ No Matters to Report</td>
</tr>
<tr>
<td>Significant Difficulties Encountered during the Audit</td>
<td>□ No Matters to Report</td>
</tr>
<tr>
<td>Disagreements with Management</td>
<td>□ None</td>
</tr>
<tr>
<td>Management’s Consultation with Other Accountants</td>
<td>□ None Noted</td>
</tr>
<tr>
<td>Significant Issues Discussed, or Subject to Correspondence with Management</td>
<td>□ Other than items previously discussed in this presentation, none noted</td>
</tr>
<tr>
<td>Other Findings or Relevant Issues Regarding Oversight of the Financial Reporting Process</td>
<td>□ None Noted</td>
</tr>
<tr>
<td>Illegal Acts or Fraud</td>
<td>□ No Matters to Report</td>
</tr>
<tr>
<td>Litigation, Claims, and Assessments</td>
<td>□ Disclosures Appropriate</td>
</tr>
<tr>
<td>Non-compliance with Laws and Regulations</td>
<td>□ No Matters to Report</td>
</tr>
<tr>
<td>Related Party Transactions</td>
<td>□ All related party transactions have been appropriately identified, accounted for, and disclosed in the financial statements at December 31, 2014, including securitization-related disclosures</td>
</tr>
<tr>
<td>Public Authority Accountability Act</td>
<td>□ Compliance with other non-audit services</td>
</tr>
<tr>
<td></td>
<td>□ Compliance with partner rotation requirement</td>
</tr>
<tr>
<td>Independence</td>
<td>□ In our professional judgment, KPMG is independent with respect to the USDA</td>
</tr>
<tr>
<td>Significant Written Communications with Management</td>
<td>□ Engagement Letter</td>
</tr>
<tr>
<td></td>
<td>□ Management Representation Letter</td>
</tr>
<tr>
<td></td>
<td>□ SAS 114 letter</td>
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</tbody>
</table>
Fraud Considerations

Consideration of fraud in our audit:
- In accordance with the auditing standards we have planned and performed our audit to obtain reasonable assurance that the financial statements are free of material misstatements due to fraud.

Presumed fraud risk factors:
- Risk of misstatement relating to revenue recognition.
- Risk of management override of controls (manual journal entries, significant accounting estimates).

Response to identified fraud risk factors:
- Evaluated broad programs and controls to prevent, detect and deter fraud.
- Performed specific substantive audit procedures.
- Tested manual journal entries throughout the year.
- KPMG performed substantive procedures on journal entries with pre-determined fraud risk factors.
- Evaluated audit evidence in the aggregate.
- Formal and informal fraud inquiries with individuals throughout various levels in the organization including at National Grid and PSEG-LI.
- KPMG inquired with LIPA employees throughout various levels within LIPA regarding their awareness of fraud, fraud risk factors and policies and procedures in place to detect and deter fraud.
- Reviewed post-closing journal entries and significant accounting estimates.
- Communicated testing results to management and Finance Committee.
KPMG’s Audit Committee Institute (ACI)

**Upcoming events:**

**Webcasts on demand:**
- 2015 Economic Outlook and Year-End Considerations Plus: Key Financial Reporting Developments & Governance Trends
- Cyber-Risk: Five Steps to Strengthen Board Oversight

**Recent publications:**
- Governance Challenge & Priorities Driving the 2015 Agenda
- 2015 Global Audit Committee Survey
- Directors Quarterly: January 2015
- Global Boardroom Insights: Audit Committee Workload

**Resources:**
- ACI Web site: [www.auditcommitteeinstitute.com](http://www.auditcommitteeinstitute.com)
- ACI mailbox: auditcommittee@kpmg.com
- ACI hotline: 1-877-KPMG-ACI
KPMG’s Global Energy Institute

Upcoming webcast:
- Key Tax Developments Affecting the Oil and Gas Industry – March 24, 2015

Recent publications:
- What’s Your Utility’s Risk Culture?
- Market Update: Oil & Gas – February 2015
- Unconventionals Create Discontinuity
- The Five Imperatives to Managing a Resilient Upstream Supply Chain

Resources:
- KPMG Institutes Website
- Global Energy Institute Website
Questions?
Appendix
Management, Finance Committee, and KPMG Responsibilities
Responsibilities

Management is responsible for:

- Adopting sound accounting policies.
- Fairly presenting the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP).
- Establishing and maintaining effective internal control over financial reporting (ICFR), including internal controls to prevent, deter, and detect fraud.
- Identifying and ensuring that the USDA complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations.
- Making all financial records and related information available to the auditor.
- Providing unrestricted access to personnel within the entity from whom the auditor determines it necessary to obtain audit evidence.
- Adjusting the financial statements to correct material misstatements.
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but is not limited to, management’s:
  - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the USDA’s financial reporting;
  - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud; and
  - Affirmation that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
Responsibilities (Continued)

The Finance Committee is responsible for:
- Oversight of the financial reporting process and oversight of ICFR.
- Oversight of the establishment and maintenance of programs and internal controls designed to prevent and detect fraud.

Management and the Finance Committee are responsible for:
- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards.

The audit of the financial statements does not relieve management or the Finance Committee of their responsibilities.
Responsibilities (Continued)

KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Finance Committee are presented fairly, in all material respects, in conformity with GAAP.
- Planning and performing the audit with an attitude of professional skepticism.
- Conducting the audit in accordance with professional standards and complying with the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy.
- Evaluating ICFR as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity’s ICFR.
- Communicating to management and the Finance Committee all required information, including significant matters.
- Communicating to management and the Finance Committee in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management’s attention.
Responsibilities for Other Information in Documents Containing Audited Financial Statements

- The auditors’ report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information.

- We are required to:
  - Read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact, and
  - Make appropriate arrangements with management or the Finance Committee to obtain the other information prior to the report release date.

- Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors’ report or withdrawing from the engagement.

- We have performed the following procedures with respect to other information:
  - We read Management’s Discussion and Analysis of Financial Condition and Results of Operation (MD&A).
  - We compared information in MD&A to the audited financial statements to identify material inconsistencies.
  - No material inconsistencies were noted.
System Review Report

To the Partners of KPMG LLP
And the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm’s compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under Government Auditing Standards, audits of employee benefit plans, an audit performed under FDICIA, audits of a carrying broker-dealers, and examinations of services organizations [Service Organizations Control (SOC 1) engagements].

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. KPMG LLP has received a peer review rating of pass.

PricewaterhouseCoopers LLP

December 5, 2014

PricewaterhouseCoopers LLP, 400 Campus Drive, Florham Park, NJ 07932
T: (973) 236 4000, F: (973) 236 5000. www.pwc.com
December 11, 2014

John B Veihmeyer, CPA  
KPMG LLP  
345 Park Ave  
New York, NY 10154  

Dear Mr. Veihmeyer:

It is my pleasure to notify you that on December 11, 2014 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is September 30, 2017. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,

Larry Gray  
Chair, National Peer Review Committee  
nprc@aicpa.org 919 402.4502  

cc: Keith Robert Rowden; Thomas W Whittle  

Firm Number: 10054128  
Review Number 359579  

Letter ID: 945097