ANNUAL REPORT

OF THE

LONG ISLAND POWER AUTHORITY

AND THE LONG ISLAND LIGHTING COMPANY d/b/a LIPA

For The 2014 Fiscal Year

As Required By Certain

Continuing Disclosure Certificates

Executed With Respect To The Following Bonds:

Electric System General Revenue Bonds, Series 1998A
Electric System General Revenue Bonds, Series 2000A
Electric System General Revenue Bonds, Series 2003C
Electric System General Revenue Bonds, Series 2006A-B
Electric System General Revenue Bonds, Series 2006C-D
Electric System General Revenue Bonds, Series 2006E
Electric System General Revenue Bonds, Series 2006F
Electric System General Revenue Bonds, Series 2008A
Electric System General Revenue Bonds, Series 2008B
Electric System General Revenue Bonds, Series 2009A
Electric System General Revenue Bonds, Series 2010B
Electric System General Revenue Bonds, Series 2011A
Electric System General Revenue Bonds, Series 2012A-B
Electric System General Revenue Bonds, Series 2012C-D and
Electric System General Revenue Bonds, Series 2014A-C

(See Appendix A for a List of Applicable CUSIP* Numbers)

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INTRODUCTION

This Annual Report for the year ended December 31, 2014 (together with the Appendices attached hereto, the "Annual Report") is furnished by the Long Island Power Authority, a corporate municipal instrumentality and political subdivision of the State of New York (the "Authority") and by its wholly-owned subsidiary, the Long Island Lighting Company ("LILCO") which does business under the name LIPA ("LIPA"), to provide the information regarding the Authority and LIPA required by the various Continuing Disclosure Certificates described below (the "Continuing Disclosure Certificates").

This Annual Report is being filed to satisfy the Authority and LIPA's undertakings under the Continuing Disclosure Certificates executed and delivered by the Authority or LIPA relating to the bonds set forth on the cover hereof.

Attached to this Annual Report as Appendix A is a listing of the CUSIP* numbers of the bonds of the Authority listed above as to which the Continuing Disclosure Certificates and this Annual Report relate.

Certain of the information contained in this Annual Report is in addition to that required by the Continuing Disclosure Certificates. Pursuant to the terms of the Continuing Disclosure Certificates, the Authority and LIPA are under no obligation to update such additional information in the future or include it in any future annual report.

RECENT DEVELOPMENTS

The LIPA Reform Act

In October 2012, Superstorm Sandy impacted all of LIPA's service area, which was declared a federal major disaster area. Following Superstorm Sandy, Governor Cuomo introduced legislation, which was enacted (L2013, Chapter 173) on July 29, 2013 (the "LIPA Reform Act").

The LIPA Reform Act is divided into two parts.

Part A addressed a variety of matters relating to the restructuring of the Authority and LIPA. It established a new office within the New York State Department of Public Service ("DPS") - which is the staff arm of the New York Public Service Commission ("PSC") - to review and make recommendations to the Authority and/or PSEG Long Island related to core utility functions including capital expenditures, the methods employed by PSEG Long Island for safe and adequate service and the emergency response plan of PSEG Long Island and the Authority. Part A also established a rate review process that required that on or before February 1, 2015, the Authority and PSEG Long Island submit for review to DPS a three-year rate proposal for rates and charges to take effect on or after January 1, 2016. The Authority's Board retains final rate-setting power.

On January 30, 2015, a three-year rate plan for the period 2016-2018 was submitted by PSEG Long Island for review by DPS. On May 14, 2015 the DPS Staff submitted its direct testimony as did several other interveners. Rebuttal testimony was filed in early June, 2015. Following review of the rate plan by DPS, approval is required by the Authority's Board. The current schedule calls for the DPS to submit its recommendations to the Authority's Board on September 27, 2015. Documents relating to the rate plan filing can be found at DPS's website (www.dps.ny.gov) under PSEG Long Island Electric Rate Case (Case # 15-00262) at: http://documents.dps.ny.gov/public/MatterManagement/CaseMaster.aspx?MatterSeq=47329&MNO=15-00262. In addition, certain information relating to the rate plan filing can be found on the Financials tab of the Authority's website (www.lipower.org) at: http://www.lipower.org/financials.html. Information on those websites is not included herein.

After the 2016-2018 period, the Authority and PSEG Long Island are only required to submit a proposed rate increase for DPS review if it would increase the rates and charges by an amount that would increase the Authority's annual revenues by more than 2.5%. See below under "RATES AND CHARGES – *Authority to Set Electric Rates" and* Note 6 of Notes to Basic Financial Statements under "Authority to Set Rates" for additional information about the rate-setting process.

Part B of the LIPA Reform Act created the Utility Debt Securitization Authority ("UDSA") and authorized it to issue bonds one time to retire a portion of the Authority's existing debt. It established a process through which the Authority's Board adopted a Financing Order, which authorized, among other things, the creation of the Restructuring Property and the issuance of the UDSA bonds to provide funds for the purchase of the Restructuring Property from the Authority. Restructuring Property includes the Restructuring Charge (a nonbypassable consumption based charge) on the Authority's customers. The UDSA bonds are not obligations of the Authority, LIPA, PSEG Long Island or any of their affiliates. Legislation has been enacted that amends Part B to permit the issuance of additional restructuring bonds by UDSA or a separate "Utility Debt Securitization Authority No. 2" up to an aggregate maximum amount (including the previously-issued Restructuring Bonds) of $4.5 billion. Any additional issuance of restructuring bonds, whether issued by UDSA or by a new issuer, will be separately secured by distinct collateral pursuant to a new financing order and transaction documents.

Superstorm Sandy and Storm Preparedness and Utility Hardening on Long Island

See Note 4 of Notes to Basic Financial Statements for the Authority's current estimate of restoration costs, including labor, material, equipment, travel and incidental costs, as well as information relating to federal funding of certain permanent repair work and future mitigation activities to strengthen the electric grid on Long Island.

The OSA

Following a competitive process to select a new service provider, on December 15, 2011, the Authority's Trustees authorized the execution of an Operations Services Agreement between LIPA and PSEG Long Island LLC ("PSEG Long Island") to provide operations, maintenance and related services for the T&D System beginning on January 1, 2014, as well as a two-year Transition Services Agreement ("TSA") between the parties that expired on December 31, 2013.

The subsequent implementation of the LIPA Reform Act required the transfer of substantial operational duties and obligations to PSEG Long Island and greater operational flexibility for PSEG Long Island to carry out its related duties. In response to the LIPA Reform Act, LIPA negotiated the Amended and Restated Operations Services Agreement (the "OSA") with PSEG Long Island to address the changed relationship between the parties in connection with the provision of electric service in LIPA's service area. PSEG Long Island's scope of services and LIPA's reserved rights have been adjusted to reflect the shift in operations, management and policy making responsibilities while enhancing LIPA's oversight rights. In addition, effective January 1, 2014 PSEG Long Island became the brand name provider for electric service in the service area. PSEG Long Island also assumed certain power supply management, fuel procurement and related services on January 1, 2015 that had been provided by others. Further information about PSEG and PSEG Long Island can be found at http://www.psegliny.com. No information on that website is included herein.

The LIPA Reform Act also requires that staffing at the Authority be kept at levels only necessary to ensure that the Authority is able to meet obligations with respect to its bonds and notes and all applicable statutes and contracts, and to oversee the activities of PSEG Long Island. The Authority's staff has been reduced from approximately 90 positions to approximately 40 positions. The Authority's Executive Management team includes the following: Chief Executive Officer (John D. McMahon); Chief Financial Officer (Thomas Falcone); General Counsel and Secretary (Jon R. Mostel); Managing Director of Contract Oversight (Rick Shansky); Managing Director of Finance and Budgeting (Kenneth Kane); and Controller (Donna Mongiardo).

Mr. McMahon has announced that he will be resigning his position effective August 31, 2015. The Authority is actively seeking his replacement.

General Status of Transition

The transition from National Grid to PSEG Long Island began with the execution of the TSA and was completed on January 1, 2014. Pursuant to the LIPA Reform Act, responsibility and accountability for operations and customer satisfaction is now with PSEG Long Island management. The power supply and fuel procurement transition to PSEG Long Island was completed in January 2015. To date, PSEG Long Island has made measurable progress toward achieving or maintaining the performance metrics set forth in the OSA, made progress in the JD Power Residential and Business customer satisfaction surveys, initiated over 40 business process change initiatives and completed two Emergency Response Plan filings. In addition, in accordance with the Act and the OSA, PSEG Long Island prepared its first annual Utility 2.0 Long Range Plan (the "Plan"). The Plan proposed a number of investments in direct load control demand response, energy efficiency, distributed generation, advanced metering infrastructure, and other initiatives related to the customer experience, clean energy goals, and power supply resources. On April 15, 2015, pursuant to the LIPA Reform Act and consistent with the OSA, DPS provided certain recommendations relating to the Plan, which can be found at: http://www.dps.ny.gov/longisland/PSEG-LI_Utility_Plan.html. Information on that website is not included herein.

Certain Other Matters Relating to Transition

As a result of transition, the Authority reviewed its rights and responsibilities under its various contracts related to both transitioning to a new management contract and new service provider. See Note 11 of Notes to Basic Financial Statements for information relating to the Authority's contractual liability under the OSA pertaining to unfunded pension and other postretirement health and life insurance benefit plans.

OPERATING RESULTS

The operating results of the Authority and LIPA for the years ended December 31, 2014 and 2013 are contained in the audited basic financial statements included as Appendix B hereto.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2014

Management's Discussion of Financial Condition and Consolidated Results of Operations for the year ended December 31, 2014 is contained in Appendix B hereto and is incorporated by reference herein.

CAPITAL IMPROVEMENT PLAN

Capital expenditures for 2014 were approximately $511.3 of which $441.0 million was spent on transmission and distribution projects including reliability enhancements, capability expansion, new customer connections, facility replacements and public works, and $70.3 million was spent on information technology projects such as a new Outage Management System and Enterprise Resource Planning System. Capital expenditures for 2015 approved budget are approximately $642 million. The increase is primarily from $140 million to fund a $730 million storm hardening program, 90% of which will be paid for by a grant secured during 2014 from FEMA. The FEMA grant is expected to be sufficient to harden between 300 and 400 of the worst performing mainline circuits on the Authority's electric grid over the next several years, increase distribution system automation, and elevate critical equipment in certain substations, among other improvements. The budget continues an elevated level of spending on information technology projects related to the transition to the new operating services business model ($77 million) and also includes $72 million in additional funding for transmission and distribution projects over the 2014 approved budget.

LIPA also experienced a substantial increase in 2013 over prior year's average spending primarily due to expenditures related to the transition. The continued increase in 2014 over years prior to 2013 resulted primarily from information technology projects related to the transition, as well as additional reliability project expenditures, particularly substation equipment improvements. In addition, the 2014 capital expenditure program provided for a continuation of the historical programs to maintain reliability and quality of electric service, as well as expenditures for capability expansion, new customer connections, facility replacements, reliability enhancements and public work projects that were comparable to historical levels.

LIPA's 18 percent share of capital expenditures for NMP2 during the period 2010 through 2014 averaged approximately $27.0 million annually for plant modifications including the power uprate and nuclear fuel purchases, and were $9.8 million for 2014.

SYSTEM LOADS AND RESOURCES

Historical Power and Energy Requirements

Electricity usage patterns and seasonal weather conditions in LIPA's service area result in maximum electrical demand during the summer season and relatively low load factors on an annual basis. The table below shows LIPA's peak demand and weather-normalized peak load for the period 2010 through 2014.

Year	Peak Demand (MW)	Weather Normalized (MW)
2010	5,719	5,303
2011	5,771	5,285
2012	5,333	5,251
2013	5,602	5,334
2014	4,859	5,338

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The following table sets forth historical annual peak demands and energy requirements for the period 2010 through 2014.

Historical Loads and Resources

	2010	2011	2012	2013	2014
Annual Peak Demand (Summer) (MW)[1]	5,719	5,771	5,333	5,602	4,859
Capacity (MW)[2]					
Nuclear[3]	206	225	224	224	224
Purchased Capacity:					
GENCO					
Steam	2,707	2,369	2,354	2,366	2,364
Other[4]	1,367	1,323	1,313	1,313	1,315
Other Purchased Capacity[5]	2,055	2,092	2,104	2,111	1,979
Total Purchased Capacity	6,128	5,783	5,771	5,790	5,658
Total Capacity	6,334	6,008	5,995	6,014	5,883
Annual Reserve Margin:					
MW[6]	615	237	662	412	1,024
Percent	10.8%	4.1%	12.4%	7.4%	21.1%
Energy (MWh)					
Retail Requirements	21,806,827	21,583,426	21,312,015	21,345,713	20,785,497
Total Energy Requirements[7]	21,806,827	21,583,426	21,312,015	21,345,713	20,785,497
Generating Resources:					
Nuclear[3]	1,590,821	1,707,140	1,470,928	1,954,492	1,754,463
Purchased Energy:					
GENCO					
Steam	5,883,018	5,472,453	5,002,617	4,564,959	4,386,671
Other	234,331	189,461	256,264	258,540	171,720
Other Purchased Energy[5]	14,098,658	14,214,372	14,582,206	14,567,722	14,472,643
Total Purchased Energy	20,216,007	19,876,286	19,841,087	19,391,221	19,031,034
Total Energy	21,806,828	21,583,426	21,312,015	21,345,713	20,785,497

1 Includes LIPA retail sales and Long Island Choice. BNL Hydro excluded.
2 Summer Rating.
3 The actual generation attributable to LIPA's 18% ownership interest in NMP2.
4 National Grid IC Units.
5 Includes on- and off-Island resources under contract at time of peak.
6 Equal to Capacity less Demand.
7 Amounts shown for 2003 through 2012 include sales for resale, Power for Jobs (program ended June 2012), Long Island Choice and Grumman Campus; BNL Hydro included beginning 2011.

Existing Power Supply Resources

The table shown above sets forth the historical annual contribution of the National Grid Generation LLC ("GENCO") facilities, the NMP2 facility ("Nuclear"), and Independent Power Producers on Long Island and elsewhere. Combined, these resources were able to provide the service area's capacity and energy requirements during the 2010 through 2014 period. The table below provides additional information on the historical operating performance of the GENCO facilities. See below under "Certain Additions to Power Supply Resources" for a description of the Authority's plan for meeting its future electric system needs.

Historical GENCO Generation
(GWH)

Generating Facility[1]	Calendar Year 2010	2011	2012	2013	2014
Steam Turbine:					
E.F. Barrett 1,2	1,081	971	1,011	1,025	1,428
Far Rockaway 4	190	344	151	-	-
Glenwood 4,5	152	270	151	-	-
Northport 1-4	4,030	3,470	3,301	3,194	2,681
Port Jefferson 3,4	430	418	389	346	277
Total Steam Turbine	5,883	5,472	5,003	4,565	4,387
Combustion Turbine:					
E.F. Barrett 1-12	68	93	136	129	91
Wading River	65	35	53	43	31
East Hampton 1	13	8	7	7	5
Glenwood 1-3	2	1	4	3	5
Holtsville 1-10	75	42	51	66	36
Northport GT	-	-	-	-	-
Port Jefferson GT	-	-	-	-	-
Shoreham 1-2	3	1	1	3	1
Southampton 1	3	2	-	2	-
Southhold 1	2	1	1	2	-
West Babylon 4	1	4	2	2	2
Total Combustion Turbine[2]	231	187	254	257	170
Internal Combustion:					
East Hampton 2-4	2	1	1	2	1
Montauk 2-4	2	1	1	-	-
Total Internal Combustion	3	2	2	2	1
Total	6,117	5,662	5,259	4,823	4,558

1 Source: National Grid.
2 Output of certain small units excluded from table but included in Totals.

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The two tables below: (i) contain a summary of existing power supply agreements (excluding the Power Supply Agreement with GENCO) and (ii) show for each calendar year 2010 through 2014 the energy output from such agreements.

Summary of Power Supply Agreements[1]
(Excluding GENCO)

Unit Name	Summer Capacity (MW)	Contract Expiration	Unit Type[2]	Primary Fuel Type
NYPA Flynn	N/A[9]	2014	CC	Natural Gas[3]
Trigen NDEC Combined Cycle	43.0	2016	CC	Natural Gas[3]
Huntington Resource Recovery	24.2	2017	ST	Refuse
Babylon Resource Recovery	14.3	2017	ST	Refuse
Hempstead Resource Recovery	72.1	2017	ST	Refuse
Islip Resource Recovery	8.6	2017	ST	Refuse
J-Power Shoreham	79.9	2017	SC	Oil[4]
National Grid Glenwood Landing	79.9	2027	SC	Natural Gas[3,4]
National Grid Port Jefferson	79.9	2027	SC	Natural Gas[3,4]
NextEra Bayswater	53.9	2020	SC	Natural Gas[4]
NextEra Jamaica Bay	54.3	2018	SC	Oil[4]
J-Power Edgewood	90.6	2018	SC	Natural Gas[4]
Bear Swamp	100.0[1b, 5]	2021	PS/Hydro	Water
Marcus Hook	685.0[1b, 6]	2030	CC	Natural Gas
Calpine Bethpage 3	77.1	2025	CC	Natural Gas[4]
Hawkeye Greenport	51.3	2018	SC	Oil[4]
J-Power Equus	48.3	2017	SC	Natural Gas[3,4]
J-Power Pinelawn	76.1	2025	CC	Natural Gas[3,4]
Caithness	306.7[7]	2029	CC	Natural Gas[3,4]
Village of Freeport	10.0[1b]	2034	SC	Natural Gas
Gilboa	N/A[10]	2015	PS	Water
NYPA Hydro Sale for Resale (BNL)	15.0[1b]	2020	HY	Water
Long Island Solar Farm (LISF)	31.5[1a]	2031	SL	Solar
Eastern Long Island Solar Project (ELISP)	11.2[1a]	2032	SL	Solar
Fitzpatrick	N/A[8]	2017	ST	Nuclear
SUNY Stony Brook	N/A[8][10]	2015	SC	Natural Gas
Brookfield	N/A[8]	2019	HY	Water
PPL Energy Plus	N/A[8]	2019	IC	Landfill/Methane

(1) Summer capacity based upon summer 2014 DMNC test results
(a) LISF and ELISP are nominal capacity values.
(b) Contracted Capacity.
(2) CC = Combined Cycle; ST = Steam; Cogen = Cogeneration; IC = Internal Combustion; SC = Simple Cycle; PS = Pumped Storage; HY = Hydro; PV = Photovoltaic; SL = Solar.
(3) Also capable of burning oil.
(4) LIPA is responsible for fuel procurement.
(5) Reflects Unforced capacity (UCAP) stated in contract beginning June 2010.
(6) Capacity only contract. No energy purchase.
(7) LIPA agreement to purchase 264 MW of the total capacity.
(8) Energy only contract.
(9) NYPA Flynn became a Merchant Plant effective May 1, 2014. Contract retained in this table since historic energy is included in historic data tables.
(10) Gilboa and SUNY Stony Brook contracts expired April 30, 2015. Contract retained in this table since historic energy is included in historic data tables.

Energy Output of Power Supply Agreements[1]
(GWH)

Calendar Year

Type of Resource	2010	2011	2012	2013	2014
Independent Power Producers					
NYPA Flynn[2]	958	1,061	1,223	1,208	418
Other Power Supply Agreements	3,069	3,176	3,565	3,758	3,678
Other[3]	1,772	1,616	1,794	1,889	2,511
Subtotal IPPs	5,800	5,853	6,582	6,854	6,607
Entergy Fitzpatrick (off-Island)	1,068	1,225	1,219	1,223	1,148
Off-Island Purchases[4]	5,634	5,627	5,291	5,059	5,241
Other Purchases[5]	1,597	1,509	1,490	1,432	1,477
Total Purchases	14,099	14,214	14,582	14,568	14,473

1 Source: PSEG Long Island
2 NYPA Flynn contract expired on April 30, 2014
3 Includes energy produced by all other on-Island plants.
4 Energy purchases made on the spot market, net of sales on the spot market, plus bi-lateral purchases.
5 Reflects Power for Jobs program.

Certain Additions to Power Supply Resources

In February 2010, LIPA's Board of Trustees approved its Electric Resource Plan for the period 2010-2020. The Electric Resource Plan was intended to provide a blueprint for Long Island's electric energy future and factors in changes in the energy market and technology since the last plan was prepared. The Electric Resource Plan looked at various resource alternatives including, among others, energy efficiency, renewable energy, and repowering alternatives. In addition, in 2009 LIPA initiated its $924 million, 10-year energy efficiency program, Efficiency Long Island ("ELI"), which is designed to reduce demand by 500 MW. Through December 31, 2014, the ELI program is slightly behind its original goal for the first six years (251 MW compared to a goal of 275 MW; or 91% of goal).

As part of its overall evaluation of its power supply resources, including the scheduled expiration of the Original PSA in May 2013, the Authority issued a request for proposals in August 2010 to provide the Authority with electric capacity, energy, and ancillary services of up to 2,500 MW from new generation and/or transmission resources both on-Island and off-Island. Following a review process and negotiations, management announced the selection of the Caithness II project. However, with the then-pending transition of power supply planning responsibilities to PSEG Long Island in January 2015, the Authority asked PSEG Long Island to review the need for Caithness II. In August 2014, PSEG Long Island recommended delaying the decision on whether to proceed with a power purchase agreement for the Caithness II facility until the completion of a new Integrated Resource Plan ("IRP") in early 2016. The IRP will update LIPA's 2010 plan and examine LIPA's resource options in light of ongoing industry developments, including increased interest in distributed energy resources.

The PSA for the GENCO power plants required LIPA and National Grid to jointly study the potential repowering of the E.F. Barrett and Port Jefferson steam units starting in 2013 and provided the opportunity for LIPA to request study of other GENCO units. LIPA and National Grid initiated a study of the steam units and the E.F. Barrett combustion turbines in 2013. In 2014, in accordance with the terms of the PSA, LIPA received a proposal for the repowering of E.F. Barrett steam units and combustion turbines with a target installation date of 2019. Consistent with the 2015 amendment to the Public Authorities Law, updated studies of Barrett and Port Jefferson repowering are targeted for completion by April 2017. The E.F. Barrett, Port Jefferson and Northport repowering options will also be addressed in the IRP.

In October 2013, the Authority issued two requests for proposals: (i) one for New Generation, Energy Storage, and Demand Response Resources seeking to replace old and inefficient peaking resources, procure resources to defer costly transmission upgrades on the East End of Long Island, and install up to 150 MW of Energy Storage resources that would assist black start operations and complement planned increases in renewable resources; and (ii) a second for up to 280 MW of New, On-Island, Renewable Capacity and Energy. However, it is currently expected that PSEG Long Island will evaluate and address any such resource needs in coordination with the above-described IRP process and through targeted solicitations. On December 17, 2014 the Board adopted the staff recommendation for the Renewable RFP to commence negotiations for 11 photovoltaic contracts totaling 122.1 MW that would begin operations in late 2016. Since then two projects totaling 26 MW have given notice that they are withdrawing their proposals due to siting issues. Contract negotiations for the remaining projects continue and successfully negotiated power purchase agreements will be brought to the Board for action after they complete their State Environmental Quality Review Act (SEQRA) processes. The Authority anticipates undertaking a new procurement process to fulfill the balance of the 280 MW Renewable RFP goal.

In June 2012 the Board of Trustees adopted a solar Feed-In Tariff ("Solar FIT I") for up to 50 MW of solar projects that would be connected to the Authority's electric grid. In October 2013 the Board of Trustees adopted a second Solar Feed-In Tariff ("Solar FIT II") for up to 100 MW and a non-solar Feed-In Tariff ("Other FIT") for up to 20 MW. Solar FIT I awarded approximately 50 MW of projects. The majority of such projects are projected for commercial operation by the end of 2015. The Solar FIT II evaluation has been completed, approximately 100 MW of projects were selected, and PPAs are in the process of being finalized. The majority of the projects are projected for commercial operation by the end of 2016. Evaluation of Other FIT proposals is nearing completion and selection is expected to occur in the near future.

RATES AND CHARGES

The statute which created the Authority requires that any bond resolution of the Authority contain a covenant that it will at all times maintain rates, fees or charges sufficient to pay the costs of operation and maintenance of facilities owned or operated by the Authority; payments in lieu of taxes; renewals, replacements and capital additions; the principal of and interest on any obligations issued pursuant to such resolution as the same become due and payable; and to establish or maintain any reserves or other funds or accounts required or established by or pursuant to the terms of such resolution.

Authority to Set Electric Rates

The Authority is empowered to set rates for electric service in the service area without being required by law to obtain the approval of the PSC, DPS or any other State regulatory body. However, the Authority agreed, in connection with the approval of the acquisition of LILCO by the Public Authorities Control Board ("PACB") in 1997, that it would not impose any permanent increase, nor extend or reestablish any portion of a temporary rate increase, in average customer rates over a 12-month period in excess of 2.5% without approval of the PSC, following a full evidentiary hearing. Under the LIPA Reform Act, that PACB condition has been superseded by the following rate-setting process.

Part A of the LIPA Reform Act established a rate review process that required that on or before February 1, 2015, the Authority and PSEG Long Island submit for review to DPS a three-year rate proposal for rates and charges to take effect on or after January 1, 2016. DPS will review and make recommendations on the Three Year Rate Plan and assuming the Authority's Board accepts such recommendations, the rates will become final. In the event the Authority's Board disagrees with any DPS recommendation, it must notify DPS within 30 days providing the basis for such disagreement, which must be that the recommendation is, in the Board's view, inconsistent with the Authority's sound fiscal operating practices, any existing contractual or operating obligations, or the provision of safe and adequate service. After providing notice to DPS and posting notice to its website and the website of PSEG Long Island, the Authority must hold a public hearing within 30 days where DPS and the Authority will, and PSEG Long Island may, present their positions. Within 30 days of this hearing, the Authority's Board will announce its final rate plan. For more information about the ongoing three-year rate proposal and review process, see above under "RECENT DEVELOPMENTS."

After the 2016-2018 period, the Authority and PSEG Long Island are only required to submit a proposed rate increase for DPS review if it would increase the rates and charges by an amount that would increase the Authority's annual revenues by more than 2.5%. In addition, the Authority may place rates in effect on an interim basis, and such interim rates are subject to prospective adjustment only.

In addition to base delivery service charges, the Authority's charges include certain riders (see "Rate Tariffs and Adjustments"), such as the Power Supply Charge. The Authority's bills also recover the Restructuring Charges owed by the Authority's customers to the UDSA. Restructuring Charges secure only the UDSA bonds and any adjustments thereto are not subject to the above-described DPS review. Restructuring Charges are not subject to the lien of the Resolution or Subordinated General Resolution. In addition, the UDSA bonds are not obligations of the Authority, LIPA, PSEG Long Island or any of their affiliates.

Rate Tariffs and Adjustments

LIPA's base retail electric rates generally reflect traditional rate designs and include fixed customer charges for all customer classes, seasonal energy rates for all customer classes except street lighting, and seasonally differentiated demand charges for non-residential customer classes (greater than seven kW). Economic development and load retention incentives are provided to a small number of commercial customers. Miscellaneous service charges, pole attachment charges, and wireless rental rates are also assessed on a monthly basis. In addition to the base delivery service charges, the Authority's charges include a Power Supply Charge (referenced in the Tariff as the FPPCA), a PILOT payments recovery rider, a rider providing for the recovery of the Suffolk Property Tax Settlement, an Energy Efficiency and Renewable Resource Charge to recover the costs of LIPA's customer-side programs and the New York State Assessment Charge to recover the cost of the Temporary State Energy and Utility Conservation Assessment (Public Service Law Section 18-a). Effective January 1, 2011 and January 2012, the Authority implemented a 0.5% and a 0.23% increase to the Energy Efficiency and Renewable Resource Charge, respectively. Effective March 1, 2011, the Board of Trustees approved an increase to the base rates for delivery service. The increase in the delivery service charge caused an average customer bill to increase approximately 1.9% to 2.2% overall for most rate classes. This was the first time since LIPA acquired the transmission and distribution system in 1998 and established the Tariff that LIPA implemented an increase in its base rates for delivery service. Effective April 1, 2012, the Board of Trustees approved an increase to the base rates for delivery service, which caused an increase to the average residential customer's bill of approximately 1.8%. Effective April 2014, the Board of Trustees approved a revenue-neutral rate shift as part of an overall rate freeze on the delivery rates that transferred recovery of certain components of the Efficiency and Renewables Charge and the New York State Assessment Charge to the base rates for delivery service.

On March 26, 2015, the Board approved modifications to the Tariff to: (1) update the delivery service charges consistent with the 2015 approved budget; (2) authorize the reconciliation of revenue to be recovered through the Energy Efficiency Cost Recovery Rate and (3) establish a Revenue Decoupling Mechanism as an "Adjustment to Rates and Charges," which PSEG Long Island would be authorized to calculate and update each year according to the pre-defined terms of the Tariff. All six of the major New York state electric utilities have Revenue Decoupling Mechanisms within their tariff for delivery service. Mechanically, Revenue Decoupling Mechanisms function by comparing actual revenues with authorized revenues and crediting (or collecting) any differences to (or from) customers in a subsequent period. This true-up would include, among other things, any net lost revenues attributable to the implementation of energy efficiency programs, any revenue variances caused by hotter or colder than normal weather, and revenue variations that result from changes in economic conditions.

Over the past few years, LIPA has regularly modified the FPPCA in response to changes in fuel and purchased power prices. Prior to 2011, those changes were limited to a few times per year. In 2011 and 2012, the need to change the FPPCA was evaluated quarterly. In October 2012, the FPPCA tariff was modified to allow for 100% recovery of LIPA's power supply costs and to transition from a quarterly update process to a monthly basis consistent with the other major New York state electric utilities. Prior to this modification, should LIPA's fuel and purchased power expense change such that the Authority would exceed or fail to meet a Board approved financial target, the FPPCA would be reduced or increased accordingly. In no event, however, did the Authority recover an amount that exceeded its fuel and purchased power costs incurred. With that modification, fuel and purchased power cost recovery is no longer limited to achieving a targeted reserve in net income of $75 million and purchased power expenses are being fully recovered from customers within approximately two months of the costs being recognized by LIPA.

PILOTs

The Act also requires the Authority to make payments in lieu of taxes, i.e., PILOTs, related to revenues and to property taxes. The Authority makes payments in lieu of taxes to municipalities and school districts equal to the property taxes that would have been received by each such jurisdiction from LILCO if the acquisition by the Authority had not occurred. Such PILOTs are recovered in the Authority's base rates or through the FPPCA for certain PILOTs related to power generation stations under power supply agreements. Part A of the LIPA Reform Act limits the increase in PILOTs assessed by municipalities on Authority owned facilities to no more than 2% per year, beginning in 2015, which is significantly less than the recent rate of growth of property based PILOTs which has been approximately 6.6% over the past 10 years and approximately 8% over the past four years. The Authority also makes PILOTs for certain State taxes (including gross receipts taxes) and local taxes (including transit station maintenance surcharges charged by the Metropolitan Transportation Authority of New York) which would otherwise have been imposed on LILCO. The PILOT payments recovery rider allows the Authority to recover PILOTs representing these gross receipts taxes and surcharges. Part A of the LIPA Reform Act eliminated the payments in lieu of the state franchise tax paid by LIPA annually in the amount of $26 million (in 2012).

BILLING AND COLLECTIONS

At December 31, 2014, the Authority served approximately 1.1 million customers in its service area. For the 12-month period December 31, 2014, the 12-month write-off rate for uncollectible accounts was 0.66%, which was comparable to the write-off rate average over the preceding five fiscal years.

LITIGATION

LIPA is involved in numerous actions arising from the ordinary conduct of its business both prior to and subsequent to the 1998 acquisition of LILCO that include claims related to: Superstorm Sandy, LIPA's challenge to current tax assessments and environmental claims brought by governments and individual plaintiffs that allege LIPA is responsible for all or a portion of the clean-up costs, personal injuries and/or damages resulting from its alleged use, release or deposit of hazardous substances which include asbestos. While LIPA cannot presently predict the costs of such pending claims, or additional similar claims which may arise in the future, LIPA believes that such litigation, in the aggregate, will not have a material adverse impact on the business or the affairs of the Authority or LIPA. See "Legal Proceedings" in Note 14 to the Authority's Basic Financial Statements for the years ended December 31, 2014 and 2013.

OTHER

The Authority and LIPA's offices are located at 333 Earle Ovington Blvd., Uniondale, New York 11553, phone (516) 222-7700, facsimile: (516) 222-9137 Attn: Chief Financial Officer.

Neither the Authority nor LIPA has failed, in any material respect, to timely make any required filing under the Continuing Disclosure Certificates.

This Annual Report contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe," and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Authority's and LIPA's business and financial results could cause actual results to differ materially from those stated in the forward-looking statements.

Long Island Power Authority
and
Long Island Lighting Company d/b/a LIPA

By: Thomas Falcone

Name: Thomas Falcone
Title: Chief Financial Officer

DATE: June 24, 2015

APPENDIX A

List of CUSIP[*] Numbers

Series	CUSIP	Maturity/ Mandatory Purchase	Coupon or Yield	Serial/Term
Electric System General Revenue Bonds				
Capital Appreciation Bonds				
1998A	542690CA8	12/1/2016	5.250%	CABs
1998A	542690CB6	12/1/2017	5.280%	CABs
1998A	542690CC4	12/1/2018	5.280%	CABs
1998A	542690CD2	12/1/2019	5.280%	CABs
1998A	542690CE0	12/1/2020	5.300%	CABs
1998A	542690CF7	12/1/2021	5.300%	CABs
1998A	542690CG5	12/1/2022	5.300%	CABs
1998A	542690CH3	12/1/2023	5.300%	CABs
1998A	542690CJ9	12/1/2024	5.300%	CABs
1998A	542690CK6	12/1/2025	5.300%	CABs
1998A	542690CL4	12/1/2026	5.300%	CABs
1998A	542690CM2	12/1/2027	5.300%	CABs
1998A	542690CN0	12/1/2028	5.300%	CABs
Capital Appreciation Bonds				
2000A	542690NN8	6/1/2015	5.670%	CABs
2000A	542690NP3	6/1/2016	5.720%	CABs
2000A	542690NQ1	6/1/2017	5.770%	CABs
2000A	542690NR9	6/1/2018	5.810%	CABs
2000A	542690NS7	6/1/2019	5.830%	CABs
2000A	542690NT5	6/1/2020	5.860%	CABs
2000A	542690NU2	6/1/2021	5.880%	CABs
2000A	542690NV0	6/1/2022	5.900%	CABs
2000A	542690NW8	6/1/2023	5.910%	CABs
2000A	542690NX6	6/1/2024	5.920%	CABs
2000A	542690NY4	6/1/2025	5.930%	CABs
2000A	542690NZ1	6/1/2026	5.940%	CABs
2000A	542690PA4	6/1/2027	5.950%	CABs
2000A	542690PB2	6/1/2028	5.950%	CABs
2000A	542690PC0	6/1/2029	5.950%	CABs
Current Interest Bonds				
2003C	542690UY6	9/1/2029	5.250%	Term
Current Interest Bonds				
2006A	542690XP2	12/1/2016	4.000%	Serial
2006A	542690XQ0	12/1/2016	5.000%	Serial

Series	CUSIP	Maturity/ Mandatory Purchase	Coupon or Yield	Serial/Term
2006A	542690XR8	12/1/2016	4.250%	Serial
2006A	542690XT4	12/1/2020	4.125%	Serial
2006A	542690XV9	12/1/2023	5.000%	Serial
2006A	542690XW7	12/1/2024	4.500%	Serial
2006A	542690XX5	12/1/2024	5.000%	Serial
2006A	542690XY3	12/1/2025	5.000%	Serial
2006A	542690XZ0	12/1/2026	4.250%	Serial
2006A	542690YA4	12/1/2026	5.000%	Serial
Current Interest Bonds				
2006B	542690YB2	12/1/2035	4.500%	Serial
2006B	542690YC0	12/1/2035	5.000%	Term
Current Interest Bonds				
2006C	542690ZA3	9/1/2035	5.000%	Term
Current Interest Bonds				
2006D	542690ZN5	9/1/2015	Variable	Serial
2006D	542690ZP0	9/1/2017	5.000%	Serial
2006D	542690ZQ8	9/1/2020	5.000%	Serial
2006D	542690ZR6	9/1/2021	5.000%	Serial
2006D	542690ZS4	9/1/2022	4.500%	Serial
2006D	542690ZT2	9/1/2023	5.000%	Serial
2006D	542690ZU9	9/1/2025	5.000%	Serial
Current Interest Bonds				
2006E	542690A51	12/1/2017	5.000%	Serial
2006E	542690A44	12/1/2017	5.000%	Serial
2006E	542690A69	12/1/2018	5.000%	Serial
2006E	542690A85	12/1/2018	4.000%	Serial
2006E	542690A77	12/1/2018	5.000%	Serial
2006E	542690A93	12/1/2020	5.000%	Serial
2006E	542690B27	12/1/2021	5.000%	Serial
2006E	542690B35	12/1/2021	5.000%	Serial
2006E	542690B50	12/1/2022	5.000%	Serial
2006E	542690B68	12/1/2022	4.125%	Serial
2006E	542690B43	12/1/2022	5.000%	Serial
Current Interest Bonds				
2006F	5426902X9	5/1/2015	5.000%	Serial
2006F	542690C91	5/1/2016	4.000%	Serial
2006F	542690D25	5/1/2016	5.000%	Serial
2006F	542690D33	5/1/2017	5.000%	Serial
2006F	542690D41	5/1/2018	5.000%	Serial

Series	CUSIP	Maturity/ Mandatory Purchase	Coupon or Yield	Serial/Term
2006F	542690D58	5/1/2019	5.000%	Serial
2006F	542690D66	5/1/2020	4.000%	Serial
2006F	542690D74	5/1/2021	4.000%	Serial
2006F	542690D90	5/1/2028	4.250%	Serial
2006F	542690D82	5/1/2028	4.500%	Serial
2006F	542690E24	5/1/2033	4.250%	Term
Current Interest Bonds				
2008A	542690N32	5/1/2033	5.500%	Term
2008A	542690N40	5/1/2033	6.000%	Term
Current Interest Bonds				
2008B	542690Q54	4/1/2019	5.250%	Serial
2008B	542690Q62	4/1/2020	5.375%	Serial
2008B	542690Q70	4/1/2021	5.500%	Serial
2008B	542690Q88	4/1/2022	5.500%	Serial
2008B	542690Q96	4/1/2023	5.625%	Serial
2008B	542690R20	4/1/2024	5.625%	Serial
2008B	542690R38	4/1/2025	5.750%	Serial
2008B	542690R46	4/1/2033	5.750%	Term
Current Interest Bonds				
2009A	542690S78	4/1/2016	3.500%	Serial
2009A	542690S86	4/1/2017	5.000%	Serial
2009A	542690S94	4/1/2018	5.000%	Serial
2009A	542690T28	4/1/2019	5.000%	Serial
2009A	542690T36	4/1/2020	4.500%	Serial
2009A	542690T44	4/1/2020	5.250%	Serial
2009A	542690T51	4/1/2021	5.250%	Serial
2009A	542690T69	4/1/2022	5.500%	Serial
2009A	542690T77	4/1/2023	5.000%	Serial
2009A	542690T85	4/1/2024	5.500%	Serial
2009A	542690T93	4/1/2030	5.700%	Serial
2009A	542690U34	4/1/2039	5.750%	Serial
2009A	542690U26	4/1/2033	6.250%	Term
(Federally Taxable - Issuer Subsidy - Build America Bonds) Current Interest Bonds				
2010B	542690W32	5/1/2020	4.850%	Serial
2010B	542690W40	5/1/2021	5.100%	Serial

Series	CUSIP	Maturity/ Mandatory Purchase	Coupon or Yield	Serial/Term
2010B	542690W57	5/1/2022	5.250%	Serial
2010B	542690W65	5/1/2024	5.450%	Serial
2010B	542690W73	5/1/2025	5.600%	Serial
2010B	542690W81	5/1/2026	5.700%	Serial
2010B	542690W99	5/1/2041	5.850%	Serial
Current Interest Bonds				
2011A	542690X31	5/1/2016	5.000%	Serial
2011A	542690X49	5/1/2017	4.000%	Serial
2011A	542690X98	5/1/2017	5.000%	Serial
2011A	542690X56	5/1/2018	4.000%	Serial
2011A	542690Y22	5/1/2018	5.000%	Serial
2011A	542690X64	5/1/2019	5.000%	Serial
2011A	542690X72	5/1/2020	5.000%	Serial
2011A	542690X80	5/1/2021	5.000%	Serial
2011A	542690Y30	5/1/2036	5.000%	Serial
2011A	542690Y48	5/1/2038	5.000%	Term
Current Interest Bonds				
2012A	542690Z70	9/1/2037	5.000%	Term
2012A	542690Z62	9/1/2042	5.000%	Term
Current Interest Bonds				
2012B	5426902A9	9/1/2015	4.000%	Serial
2012B	5426902B7	9/1/2016	5.000%	Serial
2012B	5426902C5	9/1/2021	5.000%	Serial
2012B	5426902D3	9/1/2022	5.000%	Serial
2012B	5426902E1	9/1/2023	5.000%	Serial
2012B	5426902F8	9/1/2024	5.000%	Serial
2012B	5426902G6	9/1/2025	5.000%	Serial
2012B	5426902H4	9/1/2026	5.000%	Serial
2012B	5426902J0	9/1/2027	5.000%	Serial
2012B	5426902K7	9/1/2029	5.000%	Serial
Current Interest Bonds				
2012C	542690Z47	5/1/2033	Variable	Term
Current Interest Bonds				
2012D	542690Z21	12/1/2029	Variable	Term
Current Interest Bonds				
2014A	5426903D2	9/1/2034	5.00%	Serial
2014A	5426903E0	9/1/2035	5.00%	Serial

Series	CUSIP	Maturity/ Mandatory Purchase	Coupon or Yield	Serial/Term
2014A	5426903F7	9/1/2039	5.00%	Term
2014A	5426903B6	9/1/2039	4.00%	Term
2014A	5426903C4	9/1/2044	5.00%	Term
Current Interest Bonds				
2014B	5426903G5	9/1/2018	2.355%	Serial
2014B	5426903H3	9/1/2019	2.755%	Serial
2014B	5426903J9	9/1/2020	3.107%	Serial
2014B	5426903K6	9/1/2021	3.407%	Serial
2014B	5426903L4	9/1/2022	3.633%	Serial
2014B	5426903M2	9/1/2024	3.883%	Serial
2014B	5426903N0	9/1/2025	3.983%	Serial
2014B	5426903P5	9/1/2026	4.133%	Serial
LIBOR Floating Rate Tender Notes				
2014C	5426903A8	5/1/2033	Variable	Term

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* CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the Authority's bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to the correctness of the CUSIP numbers as indicated in this Appendix A.

APPENDIX B

Audited Basic Financial Statements

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Basic Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Reports Thereon)

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Basic Financial Statements

December 31, 2014 and 2013

Table of Contents

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (unaudited), the basic financial statements, and the notes to the financial statements.

The financial statements provide summary information about the overall financial condition of the Long Island Power Authority (Authority). The notes provide explanation and more details about the contents of the financial statements.

The Authority is a New York State (State) public authority engaged in business-type activities (through its operating subsidiary) and follows financial reporting for enterprise funds. The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The Authority's reporting entity is comprised of itself and (i) its operating subsidiary the Long Island Lighting Company (LILCO), a wholly owned subsidiary of the Authority doing business as "LIPA" and Power Supply Long Island, and (ii) the Utility Debt Securitization Authority (UDSA), a special purpose corporate municipal instrumentality of the State created by the LIPA Reform Act (Reform Act) enacted on July 29, 2013. Under GASB No. 61, *The Financial Reporting Entity*, LIPA and UDSA are considered blended component units of the Authority; therefore, the assets, liabilities and results of operations of LIPA and UDSA are consolidated with the operations of the Authority for financial reporting purposes. All significant transactions between the Authority, LIPA and UDSA have been eliminated. The Authority and its blended component units are referred to collectively as the "Authority" in the financial statements.

Management's Discussion and Analysis (Unaudited)

The management's discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial information for the years ended December 31, 2014 and 2013. The discussion and analysis should be read in conjunction with the financial statements and accompanying notes, which follow this section. The Authority's basic financial statements are presented as an enterprise fund following the accrual basis of accounting. Revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

The Authority is subject to the provisions of GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 addresses accounting rules for regulated operations. This statement recognizes the economic impact of regulation, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, the Authority records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively.

Nature of Operations

The Authority is the owner of the transmission and distribution (T&D) system located in the Counties of Nassau and Suffolk (with certain limited exceptions) and a portion of Queens County known as the Rockaways (Service Area), and is responsible for supplying electricity to customers within the Service Area. The Authority has operating agreements with service providers to provide the majority of services necessary to service the Authority's customers.

Effective January 1, 2014, the Authority's role significantly changed as a result of the Reform Act. The Reform Act, is divided into two parts, Part A, which addressed the reorganization of the Authority and changed its operating responsibilities, and Part B, which created the Utility Debt Securitization Authority (UDSA) whose sole purpose was to refinance existing Authority debt at lower interest rates. See Securitization Financing Overview for a further discussion.

Also on January 1, 2014, the Authority transitioned to the Amended and Restated Operations Services Agreement (A&R OSA), with PSEG-Long Island (PSEG-LI), a wholly owned subsidiary of Public Service Enterprise Group (PSEG). PSEG-LI is fully dedicated to the Authority's Long Island operations and provides operations, maintenance and related services for the T&D system. The A&R OSA addressed changes imposed by the Reform Act which shifted the major operational and policy-making responsibilities for the T&D system, including significant responsibilities relating to capital expenditures and emergency response, from the Authority to PSEG-LI. Essentially all costs of operating and maintaining the Authority's T&D system incurred by PSEG-LI are paid by the Authority. PSEG-LI is paid a management fee and may earn incentives. The A&R OSA has a term of 12 years expiring on December 31, 2025 with a provision allowing for an eight year extension.

The Reform Act also made the Authority and PSEG-LI subject to the review of the New York Department of Public Service's Long Island office (DPS LI). See note 6 to the Basic Financial Statements for a further discussion.

The Authority was contracted with Con Edison Energy, Inc. (CEE) to provide fuel management services for both the GENCO generating facilities and the non-GENCO units for which the Authority is responsible for providing fuel. The Fuel Management Agreement (FMA) with CEE expired December 31, 2014. Beginning January 1, 2015 services associated with the FMA are provided by an affiliate of PSEG, PSEG Energy Resources and Trade LLC (PSEG ER&T). The agreement with PSEG ER&T expires December 31, 2025 and is also subject to extensions. Certain other services related to power supply management and certain commodity activities are also provided by PSEG ER&T beginning January 2015.

The Authority contracts with NGRID, under the Power Supply Agreement (PSA), to provide capacity and energy from its oil and gas fired generating plants located on Long Island (herein referred to as GENCO). The Authority and NGRID entered into an Amended and Restated PSA (A&R PSA) providing for the purchase of generation (including capacity and related energy) from these fossil fired generating plants for a maximum term of 15 years, which commenced in May 2013.

In addition to the A&R PSA, the Authority has entered into numerous other agreements for the capacity and energy necessary to continue to satisfy the energy demand of its customers, while increasing the diversity of its fuel supply. For additional information on power purchase agreements and their related accounting treatments, see notes 5 and 13 to the Basic Financial Statements for a further discussion.

Securitization Financing Overview

Part B of the Reform Act (referred to as the Securitization Law), created the UDSA for the purpose of retiring certain outstanding indebtedness of the Authority through the issuance of restructuring bonds by the UDSA. UDSA has no commercial operations and is prohibited from engaging in any other activity except as specifically authorized by the Financing Order. UDSA is not authorized to be a debtor under any provision of the Bankruptcy Code. Under the Reform Act, only Restructuring Bonds may be issued by UDSA.

The Securitization Law also permitted the Authority's Board of Trustees (Board) to adopt the Restructuring Cost Financing Order (Financing Order) which, among other things, authorized the creation of the Restructuring Property and issuance of Restructuring Bonds by UDSA to provide funds for the purchase of the Restructuring Property from the Authority. The Restructuring Property consists primarily of the irrevocable contract right to impose, bill, and collect the nonbypassable consumption-based Restructuring Charge from all existing and future retail electric customers taking electric transmission or distribution service within the Service Area. The Financing Order was adopted by the Authority's Board on October 3, 2013.

On December 18, 2013, UDSA issued its Restructuring Bonds Series 2013TE totaling $1.54 billion and Series 2013T totaling $482.9 million. The Restructuring Bonds are not obligations of the Authority, LIPA, PSEG-LI or any of their affiliates. The Restructuring Bonds are also not a debt and do not constitute a pledge of the faith and credit or taxing power of the State or of any county, municipality, or any other political subdivision, agency or instrumentality of the State other than UDSA. The Authority was authorized to use the proceeds from the sale of the Restructuring Property to purchase, redeem, repay or defease certain of its outstanding debt.

For additional information on UDSA, visit the Authority's website at www.lipower.org.

Below is summary level information on the Authority's financial position:

Summary of Statements of Net Position

(Amounts in thousands)

		December 31		
		2014	**2013**	**2012**
Assets:				
Current assets:				
Cash, cash equivalents and investments	$	782,466	378,821	334,830
Restricted cash		618,384	273,515	—
Other current assets		931,510	1,033,880	965,890
Regulatory assets		1,553,135	936,431	820,363
Noncurrent assets:				
Utility plant, net		6,727,057	6,683,026	6,595,582
Promissory notes receivable		—	—	155,422
Other noncurrent assets		377,892	269,912	922,715
Acquisition adjustment, net		2,041,867	2,153,242	2,264,616
Deferred outflows		163,341	236,337	251,664
Total assets and deferred outflows	$	13,195,652	11,965,164	12,311,082
Liabilities and deferred inflows:				
Current liabilities	$	1,236,358	1,577,635	1,987,421
Regulatory liability		40,245	—	62,339
Noncurrent liabilities:				
Long-term debt		5,532,551	4,936,439	6,611,212
Long-term UDSA debt		2,019,340	2,048,196	—
Capital lease obligations		2,379,250	2,557,896	2,726,089
Other noncurrent liabilities		1,078,799	454,791	593,347
Deferred inflows		474,517	12,106	—
Total liabilities and deferred inflows		12,761,060	11,587,063	11,980,408
Net position		434,592	378,101	330,674
Total liabilities, deferred inflows and net position	$	13,195,652	11,965,164	12,311,082

(Amounts in thousands, unless otherwise stated)

		Year ended December 31		
		2014	**2013**	**2012**
Electric revenue	$	3,613,982	3,755,832	3,546,152
Operating expenses:				
Operations – fuel and purchased power		1,659,272	1,749,892	1,553,769
Operations and maintenance		1,072,994	1,006,609	945,477
Operations and maintenance – amortizations		11,422	3,183	3,183
Storm restoration		30,462	15,798	785,656
General and administrative		29,064	37,775	44,713
Depreciation and amortization		215,544	279,584	272,017
Payments in lieu of taxes		332,621	342,132	321,132
Total operating expenses		3,351,379	3,434,973	3,925,947
Operating income (loss)		262,603	320,859	(379,795)
Other income, net		37,857	34,134	37,351
Grant income – FEMA		1,707	5,000	604,500
Grant income – other		112,814	22,315	6,466
Interest charges		(358,490)	(334,881)	(333,818)
Change in net position		56,491	47,427	(65,296)
Net position – beginning of year		378,101	330,674	395,970
Net position – end of year	$	434,592	378,101	330,674

Change in Net Position

The change in net position for the year ended December 31, 2014 was $56 million. The $9 million increase in net position over 2013 was due primarily to lower depreciation expense resulting from the implementation of a new depreciation study reducing depreciation on a going forward basis and higher nonrecurring grant income recognized in 2014. Partially offsetting this increase was higher operations and maintenance (O&M) costs related to the new operating structure with the Authority's new service provider.

The change in net position for the year ended December 31, 2013 was $47 million. The significant variance versus 2012 was due primarily to the change in the estimated costs associated with Superstorm Sandy restoration efforts. Superstorm Sandy caused significant damage to the Authority's electric T&D system in 2012 and was originally estimated to cost approximately $806 million. Subsequently, in 2013, the Authority revised that estimate to $677 million. Furthermore, due to the extensive damage, Long Island was declared a federal major disaster area making the Authority eligible to receive reimbursement from the Federal Emergency Management Agency (FEMA). In 2012, the Authority recorded grant income for the FEMA standard funding level of 75% of eligible costs. However, as the damage exceeded a federally mandated per capita threshold, the State petitioned FEMA to provide 90% funding, which was approved in 2013. The 2013 results reflect the downward adjustment for the estimated costs and the change in the expected funding levels from FEMA.

(Continued)

Partially offsetting the downward adjustment of the estimate in 2013 was the reversal of an $80 million regulatory asset recorded in 2012, also associated with Superstorm Sandy. In 2012, the Authority's Board approved a resolution allowing the Authority to record a regulatory asset to seek recovery from customers for the portion of Superstorm Sandy costs it had believed were potentially nonrecoverable from FEMA, totaling $80 million. As the Authority was eligible for additional funds from the State, the Authority did not pursue recovery of the $80 million regulatory asset from its customers and as such, it was reversed in 2013. For additional information on Superstorm Sandy, see note 4 to the Basic Financial Statements.

Revenue

Revenue for the twelve months ended December 31, 2014 decreased $142 million compared to 2013 due to lower sales as a result of the mild summer weather experienced in 2014. Also contributing to the decrease was lower power supply charges totaling $56 million due to lower commodity costs.

Revenue for the twelve months ended December 31, 2013 increased $210 million compared to 2012 primarily due to an increase in the power supply charge totaling $196 million, which resulted from higher commodity costs. Also contributing to the increase was the timing of a delivery rate increase that went into effect in March 2012 resulting in a 2013 variance of $9 million. The Authority also generated higher miscellaneous revenues, such as late payment charges of $5 million.

Fuel and Purchased Power Costs

The Authority's tariff includes a power supply cost recovery provision – the Fuel and Purchased Power Cost Adjustment (FPPCA), more commonly referred to as the Power Supply Charge – that provides for the amount and timing of fuel and purchased power cost recoveries. For the year ended December 31, 2014, fuel and purchased power costs decreased $91 million compared to the year ended December 31, 2013. The Authority experienced lower commodity costs of $39 million and lower sales that reduced fuel costs by $17 million. The remaining decrease was due to the absence of the amortization of the 2003 deferred fuel and purchased power costs, which were fully amortized as of December 31, 2013.

For the year ended December 31, 2013, fuel and purchased power costs increased $196 million compared to the year ended December 31, 2012. The Authority experienced higher commodity costs of $202 million. Offsetting the increase was $6 million due to lower sales that reduced fuel costs.

Operations and Maintenance Expense

(O&M) expense for the year ended December 31, 2014 increased $66 million compared to 2013 due primarily to costs incurred of $70 million associated with both the transition services agreement, which allowed the Authority to continue to use NGRID's financial and other operating systems, and costs associated with leasing office and warehousing space at NGRID facilities. Operational spending increased $20 million for preventative maintenance programs to improve reliability; $19 million related to the implementation of new processes and programs to improve customer services and business services; and $34 million for PSEG's management fee. These increased costs were partially offset by $28 million planned lower spending on energy efficiency and renewable programs due to the decline in prices for solar photovoltaic, $35 million lower costs associated with the one-time charge for the transition work allowing for the short-term use of NGRID's computer system prior to transitioning to PSEG-LI and $14 million lower assessment fees.

O&M expense for the year ended December 31, 2013 increased $61 million compared to 2012. During 2013 the Authority incurred $35 million of set up and other associated costs related to the short term use of NGRID's Enterprise Resource Planning (ERP) computer system by PSEG-LI; a $10 million write off of development costs associated with abandoning plans to further develop certain computer systems (the functionality of which will be provided by PSEG-LI); higher energy efficiency and renewable costs of $6 million; higher New York State Assessment fees of $3 million; higher Amended and Restated Management Services Agreement (MSA) costs of $2 million, and higher various miscellaneous costs totaling $5 million.

Operations and Maintenance Expense – Amortizations of Regulatory Assets

O&M expense due to amortizations of regulatory items increased $8 million compared to 2013. During 2014 and 2013, the Authority incurred noninternal costs related to restructuring which were approved by the Authority's Board for collection from customers beginning in 2014. These costs will be collected over the remaining life of the A&R OSA.

Storm Restoration

For the year ended December 31, 2014, storm restoration expense increased $15 million compared to 2013. However, the 2013 costs included offsetting adjustments related to estimates for Superstorm Sandy. Excluding the adjustments, the 2014 storm costs would have been lower than 2013 by $34 million.

For the year ended December 31, 2013, storm restoration expense decreased $770 million compared to 2012. The Authority revised the estimated cost to restore the system from damages related to Superstorm Sandy from $806 million to $677 million. Partially offsetting the downward adjustment was the reversal of the $80 million regulatory asset recorded in 2012 for the Superstorm Sandy costs that were not expected to be reimbursed by FEMA. Absent this reversal, storm restoration expense in 2013 would have been $65 million.

General and Administrative Expenses (G&A)

G&A expenses for the year ended December 31, 2014, decreased $9 million compared to 2013, resulting from reduced Authority staffing levels and lower consulting costs.

G&A expenses for the year ended December 31, 2013, decreased $7 million compared to 2012, resulting from lower retirement benefit costs for the Authority's employees based on a revised actuarial study that reflected reduced staffing.

Depreciation and Amortization

For the year ended December 31, 2014, depreciation and amortization expense decreased by $64 million as the Authority incorporated the results of a depreciation study commissioned by NGRID prior to the termination of the MSA. The depreciation study resulted in extending the useful life of the Authority's electric utility assets, thus reducing depreciation rates and expenses.

(Continued)

For the year ended December 31, 2013, depreciation and amortization expense increased $8 million due to higher depreciable utility plant asset balances.

Payments in Lieu of Taxes

Payments in lieu of taxes (PILOTs) for the year ended December 31, 2014 decreased $10 million when compared to 2013, primarily as a result of the elimination of certain operating taxes as provided by the LIPA Reform Act.

PILOTs for the year ended December 31, 2013 increased $21 million when compared to 2012, primarily resulting from higher property based PILOTs imposed by various government organization on transmission and distribution assets.

Other Income, Net

For the year ended December 31, 2014, other income increased $4 million compared to 2013 due primarily to gains realized on the Authority's Nine Mile Point 2 (NMP2) trust account.

For the year ended December 31, 2013, other income decreased $3 million compared to 2012 due to the premium paid for the early termination of two interest rate swaps, resulting in an investment loss of $6 million. This was partially offset by gains realized on the Authority's NMP2 trust account of $3 million.

Grant Income – FEMA

For the year ended December 31, 2014, grant income decreased approximately $3 million compared to 2013 due to the absence of any storms during 2014 that qualified as federally declared disasters.

For the year ended December 31, 2013, grant income decreased approximately $600 million compared to 2012. During 2012, the Authority recognized its expected recovery of the Superstorm Sandy costs. As of December 31, 2014, the FEMA reimbursements related to Superstorm Sandy emergency repair costs have been received.

Grant Income – Other

Grant income–other increased $90 million compared to 2013 due primarily to an $80 million New York State Community Development Block grant to pay for the costs not reimbursed by FEMA related to Superstorm Sandy and other recent declared weather events, and to a $10 million increase in the grant received from the New York State Energy Research and Development Authority (NYSERDA) to offset a portion of the costs of the Authority's energy efficiency and renewable programs.

Grant income–other increased $16 million in 2013 from 2012 due to a grant received from NYSERDA totaling $15 million to offset a portion of the costs of the Authority's energy efficiency and renewable programs.

Interest Charges and Credits

For the year ended December 31, 2014, total interest charges increased $24 million compared to 2013 due primarily to noncash charges associated with the deferred loss amortizations on the December 2013 debt refinancing.

For the year ended December 31, 2013, total interest charges increased $1 million compared to 2012 due primarily to noncash charges associated with the deferred loss amortizations related to the refinancing of the Authority's existing debt.

Cash and Cash Equivalents and Investments

The Authority's cash, cash equivalents and investments totaled $782 million, $379 million, and $335 million at December 31, 2014, 2013, and 2012, respectively. The increase from 2013 to 2014 is due primarily to FEMA receipts in 2014 and bond issuances. In addition, the Authority issued $150 million of floating rate notes to refinance $150 million of the Authority's existing variable rate bonds; however, the variable rate bonds were not callable until January 2, 2015 and therefore, $150 million is available cash at December 31, 2014. The variable rate bonds were called for redemption on January 2, 2015.

The increase from 2012 to 2013 is due to an advance of $26 million from its insurer against the claim for the restoration of its substations damaged by flooding during Superstorm Sandy. The Authority may seek additional advances until a final settlement is reached with the insurer.

Restricted Cash

The restricted cash balance at December 31, 2014 and 2013 totaled $618 million and $274 million, respectively.

The increase in restricted cash is due primarily to an advance received from FEMA totaling $448 million for storm mitigation work on certain of the Authority assets as well as initial repair costs. The Authority has not funded such projects and has segregated those funds for specific use as required by the FEMA grant agreement and the advance is recorded as a deferred inflow.

In addition, in accordance with the A&R OSA, the Authority funds a restricted operating account to pay for pass through expenditures of PSEG-LI. The Authority is required to maintain this account at a balance equal to three months of anticipated T&D operating and capital costs, which totaled $148 million and $263 million as of December 31, 2014 and 2013, respectively.

Furthermore, UDSA's restricted cash balance totaled $22.5 million and $10.5 million at December 31, 2014 and 2013, respectively. The restricted cash accounts for UDSA are held by a Trustee so as to satisfy debt service on the Restructuring Bonds. The restricted account is referred to as the Collection Account and consists of four subaccounts: a General Subaccount, an Excess Funds Subaccount, a Reserve Subaccount, and an Upfront Financing Costs Subaccount. The Collection Account (other than the Upfront Financing Costs Subaccount) secures the Restructuring Bonds. The balance in the Reserve Subaccount was established at a reserve level of 0.5% of the initial principal amount of the Restructuring Bonds originally issued and must be maintained at a level of 0.5% of the Restructuring Bonds outstanding. Restricted cash held by the Trustee, as of December 31, 2014 and 2013, includes $10.1 million in the Reserve Subaccount and $0.4 million in the Upfront Financing Costs Subaccount.

Liquidity

The Authority has a senior revolving credit facility that allows borrowing of up to $500 million, of which $65 million and $263 million was drawn as of December 31, 2014 and 2013, respectively. In December 2014, the

Authority closed on a new $300 million subordinate lien Series 2014 commercial paper (CP) program. This CP program replaced the existing $300 million Series 2000 CP program, which had supporting Letters of Credit (LOC) that expired in January 2015. The LOCs supporting the Series 2014 CP program are at significantly lower cost than those of the expired program. The Authority had $215 million of Series 2000 CP notes outstanding as of December 31, 2014. None were outstanding at December 31, 2013. Additionally, the Authority's Board has authorized a $325 million Series 2015 General Revenue Notes CP program, which the Authority expects to close in part the first half of 2015. Upon the closing of Series 2015 CP program, the Authority may exercise its option to reduce the size of its senior revolving credit facility from $500 million to $375 million. The Authority believes it will have sufficient liquidity throughout 2015 to meet its planned operating, maintenance, and capital programs.

Regulatory Assets

Regulatory assets increased $617 million for the year ended December 31, 2014 compared to 2013. The increase is the result of the costs associated with A&R OSA employee retirement benefits totaling $598 million, PSEG-LI implementing a new enterprise resource planning and outage management systems totaling $42 million and $27 million, respectively; and power supply management transition costs totaling $19 million. These increases were partially offset by a decrease of $13 million related to the Shoreham Property Tax Settlement Agreement (discussed in note 3 to the Basic Financial Statements); $46 million of the 2013 deferred under recovered fuel and purchased power costs which were fully recovered during 2014; and the amortization of various deferred costs totaling $10 million.

Regulatory assets increased $116 million for the year ended December 31, 2013 compared to 2012. The increase is the result of the recognition of the Employee Benefit Plan Settlement with NGRID totaling $216 million to be recovered over a 10 year period beginning in 2016 (discussed in note 3 to the Basic Financial Statements); and transition costs totaling $41 million related to the expiration of the MSA. These increases were partially offset by elimination of the regulatory asset totaling $80 million related to Superstorm Sandy costs; final recovery of the 2003 deferred excess fuel and purchased power costs totaling $37 million; decrease of $14 million related to the Shoreham Property Tax Settlement Agreement; amortization of power supply management transition costs totaling $3 million; and amortization of the deferred assessment fees totaling $7 million.

Regulatory Liabilities

Regulatory liabilities increased $40 million for the year ended December 31, 2014 resulting from the deferral of the over collection of fuel and purchased power costs. The FPPCA is reset monthly and includes many variable factors, including variations in actual sales and costs compared to forecasts in the calculation of the charge. The over collection reduced the FPPCA in 2015.

Regulatory liabilities decreased $62 million for the year ended December 31, 2013 compared to 2012 resulting primarily from the return to customers of a revised unbilled receivable estimate totaling $38 million; and the excess collection of the 2012 and 2011 efficiency and renewable charge totaling $24 million.

Debt

During 2014, debt increased $580 million compared to 2013. The Authority issued $615 million of Electric System General Revenue Bonds, including a premium of $37 million, to fund a portion of capital projects, information technology systems, and PSEG-LI pension trust fund deposits. The Authority also issued $150 million floating rate notes as General Revenue Bonds to refinance $150 million of variable-rate demand Subordinated Revenue Bonds; however, the Subordinated Revenue Bonds were not callable until January 2, 2015; therefore, $150 million remained outstanding as of December 31, 2014. These increases were partially offset by scheduled maturities totaling $170 million and a refunding of General Revenue Bonds, Series 2004A totaling $22 million. The remaining decrease was due to scheduled amortizations of existing premiums and discounts.

During 2013, the Financing Order authorized the issuance of Restructuring Bonds by UDSA to provide funds for the purchase by UDSA of Restructuring Property from the Authority. The Authority, as a result, was able to redeem or refinance approximately $2 billion of its existing debt with proceeds from the sale of the Restructuring Property. UDSA is shown on a consolidated basis on the Authority's statement of net position.

The Authority's consolidated debt, including current maturities, is comprised of the following instruments (amounts in thousands):

		Balance at December 31		
		2014	2013	2012
General Revenue Bonds	$	5,246,726	4,594,248	6,166,540
Subordinated Revenue Bonds		350,000	350,000	350,000
Commercial Paper Notes		215,000	—	200,000
NYSERDA Notes		—	—	155,420
Restructuring Bonds		1,932,324	2,022,324	—
General Revenue Notes (Revolver)		65,000	263,000	—
	$	7,809,050	7,229,572	6,871,960

During 2013, debt increased $358 million compared to 2012 resulting from issuance of UDSA Restructuring Bonds, Series 2013T and 2013TE totaling $2.022 billion; draws on the senior revolving credit facility totaling $263 million; and the accretion of the capital appreciation bonds totaling $29 million. These increases were partially offset by scheduled maturities of $176 million; and refinancing of $1.780 billion of existing bonds and notes.

For a full discussion on the Authority's debt activities during 2014 and 2013, see note 10 to the Basic Financial Statements.

Risk Management

The Authority is exposed to commodity and interest rate risk during the conduct of its operations. To mitigate commodity risk, the Authority established a power supply risk management program to prices, quantify the impact of commodity on the Authority's fuel and purchased power costs and attempt to mitigate a portion of the exposure on behalf of our customers. The Authority also hedges its interest rate exposure through certain interest rate derivatives. As of December 31, 2014, a net $3 million of collateral was posted by the Authority to its counterparties in connection with its commodity hedge positions. At December 2013, no collateral was held or posted by the Authority.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) expanded the Commodity Futures Trading Commission's (CFTC) jurisdiction to regulate swaps under the Commodity Exchange Act. The Authority has implemented several compliance measures, and the Authority's Board has approved revisions to its policies to recognize the obligations and requirements of the Authority under the Dodd-Frank Act. The Authority will continue to evaluate future CFTC rules and regulations to determine any additional impact to the Authority's risk management strategies and practices.

In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the Authority records its hedging and investment derivatives at fair value and records deferred inflows and outflows for changes in fair values on hedging derivatives. The Authority defers, as unrealized gains and losses, changes in fair value for investing derivatives consistent with its rate-making practices. For a further discussion on these matters, see note 5 to the Basic Financial Statements.

Fuel and purchased power transactions – For the year ended December 31, 2014, the Authority had realized gains of $7 million and recognized $6 million of option premium amortization, which together decreased fuel and purchased power costs by $1 million. The Authority also recorded deferred inflows of $19 million, reflecting the effective portion of the commodity derivatives, offset by unrealized charges on commodity derivatives of $95 million. The negative mark-to-market (unrealized loss) on the Authority's fuel derivative positions as of December 31, 2014 totaled $76 million.

For the year ended December 31, 2013, the Authority had realized losses of $59 million and recognized $9 million of option premium amortization, which together increased fuel and purchased power costs by $68 million. The Authority also recorded deferred outflows and unrealized charges on commodity derivatives of $52 million, reflecting the negative mark-to-market (unrealized loss) on the Authority's fuel derivative positions as of December 31, 2013.

Interest rate transactions – At December 31, 2014 and 2013, the Authority recorded deferred outflows of $4 million related to its interest rate hedging derivatives. The Authority also recorded net unrealized fair value losses on its investment derivatives of $164 million and $120 million, respectively. Any gains or losses resulting from changes in the mark-to-market valuations on investment derivatives are deferred and will be recognized when realized, consistent with how the Authority recovers any such amounts in rates charged to customers.

Deferred Outflow and Deferred Inflow of Resources

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities, as deferred outflows of resources (expenses or expenditures) and deferred inflows of resources (revenues). Included in the Authority's deferred outflows are the changes in the mark to market of the Authority's derivative instruments and included in the Authority's deferred inflows are the advance funds received from a FEMA grant totaling $441 million (as discussed above).

Investment Ratings

Below are the Authority's and UDSA's securities as rated by Moody's Investors Service (Moody's), Standard and Poor's Ratings Services (S&P), and Fitch Ratings (Fitch):

	Investment ratings		
	Moody's	**S&P**	**Fitch**
Authority Senior Lien debt	Baa1	A-[1]	A-[1]
UDSA Restructuring Bonds	Aaa (sf)	AAA (sf)	AAA (sf)

[1] Negative outlook

Certain General Revenue and Subordinated Revenue bonds and CP notes are supported by either an LOC or are insured against default. Such debt carries the higher of the ratings of the credit support provider (LOC bank or insurance company), or that of the Authority.

Contacting the Long Island Power Authority

This financial report is designed to provide the Authority's bondholders, customers, and other interested parties with a general overview of the Authority's finances and to demonstrate its accountability for the funds it receives. If you have any questions about this report or need additional information, contact the Authority at 333 Earle Ovington Blvd., Suite 403, Uniondale, New York 11553, or visit the Authority's website at www.lipower.org.

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
Long Island Power Authority:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Long Island Power Authority (the Authority), a component unit of the State of New York, which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Consolidating Statements of Revenues, Expenses, and Changes in Net Position is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Consolidating Statements of Revenues, Expenses, and Changes in Net Position is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying Consolidating Statements of Revenues, Expenses, and Changes in Net Position is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of and our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

March 26, 2015

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Statements of Net Position

December 31, 2014 and 2013

(Amounts in thousands)

Assets and Deferred Outflows of Resources		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	782,466	378,821
Restricted cash		618,384	273,515
Counterparty collateral – posted by the authority		4,500	—
Accounts receivable (less allowance for doubtful accounts of $38,817 at December 31, 2014 and 2013)		528,937	528,165
Other receivable		145,796	355,546
Fuel inventory		128,201	119,632
Material and supplies inventory		41,538	8,729
Unrealized charges		56,735	8,124
Regulatory assets due within one year:			
Shoreham property tax settlement		42,462	41,578
New York State assessment		4,672	9,816
Transition costs – operations services agreement		4,596	4,336
Debt issuance costs		4,000	4,359
Enterprise resource planning system		3,870	—
Fuel and purchased power costs		2,988	49,016
Outage Management System		2,430	—
Transition costs – power supply management		1,690	3,183
Southampton visual benefit assessment		948	888
Prepayments and other current assets		25,803	13,684
		2,400,016	1,799,392
Noncurrent assets:			
Utility plant and property and equipment, net		6,727,057	6,683,026
Nuclear decommissioning trust		110,799	102,389
Other long-term receivables		28,325	38,051
Unrealized charges		224,235	128,292
Prepayments		14,533	1,180
Regulatory assets:			
Operations services agreement – employee retirement benefits		597,592	—
Shoreham property tax settlement		460,419	473,843
Employee benefit plan settlement		216,339	216,339
Transition costs – operations services agreement		45,974	47,703
Debt issuance costs		39,140	40,082
Enterprise resource planning system		38,710	—
Fuel and purchased power costs		37,311	36,088
Outage Management System		24,297	—
Transition costs – power supply management		16,918	—
Southampton visual benefit assessment		8,779	9,200
Acquisition adjustment (net of accumulated amortization)		2,041,867	2,153,242
Total noncurrent assets		10,632,295	9,929,435
Deferred Outflows:			
Deferred loss on debt refunding		159,162	189,391
Accumulated decrease in fair value of commodity derivatives		—	42,990
Accumulated decrease in fair value of financial derivatives		4,179	3,956
Total deferred outflows		163,341	236,337
Total assets and deferred outflows	$	13,195,652	11,965,164

See accompanying notes to basic financial statements.

Liabilities and Net Position		2014	2013
Current liabilities:			
Short-term debt	$	280,000	263,000
Current maturities of long-term debt		164,505	80,020
Current maturities of UDSA debt		15,000	90,000
Current portion of capital lease obligation		178,997	168,193
Accounts payable and accrued expenses		333,434	629,007
Counterparty collateral – held by the authority		1,150	—
Regulatory liabilities:			
Fuel and purchased power costs refundable		40,245	—
Commodity derivative instruments		45,097	28,717
Accrued payments in lieu of taxes		45,678	43,774
Accrued interest		44,443	43,583
Customer deposits		39,266	38,208
Accrued storm costs		88,788	193,133
Total current liabilities		1,276,603	1,577,635
Noncurrent liabilities:			
Long-term debt		5,532,551	4,936,439
Long-term UDSA debt		2,019,340	2,048,196
Borrowings		91,779	96,390
A&R Operations Services Agreement-employee retirement benefit		578,437	—
Commodity derivative instruments		31,062	23,057
Financial derivative instruments		192,881	150,044
Capital lease obligations		2,379,250	2,557,896
Asset retirement obligation		66,414	84,828
Long-term liabilities and unrealized credits		97,291	79,289
Claims and damages		20,935	21,183
Total noncurrent liabilities		11,009,940	9,997,322
Deferred inflows:			
Grants received in advance		441,088	—
Accumulated increase in fair value of commodity derivatives		19,296	—
Accumulated increase in fair value of Nine Mile Point 2 trust		14,133	12,106
Total deferred inflows		474,517	12,106
Net position:			
Net investment in capital assets		(346,219)	(212,622)
Restricted		618,384	273,515
Unrestricted		162,427	317,208
Total net position		434,592	378,101
Total liabilities, deferred inflows and net position	$	13,195,652	11,965,164

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2014 and 2013

(Amounts in thousands)

		2014	2013
Operating revenues – electric sales	$	3,613,982	3,755,832
Operating expenses:			
Operations – fuel and purchased power		1,659,272	1,749,892
Operations and maintenance		1,072,994	1,006,609
Operations and maintenance – amortizations		11,422	3,183
Storm restoration		30,462	15,798
General and administrative		29,064	37,775
Depreciation and amortization		215,544	279,584
Payments in lieu of taxes		332,621	342,132
Total operating expenses		3,351,379	3,434,973
Operating income		262,603	320,859
Nonoperating revenues and expenses:			
Other income, net:			
Investment income (loss)		6,989	(1,285)
Grant income – FEMA		1,707	5,000
Grant income – other		112,814	22,315
Carrying charges on regulatory assets		28,565	29,434
Other		2,303	5,985
Total other income, net		152,378	61,449
Interest charges and (credits):			
Interest on long-term debt, net		338,976	325,745
Other interest		28,475	17,514
Allowance for borrowed funds used during construction		(8,961)	(8,378)
Total interest charges and (credits)		358,490	334,881
Change in net position		56,491	47,427
Net position, beginning of year		378,101	330,674
Net position, end of year	$	434,592	378,101

See accompanying notes to basic financial statements.

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Statements of Cash Flows

Years ended December 31, 2014 and 2013

(Amounts in thousands)

		2014	2013
Cash flows from operating activities:			
Received from customers for system sales, net of refunds	$	3,734,798	3,859,960
Other operating revenues received		5,346	28,999
Paid to suppliers and employees:			
Operations and maintenance		(1,372,883)	(1,536,815)
Fuel and purchased power		(1,624,682)	(1,651,319)
Payments in lieu of taxes		(429,597)	(447,606)
Collateral on fuel derivative transactions, net		(22,894)	(13,789)
Pension funding		(66,900)	—
Net cash provided by operating activities		223,188	239,430
Cash flows from investing activities:			
Earnings received on investments		406	207
Termination of interest rate swaps		—	(44,229)
Other		2,559	10,615
Restricted cash		(344,869)	(273,515)
Net cash used in investing activities		(341,904)	(306,922)
Cash flows from noncapital financing related activities:			
Grant proceeds		777,565	402,904
Proceeds from credit facility draws and commercial paper program		637,000	513,000
Redemption of credit facility draws and commercial paper program		(620,000)	(250,000)
Net cash provided by noncapital related activities		794,565	665,904
Cash flows from capital and related financing activities:			
Capital expenditures		(441,007)	(334,287)
Outage Management System and Enterprise Resource Planning System		(70,318)	—
Proceeds from insurance recoveries and settlements		3,064	26,670
Proceeds from promissory note		—	8,075
Proceeds from the issuance of bonds		765,310	226,365
Proceeds from the issuance of UDSA bonds, including premium		—	2,138,683
Bond issuance costs		(3,724)	(17,250)
Interest paid, net		(333,239)	(335,397)
Redemption of long-term debt		(192,290)	(2,267,280)
Net cash used in capital and related financing activities		(272,204)	(554,421)
Net increase in cash and cash equivalents		403,645	43,991
Cash and cash equivalents at beginning of year		378,821	334,830
Cash and cash equivalents at end of year	$	782,466	378,821
Reconciliation to net cash provided by operating activities:			
Operating income	$	262,603	320,859
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		215,544	279,584
Nuclear fuel burned		12,365	12,654
Shoreham surcharges		40,507	42,701
Accrued storm costs and claims and damages		—	(64,202)
Accretion of asset retirement obligation		4,230	4,435
Other, net		5,424	(11,044)
Changes in operating assets and liabilities:			
Accounts receivable, net		(3,170)	125,982
Regulatory assets and liabilities		115,124	(36,442)
Fuel and material and supplies inventory		(41,378)	28,309
Claims, damages and storm restoration		(104,593)	(665,266)
Accounts payable, accrued expenses and other		(283,468)	201,860
Net cash provided by operating activities	$	223,188	239,430

See accompanying notes to basic financial statements.

(1) Basis of Presentation

The Long Island Power Authority (Authority) was established as a corporate municipal instrumentality of the State of New York (State), constituting a political subdivision of the State, created by Chapter 517 of the Laws of 1986 (the LIPA Act). As such, it is a component unit of the State and is included in the State's annual financial statements.

The Authority's reporting entity is comprised of itself and (i) LILCO, a wholly owned subsidiary of the Authority, doing business as "LIPA," and Power Supply Long Island, and (ii) UDSA, a special purpose corporate municipal instrumentality of the State. The Authority holds 100% of the common stock of LIPA, controls the operations of LIPA, and the governing bodies of both LIPA and the Authority are the same. LIPA services are provided to entirely benefit the Authority, and as such under Governmental Accounting Standard Board Statement (GASB) No. 61, *The Financial Reporting Entity*, LIPA is considered a blended component unit of the Authority.

On July 29, 2013, New York State enacted legislation, the LIPA Reform Act (Reform Act). Part A of the Reform Act addressed the reorganization of the Authority and changed its operating responsibilities, and Part B, referred to as the Securitization Law, created UDSA to allow for the retirement of certain outstanding indebtedness of the Authority through the issuance of restructuring bonds by UDSA. UDSA has a governing body separate from that of the Authority and has no commercial operations. For a further discussion on UDSA, see notes 6 and 10.

In accordance with GASB No. 61, UDSA is also considered a blended component unit of the Authority.

The assets, liabilities, and results of operations of LIPA and UDSA are consolidated with the operations of the Authority for financial reporting purposes. All significant transactions between the Authority, LIPA, and UDSA have been eliminated. The Authority and its blended component units are referred to collectively, as the "Authority" in the financial statements.

(2) Nature of Operations

The Authority is the owner of the transmission and distribution (T&D) system located in the Counties of Nassau and Suffolk (with certain limited exceptions) and a portion of Queens County known as the Rockaways (Service Area), and is responsible for supplying electricity to customers within the Service Area. The Authority has operating agreements with service providers to provide the majority of services necessary to service the Authority's customers.

Summary of the Authority's Primary Operating Agreements

Amended and Restated Management Services Agreement; Amended and Restated Operations Services Agreement: Under the Amended and Restated Management Services Agreement (MSA), which expired on December 31, 2013, National Grid (NGRID) provided operations and maintenance services related to the transmission and distribution system to the Authority's customers. Effective January 1, 2014, a wholly owned subsidiary of Public Service Enterprise Group (PSEG) fully dedicated to the Authority's Long Island operations (PSEG-Long Island (PSEG-LI)) provides operations, maintenance and related services for the T&D system under the Amended and Restated Operations Services Agreement (A&R OSA). The A&R OSA addressed changes imposed by the Reform Act which shifted major operational and policy-making responsibilities for the T&D system, including significant responsibilities relating to capital expenditures and emergency response, from the Authority to PSEG-LI. The A&R OSA also extended the term of the original OSA from 10 to 12 years, expiring December 31, 2025. Additionally, it includes a provision that if PSEG-LI achieves certain levels of performance based on criteria during the first 10 years, the parties will negotiate an eight year extension on substantially similar terms and conditions. PSEG-LI is paid a management fee and may earn incentives related to specified performance metrics in the contract. In addition, essentially all costs of operating and maintaining the Authority’s T&D system incurred by PSEG-LI are passed through to and paid for by the Authority.

The Reform Act also made the Authority and PSEG-LI subject to the review of the New York Department of Public Service’s Long Island office (DPS LI). For a further discussion, see note 6 and 10.

Power Supply Agreement (PSA): Under the PSA, NGRID provides capacity and energy from its oil and gas fired generating plants located on Long Island (herein referred to as GENCO). The Authority and NGRID entered into an Amended and Restated PSA (A&R PSA) providing for the purchase of generation (including capacity and related energy) from these fossil fired generating plants for a maximum term of 15 years, which commenced in May 2013.

Energy Management Agreement (EMA) and Fuel Management and Bidding Services Agreement (FMBSA): NGRID provided fuel management services for the generating facilities located on Long Island including, those owned by NGRID and others under contract with the Authority. These services expired in May 2013.

Fuel Management Agreement (FMA): Effective May 28, 2013, the Authority contracted with Con Edison Energy, Inc. (CEE) to provide fuel management services for both the GENCO generating facilities and the non-GENCO units for which the Authority is responsible for providing fuel. The FMA with CEE expired December 31, 2014. Beginning January 1, 2015 services associated with the FMA are provided by an affiliate of PSEG, PSEG Energy Resources and Trade LLC (PSEG ER&T). The agreement with PSEG ER&T expires December 31, 2025 and is also subject to extensions. Certain other services related to power supply management and certain commodity activities are also provided by PSEG ER&T beginning January 2015.

(3) Summary of Significant Accounting Policies

(a) General

The Authority complies with all applicable pronouncements of the GASB. The operations of the Authority are presented as an enterprise fund following the accrual basis of accounting in order to recognize the flow of economic resources. Revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

(b) Accounting for the Effects of Rate Regulation

The Authority is subject to the provisions of GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 addresses accounting rules for regulated operations. This statement recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, the Authority records these future economic benefits and obligations as regulatory assets or regulatory liabilities, respectively.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process.

In order for a rate-regulated entity to continue to apply the provisions of GASB No. 62, it must meet the following three criteria: (i) the enterprise's rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers; (ii) the regulated rates must be designed to recover the specific enterprise's costs of providing the regulated services; and (iii) in view of the demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers.

Based upon the Authority's evaluation of the three criteria discussed above in relation to its operations, and the effect of competition on its ability to recover its costs, the Authority believes that GASB No. 62 continues to apply.

The Authority regularly assesses whether regulatory assets and liabilities are probable of recovery or refund. If recovery or refund is not approved by the Authority's Board, which sets rates charged to customers, or if it becomes no longer probable that these amounts will be realized or refunded, they would need to be written-off and recognized in the current period results of operations. The Acquisition Adjustment totaling $2 billion is also evaluated for impairment.

(c) Cash and Cash Equivalents and Investments

Funds held by the Authority are administered in accordance with the Authority's investment guidelines pursuant to Section 2925 of the New York State Public Authorities Law. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities. Certain investments and cash and cash equivalents have been designated by the Authority's Board to be used for specific purposes, including rate stabilization, debt service, and capital expenditures. Investments' carrying values are reported at fair market value. Certain amounts have also been restricted for specific purposes. For a further discussion, see note 9.

(d) Counterparty Collateral

The Authority and its counterparties require collateral posting for mark-to-market valuations that exceed established credit limits. At December 31, 2014, the Authority was required to post $4.5 million of collateral to various counterparties, which is recorded as a current asset. One of the Authority's counterparties was required to post $1.1 million of collateral to the Authority which is recorded in current liabilities. No collateral posting was necessary at December 31, 2013.

(e) Utility Plant and Property and Equipment

Additions to and replacements of utility plant are capitalized at original cost, which includes material, labor, indirect costs associated with an addition or replacement, plus an allowance for borrowed funds used during construction. The cost of renewals and betterments relating to units of property is added to utility plant. The cost of property replaced, retired, or otherwise disposed of is deducted from utility plant and, generally, together with dismantling costs less any salvage, is charged to accumulated depreciation. The cost of repairs and minor renewals is charged to maintenance expense. Mass properties (such as poles, meters, and wire) are accounted for on an average unit cost basis by year of installation. For a further discussion, see note 7.

Property and equipment represents leasehold improvements, office equipment, and furniture and fixtures of the Authority.

(f) Fuel Inventory

The Authority owns the fuel oil used in the generation of electricity at the facilities under contract to the Authority. Fuel inventory represents the value of low sulfur and other liquid fuels that the Authority had on hand at each year-end in order to meet the demand requirements of these generating stations. Fuel inventory is valued using the weighted average cost method.

(g) Material and Supplies Inventory

On January 1, 2014, the Authority purchased from NGRID for $30 million the materials and supplies inventory on hand necessary to support the operations of maintaining the transmission and distribution system. The Authority and PSEG-LI performed an analysis prior to the date of purchase to ensure all materials were useful and not obsolete. The inventory is accounted for on a first in first out (FIFO) basis of accounting. During the year there were no significant write-downs for obsolescence.

The Authority also owns 18% of the material and supplies inventory needed to support the operation of the Nine Mile Point 2 (NMP2) nuclear power station. As of December 31, 2014 and 2013, the value of the NMP2 inventory totaled approximately $9 million.

(h) Nuclear Decommissioning Trust

At December 31, 2014 and 2013, the Authority’s values of the NMP2 Decommissioning Trust Funds (the Trust) were $110 million and $102 million, respectively.

(i) Other Receivables and Long-Term Receivables

The current portion of other receivables, as of December 31, 2014, included $80 million for the New York State Community Development Block Grant (CDBG), which was received in January 2015.

During 2014, the Authority received all remaining balances owed from FEMA related to Superstorm Sandy, which as of December 31, 2013 was included in current other receivables of $301 million.

The long-term portion of other receivables represents the net present value related to the reimbursable costs to construct the interconnection facilities related to the Neptune cable, which is to be paid to the Authority over a 20-year period.

(j) Unrealized Charges

Unrealized charges consist primarily of the ineffective balance of the interest and commodity derivative instruments.

(k) Regulatory Assets

A&R OSA – Employee Retirement Benefits

The Authority is responsible for reimbursing PSEG-LI for the retirement benefit costs associated with the PSEG-LI workforce. The retirement benefit plans are owned, sponsored, and the legal obligation of PSEG-LI. However, in most cases, PSEG-LI employee compensation costs are a contractual cost of the Authority under the A&R OSA, including the cost for these retirement benefits (and any required pre-funding of such benefits).

The PSEG-LI workforce includes both former NGRID employees (approximately 1,950) that were hired by PSEG-LI (referred to as “transitioned employees) and newly hired employees. PSEG-LI recognizes the assets and liabilities associated with the retirement benefit plans; however, they also recognize a receivable from the Authority for the unfunded portion of any liabilities due to the Authority’s contractual obligation to fund these employee costs.

A significant portion of this contractual liability resulted from the transitioned employees being protected against benefit losses from the Authority’s change in service providers from NGRID to PSEG-LI. The PSEG-LI retirement plans ensure that transitioned employees earn a retirement benefit that, when combined with their accrued NGRID benefits, will be equal to the benefit they would have received had the transitioned employees remained employees of NGRID. This provision created a prior service cost liability totaling $442 million at the beginning of the A&R OSA on January 1, 2014.

The balance of the A&R OSA – Employee Retirement Benefits regulatory asset as of December 31, 2014 represents those costs which have been incurred but not yet collected from customers. This amount will be different from the Authority’s liability to PSEG-LI due to differences between funding levels and recovery levels. During 2014, the Authority funded the PSEG-LI plans in amounts in excess of the amounts collected from customers. Additionally, the Authority set aside certain funds in an OPEB Account (see footnote 9) to pay future retirement benefit costs to PSEG-LI, such amounts have been recovered from customers but not yet paid to PSEG-LI.

Finally, these retirement benefit obligations are for future costs that will be incurred as the PSEG-LI employees receive retirement benefits and are therefore estimates of such costs. Differences between the amounts collected from customers and the amounts owed to PSEG-LI for these benefits may arise from changes in asset values, plan amendments, interest rates, and actuarial assumptions, among other factors, which would be reflected in the balance of the regulatory asset.

Shoreham Property Tax Settlement (Settlement)

In January 2000, the Authority reached an agreement with Suffolk County, the Town of Brookhaven, the Shoreham-Wading River Central School District, the Wading River Fire District and the Shoreham-Wading River Library District (which was succeeded by the North Shore Library District) (collectively, the Suffolk Taxing Jurisdictions) and Nassau County regarding the over assessment of the Shoreham Nuclear Power Station. Under the terms of the agreement, the Authority was required to issue $457.5 million of rebates and credits to customers over a five-year period which began May 29, 1998. In order to fund such rebates and credits, the Authority used the proceeds from the issuance in May 1998 of its Capital Appreciation Bonds, Series 1998A Electric System General Revenue Bonds totaling $146 million and the issuance in May 2000 of approximately $325 million of Electric System General Revenue Bonds, Series 2000A.

As provided under the Settlement, beginning in June 2003, Suffolk County customers' bills include a surcharge (the Suffolk Surcharge) to be collected over the succeeding approximate 25-year period to repay the debt service and issuance costs on the bonds issued by the Authority to fund the Settlement as well as its cost of pre-funding certain rebates and credits.

As rates are established at a level sufficient to recover all such costs identified above, the Authority recorded a regulatory asset. The balance of the Shoreham Property Tax Settlement regulatory asset as of December 31, 2014 and 2013 was approximately $503 million and $515 million, respectively. The balance represents rebates and credits issued to customers, costs of administering the program plus annual debt service costs on the bonds identified above, less surcharges collected since 2003.

New York State Temporary Energy and Utility Conservation Assessment

As a result of an amendment to the Public Service Law effective April 1, 2009, the Authority was required to collect from all customers a special assessment to be paid directly to the State for a five year period that began in 2009. Subsequent legislation extended the assessment at its full rate through March 2015 and at declining percentages each subsequent year such that it phases out by the end of calendar year 2017.

Employee Benefit Plan Settlement

The MSA between the Authority and NGRID provided, among other things, that upon termination of the MSA, when a third party succeeded NGRID as the service provider, the successor would assume the rights and obligations of NGRID regarding certain employee benefit plan liabilities. The A&R OSA with PSEG-LI did not require PSEG-LI to pay employee benefit plan costs related to the term covered by the MSA; rather, the Authority funded the costs for those NGRID electric-serving employees during the term of the MSA.

On December 31, 2013, the Authority signed an Employee Benefit Plan Settlement with NGRID and its affiliates. The Settlement provided for a $91.5 million cash payment and the release of NGRID's payment obligations for an approximate $155 million promissory note due to the Authority. The settlement resolved the parties' respective employee benefit plan funding obligations for NGRID's electric-serving employees. The balance subject to recovery, after applying carrying charge accruals, totaled $216 million. The Authority's Board approved deferred recovery of such costs from customers beginning in 2016 over a 10-year period, the remaining term of the A&R OSA, as virtually all former employees of NGRID covered by these plans have been transitioned to PSEG-LI and continue to serve electric customers.

Transition Costs – Operations Services Agreement

The Authority deferred costs related to the transition from NGRID to PSEG-LI as the Authority's new service provider. PSEG-LI performed a variety of specified activities in order to position itself to assume responsibility to provide operation services under the A&R OSA on January 1, 2014. The costs related to those activities are being classified as a regulatory asset to be recovered over a twelve-year period coincident with the A&R OSA beginning on January 1, 2014 and expiring December 31, 2025, as approved by the Authority's Board.

Debt Issuance Costs

GASB Statement No. 65 requires that debt issuance costs be expensed in the current financial period. As the Authority's rates provide recovery for debt issuance costs as a component of the Authority's revenue requirement on a systematic basis over the life of the debt, the Authority Board approved reclassifying the unamortized balance of debt issuance costs incurred to a regulatory asset to be collected over the life of the debt issues to which they relate.

Enterprise Resource Planning (ERP system) Costs

During the term of the MSA, the Authority's T&D business was managed using an ERP system owned and operated by NGRID. During 2014, certain services were provided to PSEG-LI by NGRID due to the need to continue use of the existing NGRID ERP system. As such, PSEG-LI needed to transition to a long term ERP solution to allow the PSEG-LI T&D business to separate from the NGRID ERP system. In order to ensure the most efficient transition, the Authority chose to leverage the PSEG ERP system, incorporating the PSEG-LI functions into that existing SAP system. The decision to use PSEG's system allowed PSEG-LI to transition to a new ERP system significantly earlier than planned, achieve synergies, maximize cost savings and minimize any business risk during transition.

As of December 31, 2014, costs incurred for this transition to the PSEG ERP system totaled approximately $43 million and certain modules of the ERP system were operational on January 1, 2015. As this asset is not owned by PSEG-LI but was solely for the benefit of PSEG-LI, the costs of this project are recognized as a regulatory asset for recovery over the remaining term of the A&R OSA, which is consistent with its expected useful life. The total estimated cost of this project is expected to be $60 million.

Fuel and Purchased Power Costs Recoverable

The Authority's tariff includes a fuel recovery provision – the Fuel and Purchased Power Cost Adjustment (FPPCA), or more commonly referred to as the Power Supply Charge – that provides for the recovery of fuel and purchased power costs in the period incurred. The FPPCA tariff allows for 100% recovery of Authority's power supply costs on a monthly basis. In no event, however, may the

Authority recover an amount that exceeds fuel and purchased power costs incurred. For the year ended December 31, 2014, actual fuel and purchased power costs were below amounts recovered in the FPPCA. As a result, a regulatory liability totaling $40 million was recorded and such amounts were returned to the customer during 2015 as prescribed by the monthly collection method. For the year ended December 31, 2013, actual fuel and purchased power costs exceeded the amounts recovered in the FPPCA. As a result, a regulatory asset totaling $41 million was recorded.

Also recorded as recoverable fuel and purchased power costs are amounts incurred related to various energy projects, the amortization of which is charged to fuel and purchased power costs over the period of benefit (the life of the power purchase agreement) totaling $40 million and $43 million as of December 31, 2014 and 2013, respectively.

Outage Management System (OMS)

During 2014, PSEG-LI completed a transition to the PSEG OMS system to track and manage repair of electric system outages. Transition to the established PSEG OMS system allowed for an expedited implementation of 13 months. This new system improves the ability to identify and manage outage conditions and communication of outage information to customers.

In the event the A&R OSA is terminated early and PSEG-LI is no longer the service provider, the system will be available for use for up to 2 years after such termination to allow for the new service provider to secure an alternative system. As this asset is not owned by PSEG-LI but was solely for the benefit of PSEG-LI, the costs of this project are recognized as a regulatory asset for recovery over the remaining life of the A&R OSA beginning in 2016, which is consistent with its expected useful life.

Transition Costs – Power Supply Management

The Authority deferred costs related to transition to its new service provider due to the expiration of the power supply management provisions of the EMA. These costs were classified as a regulatory asset as the Authority's Board approved collection of these costs to be recovered over a five-year period coincident with the contracts, which commenced on January 1, 2010 and were fully collected as of December 31, 2014.

The Authority's Board has also approved deferral of the transition costs associated with transitioning to the power supply management contract to PSEG ER&T. Collection of these costs totaling $19 million will be recovered over an eleven-year period, beginning January 1, 2015, coincident with the contract beginning January 1, 2015 and expiring December 31, 2025, as approved by the Authority's Board.

Southampton Visual Benefit Assessment

The Authority has recorded the incremental costs incurred to bury a portion of a transmission cable routed through the Town of Southampton (Town), which will be recovered from certain customers of the Town over a period of 20 years that began in 2009.

(l) Acquisition Adjustment

The Acquisition Adjustment, an intangible asset, represents the difference between the purchase price paid and the net assets acquired from LILCO and is being amortized and recovered through rates on a straight-line basis using a 35-year life through 2033.

(m) Deferred Outflow and Deferred Inflow of Resources

In 2013, the Authority adopted GASB Statement No. 65 (GASB No. 65), *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities, and recognizes them as deferred outflows of resources (expenses or expenditures) and deferred inflows of resources (revenues).

Losses on Refunding Debt

Losses on refunding debt represent the difference between the reacquisition price and the carrying amount of the refunded debt. Prior to GASB No. 65, these losses were a contra-liability to debt. This deferred outflow is amortized as a component of interest expense over the shorter of the life of the old or new debt.

Change in Fair Market Value of Derivative Instruments

The accumulated changes in the fair value of hedging derivative instruments which are deemed effective are reported as deferred outflows or deferred inflows. Under hedge accounting, the changes in the fair value of a hedging derivative instrument, in asset or liability positions, are reported as a deferred inflow of resources or deferred outflow of resources, respectively, on the statements of net position. As the Authority follows GASB No. 62, any changes in the ineffective derivative instruments are reported as unrealized charges.

The change in fair value of investment derivative instruments are reported as unamortized charges, as the Authority's Board has authorized the deferral of these unrealized gains and losses, and all such gains and losses are deferred until realized, which corresponds to the period they are recovered in rates.

Grants Received in Advance

The Authority received amounts in excess of that which was paid to date in support of restoration efforts. This advance has been recorded as a deferred inflow, as these funds will be used to pay vendors once all disputed amounts are finalized. The balance of these funds will be used to pay for T&D storm mitigation work expected to be completed over the next several years. The prefunding will be amortized over the same time period as the depreciation expense on the future assets resulting from the grant.

Change in Fair Market Value of NMP2 Decommissioning Trust

The Authority maintains a Trust for the decommissioning of NMP2. The decommissioning funds are reported at their fair market value and any unrealized gains or losses are recognized as a component of deferred inflows in accordance with the Authority's ratemaking process and have no impact to the

Authority's net position. For a further discussion on the Authority's NMP2 decommissioning obligations and related funding see note 8.

(n) Borrowings

Borrowings represent the unamortized balance of cash premiums received at the time of entering into certain financial derivative instruments. The Authority is amortizing such premiums over the life of the instrument in accordance with GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB No. 53).

(o) A&R OSA Employee Retirement Benefit

Under the A&R OSA, the Authority is contractually liable to reimburse PSEG-LI for employee benefit costs. For a further discussion on these obligations, see note 11.

(p) Commodity and Financial Derivative Instruments

Represents the amount that the Authority believes it would be required to pay in order to terminate these derivative instruments as of December 31, 2014 and 2013, which approximates fair value.

(q) Capitalized Lease Obligations

Capitalized lease obligations represent the net present value of various contracts for the capacity and/or energy of certain generation and transmission facilities. Upon satisfying the capitalization criteria, the net present value of the contract payments is included in both Utility Plant and Capital Lease Obligations.

The Authority recognizes in fuel and purchased power expense an amount equal to the contract payment of the capitalized leases, as allowed through the ratemaking process. The value of the asset and the obligation is reduced each month so that the statements of net position properly reflect the remaining net present value of the asset and obligation at each month end.

For a further discussion on the capitalization of capacity and/or energy contracts, see note 13.

(r) Long-Term Liabilities and Unrealized Credits

Long-term liabilities and unrealized credits consists primarily of the Authority's unfunded other post-employment benefit obligation for its employees and unsettled insurance reimbursements.

(s) Claims and Damages

Losses arising from claims including workers' compensation claims, property damage, and general liability claims are partially self-insured. Reserves for these claims and damages are based on, among other things, experience and expected loss.

(Amounts in thousands, unless otherwise stated)

(t) Accrued Storm Costs

As of December 31, 2014 and 2013, accrued storm costs totaled $89 million and $193 million, respectively. Accrued storm costs consist of unpaid storm restoration costs related to Superstorm Sandy.

(u) Revenues

Operating revenues are comprised of cycle billings for electric service rendered to customers based on meter reads and the accrual of revenues for electric service rendered to customers not billed at month-end. The Authority accrues unbilled revenues by estimating unbilled consumption at the customer meter. Unbilled revenue totaled $220 million and $210 million as of December 31, 2014 and 2013, respectively.

For the year ended December 31, 2014, the Authority received approximately 54% of its revenues from residential sales, 44% from sales to commercial and industrial customers, and the balance from sales to public authorities and municipalities.

All other revenue is reported as nonoperating revenue when service is rendered.

(v) Depreciation and Amortization

The provisions for depreciation for utility plant result from the application of straight-line rates by groups of depreciable properties in service assets. The rates are determined by age-life studies performed on depreciable properties. The average composite depreciation rate is 1.65% and 2.88% for December 31, 2014 and 2013, respectively.

Leasehold improvements are being amortized over the lesser of the life of the assets or the term of the lease, using the straight-line method. Property and equipment are being depreciated over its estimated useful life using the straight-line method.

During 2014, the Authority adopted a depreciation study commissioned by NGRID prior to the termination of the MSA. The depreciation study resulted in extending the useful life of electric assets thus reducing depreciation rates.

The following estimated useful lives and capitalization thresholds are used for utility property:

Category	Useful life
Generation – nuclear	46 – 54 years
Transmission and distribution	40 – 75 years
Common	5 – 55 years
Nuclear fuel in process and in reactor	6 years
Generation assets under capital lease	10 – 25 years

(w) Payments-in-Lieu-of-Taxes

The Authority makes payments-in-lieu-of-taxes (PILOTS) for certain operating taxes previously paid by LILCO, including gross income, gross earnings, property, Metropolitan Transportation Authority and certain taxes related to fuels used in utility operations. In addition, the Authority has entered into various PILOT arrangements for property it owns, upon which merchant generation and transmission is built.

Effective January 1, 2014, the Reform Act eliminated the Authority's obligation to pay gross earnings tax.

(x) Allowance for Borrowed Funds Used During Construction

The allowance for borrowed funds used during construction (AFUDC) is the net cost of borrowed funds used for construction purposes. AFUDC is not an item of current cash income. AFUDC is computed monthly on a portion of construction work in progress, and is shown as a net reduction in interest expense. The AFUDC rates were 4.673% and 4.856% for the years ended December 31, 2014 and 2013, respectively.

(y) Income Taxes

The Authority is a political subdivision of the State and, therefore, is exempt from Federal, state, and local income taxes.

(z) Asset Retirement Obligation

The Authority, as an 18% owner of NMP2, has a legal obligation to fund its share of the decommissioning costs of the nuclear power plant. The legal obligation associated with the retirement of a tangible, long lived asset resulting from the acquisition, construction, development and/or normal operation of the asset is referred to as an ARO. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and method of settlement. The ARO is continually reviewed for adequacy and is updated based on third party engineering studies. During 2014, an updated decommissioning study resulted in a reduction to the ARO of $23 million. As of December 31, 2014 and 2013, the NMP2 ARO totaled $58 million and $77 million, respectively.

The Authority also has an ARO related to certain of its T&D utility assets. Although no legal requirement exists to remove such assets from service, a "conditional" obligation is present based on the premise that eventually these assets will be removed from service as a result of deterioration.

Accordingly, the Authority established a liability for the portion of the costs that are attributable to the "conditional" obligaxtion. As of December 31, 2014 and 2013, the ARO for the Authority's transmission and distribution utility assets totaled $8 million. A summary of the ARO activity of the Authority for the years ended December 31, 2014 and 2013 is included below (amount in thousands):

		2014	2013
Asset retirement obligation:			
Beginning balance	$	84,828	80,103
Change due to updated study		(22,952)	—
Accumulated depreciation		155	290
Accretion expense		4,383	4,435
Balance at December 31	$	66,414	84,828

(aa) Long-Lived Assets

Long-lived assets and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that there is a significant unexpected decline in the service utility of a capital asset. Impairment, if any, would be measured using one of three approaches that best reflect the decline in service utility.

(bb) Use of Estimates

The accompanying financial statements were prepared in conformity with U.S. generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(cc) Recent Accounting Pronouncements

In June 2012, GASB issued Statement No. 68, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 27.* GASB No. 68 changes how governments calculate and report the costs and obligations associated with pensions to improve the decision-usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information. Statement No. 68 took effect for periods beginning after June 15, 2014. The Authority does not believe this statement will have a material impact on its financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68.* This statement requires that at transition to GASB No. 68, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 71 took effect for periods beginning after June 15, 2014. The Authority does not believe this statement will have a material impact on its financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. Statement No. 72 will take effect for periods beginning after June 15, 2015.

(dd) Reclassifications

Certain prior year amounts have been reclassed in the financial statements to conform to the current year presentation.

(4) Superstorm Sandy

In 2012, Superstorm Sandy caused significant damage to predominantly all of the Authority's Service Area resulting in the declaration of a federal major disaster area and making the Authority eligible for FEMA recovery. The Authority's total costs for restoration, which included labor, material, equipment, travel and incidental expenses associated with assistance from utilities across the nation, totaled $677 million. This amount excludes $80 million of estimated capital costs to be incurred to elevate and replace/repair flooded substations; however, such amounts are expected to be recovered from private insurance. Any amounts not recovered through insurance, will be analyzed for reimbursement eligibility under the FEMA claim. Substation work is expected to be completed in 2016 and is being capitalized as incurred.

During 2014, the Authority and FEMA signed a Letter of Undertaking (LOU) that provides for a Public Assistance (PA) grant authorized under Section 428 of the Stafford Act (428 Grant Agreement). Funds from the 428 Grant Agreement will reimburse the Authority for 90% of its eligible repair/restoration costs and certain storm hardening plus future mitigation projects to strengthen the electric grid on Long Island, for a total eligible reimbursement of $1.29 billion (90% of $1.43 billion LOU).

As of December 31, 2014, the Authority received $1.050 billion under the 428 Grant Agreement, of which the Authority reimbursed its treasury for funds expended to date totaling $603 million, and transferred the balance of $448 million to a segregated account to be used to pay remaining unpaid storm restoration costs and to fund future storm hardening and mitigation efforts.

In September 2014, the Authority signed a Community Development Block Grant (CDBG) agreement for $143.2 million representing an amount equal to the 10% nonfederal match of the FEMA grants. The CDBG grant funds the nonfederal match of recent declared weather events such as Superstorm Sandy and Hurricane Irene as well as certain storm mitigation protective measures. This grant is funded by the United States Department of Housing and Urban Development (HUD). In January 2015, the Authority received $80 million under the CDBG grant, and expects to receive the balance of those funds during 2015 for qualifying purposes.

(5) Derivative Instruments

The Authority uses derivative instruments in its normal course of business to attempt to manage the cash flow impact of interest rate changes and market price fluctuations for the purchase of fuel oil, natural gas and electricity on its customers, and cash flows. The Authority does not use derivative instruments for trading or speculative purposes. These contracts are evaluated pursuant to GASB No. 53 to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected cash flows associated with interest rate and commodity price risk exposures. The fair values of the Authority's derivatives as defined by GASB No. 53 are reported on the statements of net position as either Commodity Derivative Instruments or Financial Derivative Instruments.

The Authority applies hedge accounting for derivative instruments that are deemed effective under GASB No. 53. Under hedge accounting, changes in the fair value of such hedging derivative instrument is a component of deferred inflow or deferred outflow on the statements of net position until the contract is settled or hedge accounting is terminated. Derivative instruments that do not meet the definition of a hedging derivative instrument are economic hedges, intended to mitigate exposure to fluctuations in commodity prices and are referred to as investment derivative instruments. Changes in the fair value of investment derivative instruments are deferred until settled or terminated in accordance with the Authority's ratemaking process.

All settlement payments or receipts for hedging derivative instruments are recorded as either fuel and purchased power expense or interest expense for interest rate derivatives on the statements of revenues, expenses and changes in net position in the period settled. All settlement payments or receipts related to investment derivative instruments are recorded as interest expense or as fuel and purchased power expense in the statements of revenues, expenses and changes in net position in the period incurred.

The Authority's interest rate derivative contracts are transacted over-the-counter and are valued based on exchange-traded contracts with readily available quoted market prices. For the interest rate derivatives where there is no external source or observable market price quotation, values are based on various valuation techniques, including, but not limited to models internal to the Authority's financial advisor and based on extrapolation of observable market data with similar characteristics. The Authority's fuel and purchased power derivative contracts are also transacted over-the-counter and the valuations are based upon price quotes from exchanges and third party brokers. For both the interest rate derivative contracts and the fuel and purchased power derivative contracts, the Authority's practice is to not discount the fair value of each contract using an interest rate which represents default risk associated with a particular counterparty.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) expanded the Commodity Futures Trading Commission's (CFTC) jurisdiction to regulate swaps under the Commodity Exchange Act. The Authority has implemented several compliance measures, including the Authority's Board approved revisions to its commodity and interest rate policies to recognize the obligations and requirements of the Authority under the Dodd-Frank Act. The Authority will continue to evaluate CFTC rules and regulations to determine if there would be any potential impacts to the Authority's risk management strategies and practices.

The Authority's derivative instruments are as follows (in thousands):

Derivative instrument description		Fair value December 31, 2014	Net change in fair value	Fair value December 31, 2013	Type of hedge	Financial statement classification for changes in fair value
Hedging derivative instruments:						
Financial derivatives:						
Interest Rate Swap 7		(4,179)	(223)	(3,956)	Cash flow	Deferred outflow
Total	$	(4,179)	(223)	(3,956)		
Commodity derivatives:					Cash flow	
Natural Gas Swaps	$	—	20,254	(20,254)	Cash flow	Deferred outflow
Residual Oil Swaps		—	(88)	88	Cash flow	Deferred outflow
Purchased Power Swaps		31,173	59,069	(27,896)	Cash flow	Deferred outflow
Natural Gas Basis Swaps		(11,877)	(14,380)	2,503	Cash flow	Deferred outflow
Natural Gas Options		—	(2,569)	2,569	Cash flow	Deferred outflow
Total	$	19,296	62,286	(42,990)		
Investment derivative instruments:						
Financial derivatives:						
Interest Rate Swap 3	$	(249,898)	(54,377)	(195,521)	N/A	Unrealized charges
Interest Rate Swap 4		(15,291)	8,188	(23,479)	N/A	Unrealized charges
Interest Rate Swap 5		(7,646)	4,093	(11,739)	N/A	Unrealized charges
Interest Rate Swap 6		(7,646)	4,093	(11,739)	N/A	Unrealized charges
Total	$	(280,481)	(38,003)	(242,478)		
Commodity derivatives:						
Natural Gas Options	$	33,944	33,944	—	N/A	Unrealized charges
Natural Gas Swaps		(129,399)	(120,615)	(8,784)	N/A	Unrealized charges
Total	$	(95,455)	(86,671)	(8,784)		

The terms of the Authority's commodity derivative instruments that were outstanding at December 31, 2014 and 2013 are summarized in the tables below:

	Notional amount (in thousands)	Beginning date	Ending date	Authority pays per unit	Authority receives
2014:					
Natural Gas Swaps	63,515 Dths	1/1/2015	12/1/2017	$ 3.785 to 4.754	Natural Gas at Henry Hub
Purchased Power Swaps (1)	7,958 Mwhs	1/1/2015	11/1/2017	28.02 to 89.49	Power at PJM JCPL
Natural Gas Basis Swaps	4,692 Dths	1/1/2015	3/1/2015	0.60 to 10.00	Gas Basis between Henry Hub & Transco Z6, NY Transco Z6, NY
Natural Gas Options	82,150 Dths	1/1/2015	11/1/2017	3.55 to 5.55	Natural Gas at Henry Hub
Purchased Power Options (2)	699 Mwhs	5/1/2016	10/1/2017	35.07 to 104.36	Power at PJM JCPL
2013:					
Natural Gas Swaps	62,825 Dths	1/1/2014	12/1/2016	$ 3.785 to 5.685	Natural Gas at Henry Hub
Residual Oil Swaps	20 Bbls	1/1/2014	8/1/2014	95.75 to 105.30	Residual Fuel Oil at NY Harbor
Purchased Power Swaps (1)	5,171 Mwhs	1/1/2014	10/1/2016	29.64 to 81.39	Power at PJM East
Natural Gas Basis Swaps	3,832 Dths	1/1/2014	3/1/2014	0.19 to 2.45	Gas Basis between Henry Hub & Transco Z6, NY Transco Z6, NY
Natural Gas Options	16,925 Dths	1/1/2014	12/1/2016	3.75 to 5.25	Natural Gas at Henry Hub
Purchased Power Options (2)	117 Mwhs	5/1/2016	10/1/2016	35.54 to 41.31	Power at PJM JCPL

(1) Purchased Power Swaps are executed as either a swap or synthetically, as a combination of a Power Heat Rate swap and a Natural Gas Swap

(2) Purchased Power Options are executed synthetically, as a combination of a Power Heat Rate swap and a Natural Gas Option

The terms of the Authority's financial derivative instruments that were outstanding at December 31, 2014 are summarized in the tables below (amounts in thousands):

Financial derivative	Type	Effective date	Termination date	Authority pays	Authority receives	Original notional	Upfront cash payment
Interest rate:							
Swap 3	Synthetic Fixed	6/1/2003	12/1/2029	5.120	69.47% of 1-month LIBOR	$ 587,225	106,400
Swap 4	Basis Swap	7/1/2004	8/15/2033	SIFMA	70.50% of 1-month LIBOR	502,090	17,500
Swap 5	Basis Swap	7/1/2004	8/15/2033	SIFMA	70.50% of 1-month LIBOR	251,045	8,750
Swap 6	Basis Swap	7/1/2004	8/15/2033	SIFMA	70.50% of 1-month LIBOR	251,045	8,750
Swap 7	Synthetic Fixed	7/11/2006	9/1/2015	4.110%	CPI + 0.765%	110,715	—

Swap termination: During 2013, the Authority exercised its option to terminate Swap 1 and 2 with proceeds from the UDSA Restructuring Bonds. In accordance with this option, the Authority was required to pay the counterparty the fair market value at the date of termination which totaled $45 million. As the termination was negotiated, and given that $32 million had previously been recorded to deferred loss on refunding, and $7 million was recorded to deferred outflow, the termination resulted in an investment loss of $6 million.

The Authority is exposed to the following risks related to derivative instruments as defined by GASB No. 53:

Termination Risk: Termination risk is the risk that a derivative could be terminated by a counterparty prior to its scheduled maturity due to a contractual event with the Authority owing a termination payment and no longer meeting the objective of the hedge. As long as the Authority fulfills its obligations under the contracts and does not default under the agreements, the counterparties do not have the right to terminate these agreements. The Authority believes that termination risk is low because the counterparties may terminate the agreements only upon the occurrence of specific events such as, payment defaults, other defaults which remain uncured for 30 days after notice, bankruptcy or insolvency of the Authority (or similar events), or a downgrade of the Authority's and its insurers', if any, credit rating below investment grade. If, at the time of termination, the mark-to-market of the derivative was a liability of the Authority, the Authority could be required to pay that amount to the counterparty. Termination risk associated with all of the Authority's derivatives is limited to the fair value.

Basis Risk: The Authority is exposed to basis risk on certain of its pay-fixed interest rate swaps because the variable-rate payments received by the Authority (SIFMA, 69.47% of LIBOR) on these hedging derivative instruments are based upon indexes other than the actual interest rates the Authority pays on its hedged variable rate debt. The terms of the related hedging fixed rate swap transactions are summarized in the charts above.

The Authority is exposed to other basis risk on a portion of its commodity swaps when the commodity swap payment received is based upon a reference price in a market (e.g. natural gas priced at Henry Hub) that differs from the market in which the hedged item is expected to be bought (natural gas priced at New York City gate). If the correlation between these market prices should change substantially, the Authority may incur costs as a result of the hedging derivative instrument's inability to offset the price of the related commodity.

Rollover risk: The Authority was exposed to rollover risk on its Swap 1 and Swap 2 due to the inconsistency between the maturity dates and the swap termination dates which exposed the Authority to interest rate volatility during that period; however, those swaps were terminated in 2013. As of December 31, 2014, the Authority has no rollover risk.

Collateral Posting: Under certain conditions, the Authority may be required to post collateral related to its interest rate derivative instruments. Under the terms of its interest rate derivative agreements, collateral may be required if the Authority's credit ratings and, in the case of insured swaps, the credit ratings of any related interest rate swap insurer, fall below minimum levels as provided in each swap agreement, and the Authority fails to provide alternative credit enhancements. Collateral for its financial derivatives, if required, would approximate fair value. The Authority has never been required to posted collateral under its interest rate derivative instruments.

The Authority has collateral requirements with commodity derivative counterparty in the Credit Support Annexes (CSA) of the International Swap Deal Agreements (ISDA). Collateral is required to be posted with the counterparty when the negative fair value of the commodity derivative instrument exceeds the unsecured line of credit established with each counterparty as listed in the counterparty table below. In the event of collateral being posted, the value will equal the difference between the fair value and the amount of the unsecured line of credit. At December 31, 2014, the Authority had $4.5 million posted collateral, while holding $1.15 million collateral with other counterparties. At December 31, 2013, the Authority had no posted collateral with counterparties.

Credit Risk: The risk that the counterparty (or its guarantor) will default on its obligations under the agreement. Currently, counterparty risk for the Authority is limited as the termination values of the transactions are generally negative. Additionally, the Authority has sought to limit counterparty risk by contracting only with highly rated counterparties or requiring guarantees of the counterparty's obligations. Below is a table with the credit-ratings of the Authority's counterparties as of December 31, 2014 (amounts in millions):

Counterparty	Moody's	S&P	Counterparty's unsecured line of credit
Interest rate derivative instruments:			
Bear Stearns Capital Markets	A2	A	$ —
Citibank, N.A. New York	A3	A	—
Merrill Lynch Capital Services	Baa2	A-	—
UBS AG, Stamford Branch	A2	A	—
Morgan Stanley Capital Group Inc.	Baa2	A-	—
Commodity derivative instruments:			
Bank of Nova Scotia	Aa2	A+	25
Barclays Bank PLC	A3	BBB	10
BP Energy Company	Baa1	A	10
Cargill, Incorporated	A2	A	15
Citigroup Energy, Inc.	Baa2	A-	5
Credit Suisse Int'l	A2	A-	20
Deutsche Bank AG	A3	A	50
J. Aron & Company	Baa1	A-	40
JPMorgan Chase Bank, N.A.	Aa3	A	35
Macquarie Energy LLC	A3	BBB	5
Merrill Lynch Commodities, Inc.	Baa2	A-	5
Morgan Stanley Capital Group Inc.	Baa2	A-	40
Next Era Power Marketing	Baa1	A-	10
Societe Generale	A2	A	25

(6) Rate Matters

The LIPA Act requires that any bond resolution of the Authority contain a covenant that it will at all times maintain rates, fees, or charges sufficient to pay the costs of: operation and maintenance of facilities owned or operated by the Authority; PILOTS; renewals, replacements, and capital additions; and the principal of, and interest on, any obligations issued pursuant to such resolution as the same become due and payable. In addition, the Authority must establish or maintain reserves or other funds or accounts required or established by or pursuant to the terms of such resolution.

In addition to the delivery rate, the Authority's tariff also includes: (i) the FPPCA, to allow for adjustments to customers' bills to reflect changes in the cost of fuel and purchased power and related costs; (ii) a PILOTS recovery rider, which allows for rate adjustments to accommodate changes in PILOTS; (iii) a rider providing for the recovery of costs associated with the Shoreham Property Tax Settlement; (iv) a rider for the Authority's energy efficiency and renewable program; (v) a rider providing for the collection of the Temporary State Assessment imposed by the New York State Legislature (vi) a visual benefit assessment for certain customers in the Town of Southampton; and (vii) a Restructuring Charge (see below).

Authority to Set Rates

The Authority's Board is empowered to set rates for electric service in the Service Area without being required by law to obtain the approval of the Public Service Commission (PSC) or any other State regulatory body. However, the Reform Act, which was passed and signed into law in 2013, establishes a rate review process that requires that on or before February 1, 2015, PSEG-LI and the Authority submit for review to DPS LI a three-year rate proposal for rates and charges to take effect on or after January 1, 2016. The three-year rate proposal was filed on January 30, 2015. DPS LI will review and make recommendations on the rate plan by September 28, 2015. Assuming the Authority's Board accepts such recommendations, the rates will become final. In the event the Authority's Board disagrees with any DPS LI recommendation, it must notify DPS LI within 30 days providing the basis for such disagreement, which must be that the recommendation is, in the Board's view, inconsistent with the Authority's sound fiscal operating practices, any existing contractual or operating obligations, or the provision of safe and adequate service. After providing notice to DPS LI and posting notice to its website and the website of PSEG-LI, the Authority must hold a public hearing within 30 days where DPS LI and the Authority will, and PSEG-LI may, present their positions. Within 30 days of this hearing, the Authority's Board will announce its final rate plan. After the 2016-2018 period, PSEG-LI and the Authority are only required to submit a proposed rate increase for DPS LI review if it would increase the rates and charges by an amount that would increase the Authority's annual revenues by more than 2.5%. If necessary, the Authority's Board may place such rates and charges into effect on an interim basis, prior to DPS LI review, subject to prospective rate adjustment.

The Reform Act also permitted the Authority's Board to adopt a Restructuring Cost Financing Order (Financing Order) which, among other things, authorized the creation of Restructuring Property and issuance of Restructuring Bonds by UDSA to provide funds for the purchase of the Restructuring Property from the Authority. The Financing Order was adopted by the Authority's Board on October 3, 2013. The Restructuring Property consists primarily of the irrevocable contract right to impose, bill, and collect the nonbypassable consumption-based Restructuring Charge from all existing and future retail electric customers taking electric transmission or distribution service within the Service Area from the Authority or any of its successors or assignees. The Authority was authorized to use the proceeds from the sale of the Restructuring Property to purchase, redeem, repay, or defease certain of its outstanding debt.

The Authority acts as the initial Servicer of the Restructuring Property pursuant to the terms of the Servicing Agreement with UDSA. However, pursuant to the A&R OSA, PSEG-LI, among other things, performs the billing and collections, meter reading, and forecasting required of the Servicer under the Servicing Agreement. The Authority is responsible for taking all necessary action in connection with True-Up Adjustments (described below) and certain reporting requirements.

The Restructuring Charges are adjusted (True-Up Adjustments) at least annually and, if determined by the Servicer in connection with a mid-year review process to be necessary, semi-annually or more frequently, to ensure that the expected collections of the Restructuring Charges are adequate to timely pay all scheduled payments of principal and interest on the Bonds and other all ongoing financing costs when due. Through the True-Up Adjustment, all Customers cross share in the liabilities of all other Customers for the payment of Restructuring Charges.

The Restructuring Charge is established on behalf of the UDSA, which is not subject to oversight by the DPS LI, or any other regulatory body, including the Authority's Board. To pass through the benefits of securitization to customers, the Authority has modified its rate structure to create a restructuring offset charge, which is an amount equal to and opposite the Restructuring Charge, so that the customer bill is no more than it would have been absent securitization. The restructuring offset charge will be adjusted coincident with changes to the Restructuring Charge to maintain that equality.

(7) Utility Plant and Property and Equipment

The following schedule summarizes the utility plant and property and equipment of the Authority as of December 31, 2014 (amounts in thousands):

	Beginning balance	Additions	Deletions	Ending balance
Capital assets, not being depreciated:				
Land	$ 17,566	—	—	17,566
Retirement work in progress	39,396	13,504	31,537	21,363
Construction in progress	385,183	429,789	455,591	359,381
Total capital assets not being depreciated	442,145	443,293	487,128	398,310
Capital assets, being depreciated:				
Generation – nuclear	737,889	1,719	8,580	731,028
Transmission and distribution	4,007,697	338,693	20,270	4,326,120
Common	137,886	82,759	72,926	147,719
Nuclear fuel in process and in reactor	150,153	2,422	1,211	151,364
Office equipment, furniture, and leasehold improvements	17,684	738	13	18,409
Generation and transmission assets under capital lease	3,751,349	—	—	3,751,349
Total capital assets being depreciated	8,802,658	426,331	103,000	9,125,989
Less accumulated depreciation for:				
Generation – nuclear	315,347	64,061	1,353	378,055
Transmission and distribution	1,078,586	21,068	46,684	1,052,970
Common	25,578	16,547	863	41,262
Nuclear fuel in process and in reactor	104,485	12,365	—	116,850
Office equipment, furniture, and leasehold improvements	12,521	2,481	—	15,002
Generation assets under capital lease	1,025,260	167,843	—	1,193,103
Total accumulated depreciation	2,561,777	284,365	48,900	2,797,242
Net value of capital assets, being depreciated	6,240,881	141,966	54,100	6,328,747
Net value of all capital assets	$ 6,683,026	585,259	541,228	6,727,057

In 2014, depreciation expense related to capital assets was $104 million.

The following schedule summarizes the utility plant and property and equipment of the Authority as of December 31, 2013 (amounts in thousands):

		Beginning balance	Additions	Deletions	Ending balance
Capital assets, not being depreciated:					
Land	$	17,566	—	—	17,566
Retirement work in progress		32,993	14,278	7,875	39,396
Construction in progress		267,893	359,714	242,424	385,183
Total capital assets not being depreciated		318,452	373,992	250,299	442,145
Capital assets, being depreciated:					
Generation – nuclear		734,507	9,161	5,779	737,889
Transmission and distribution		3,844,135	171,985	8,423	4,007,697
Common		46,009	91,877	—	137,886
Nuclear fuel in process and in reactor		123,631	26,522	—	150,153
Office equipment, furniture, and leasehold improvements		17,444	240	—	17,684
Generation and transmission assets under capital lease		3,751,349	—	— —	3,751,349
Total capital assets being depreciated		8,517,075	299,785	14,202	8,802,658
Less accumulated depreciation for:					
Generation – nuclear		293,388	22,511	552	315,347
Transmission and distribution		953,863	138,447	13,724	1,078,586
Common		22,891	4,687	2,000	25,578
Nuclear fuel in process and in reactor		91,831	12,654	—	104,485
Office equipment, furniture, and leasehold improvements		9,944	2,577	—	12,521
Generation assets under capital lease		868,028	157,232	—	1,025,260
Total accumulated depreciation		2,239,945	338,108	16,276	2,561,777
Net value of capital assets, being depreciated		6,277,130	(38,323)	(2,074)	6,240,881
Net value of all capital assets	$	6,595,582	335,669	248,225	6,683,026

In 2013, depreciation expense related to capital assets was $166 million.

(8) Nine Mile Point Nuclear Power Station, Unit 2

The Authority has an undivided 18% interest in NMP2, located in upstate New York, and operated by Exelon Corporation (Exelon).

NMP2 operated at an annual mean capacity through 2014 of approximately 1298 MW. The Authority's share of the rated capability of NMP2 is approximately 234 megawatts (MW). The net utility plant investment, excluding nuclear fuel, was $353 million and $423 million as of December 31, 2014 and 2013, respectively. Generation from NMP2 and operating expenses incurred by NMP2 are shared by the Authority at its 18% ownership interest. The Authority is required to provide its share of financing for any capital additions to NMP2. Nuclear fuel costs associated with NMP2 are being amortized on the basis of the quantity of heat produced for the generation of electricity.

The Authority has an operating agreement with Exelon for NMP2 which provides for a management committee comprised of one representative from each co-tenant. Exelon controls the operating and maintenance decisions of NMP2 in its role as operator. The Authority and Exelon have joint approval rights for the annual business plan, the annual budget and material changes to the budget.

The Nuclear Regulatory Commission (NRC) granted a license extension for the NMP2 facility extending the license through October 2046.

(a) Nuclear Plant Decommissioning

Provisions for decommissioning costs for NMP2 are based on the most current site-specific study prepared by Exelon in 2014. The Authority's share of the total decommissioning costs for both the contaminated and noncontaminated portions is $58 million and $77 million as of December 31, 2014 and 2013, respectively, and is included in the statements of net position as a component of the ARO. During 2014, a new decommissioning study incorporating revised escalation rates, staffing models, labor rate multipliers and assumptions for spent fuel pool operations resulted in an overall decrease in the ARO liability of approximately $23 million.

The Authority maintains a nuclear decommissioning trust fund (NDT) for its share of the decommissioning costs of NMP2, which as of December 31, 2014 and 2013 had an approximate value of $111 million and $102 million, respectively. Based on deposits and assumed investment returns related to these funds, the Authority believes that the value of these trusts will be sufficient to meet the Authority's expected decommissioning obligations.

(b) NMP2 Radioactive Waste

Exelon has contracted with the Department of Energy (DOE) for disposal of high level radioactive waste (spent fuel) from NMP2. Despite a court order reaffirming the DOE's obligation to accept spent nuclear fuel by January 31, 1998, the DOE has not forecasted the start of operations of its high level radioactive waste repository. As of May 2012, the NMP2 spent fuel storage pool could no longer accept a total fuel off-load. In order to regain this capability and to provide for future spent fuel storage, a dry fuel storage facility was constructed for NMP2 spent fuel at the site. This storage facility license was approved by the NRC for 20 years and may be subsequently re-licensed in up to 40 year increments. The dry fuel storage facility, designed to serve both Nine Mile Point 1 and NMP2, cost $54 million with the Authority's share being $5 million. This facility will provide sufficient storage capacity for current needs with provisions for expansion, when required, through the end of commercial operation in 2046. Spent fuel transfers from NMP2 spent fuel storage pool to the storage facility commenced in the third quarter of 2013. Spent fuel will remain in this storage facility at the site until such time as an ultimate repository is provided by the DOE.

(c) Nuclear Plant Insurance

Exelon procures nuclear liability and property insurance for NMP2 and the Authority reimburses Exelon for its 18% share of those costs.

The Terrorism Risk Insurance Act (TRIA) of 2002 was extended by the Terrorism Risk Insurance Extension Act of 2005 and the Terrorism Risk Insurance Program Reauthorization Act of 2007. The Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) of 2015 is the third reauthorization of TRIA, which was created in response to a severe insurance market shortage after the September 11, 2001, terrorist attacks, and provides for reinsurance coverage to insurers in the event of a certified terrorist act. The latest reauthorization authorizes the terrorism insurance backstop for a term of six years.

The Price-Anderson Act was enacted to ensure the availability of funds for public liability claims arising from an incident at any of the U.S. licensed nuclear facilities and also to limit the liability of nuclear reactor owners for such claims from any single incident. As of December 31, 2014, the current liability limit per incident was $13.6 billion and is subject to change to account for the effects of inflation and changes in the number of licensed reactors. An inflation adjustment must be made at least once every 5 years and the last inflation adjustment was made effective September 10, 2013. In accordance with the Price-Anderson Act, Exelon maintains financial protection at levels equal to the amount of liability insurance available from private sources through the purchase of private nuclear energy liability insurance for public liability claims that could arise in the event of an incident. The amount of nuclear energy liability insurance coverage is $375 million for each operating site. Additionally, the Price-Anderson Act requires a second layer of protection through the mandatory participation in a retrospective rating plan for power reactors (currently 104 reactors), resulting in an additional $13.2 billion in funds available for public liability claims. Participation in this secondary financial protection pool requires the operator of each reactor to fund its proportionate share of costs for any single incident that exceeds the primary layer of financial protection. Under the Price-Anderson Act, the maximum assessment in the event of an incident for each nuclear operator, per reactor, per incident (including a 5% surcharge), is $127.3 million, payable at no more than $19 million per reactor per incident per year. The Authority's interest in NMP2 exposes the Authority to a maximum liability per incident that is approximately $22.9 million, payable through assessments of up to $3.4 million per year.

In addition, the U.S. Congress could impose revenue-raising measures on the nuclear industry to pay public liability claims exceeding the $13.6 billion limit for a single incident.

Exelon has also procured primary nuclear property insurance and shared excess property insurance (including stabilization, decontamination and premature decommissioning costs) for NMP2 through Nuclear Electric Insurance Limited (NEIL). Premiums paid to NEIL by its members are subject to assessment for adverse loss experience (the retrospective premium obligation). NEIL has never exercised this assessment since its formation in 1973, and while the Authority cannot predict the level of future assessments, or if they will be imposed at all, as of December 31, 2014, the current maximum aggregate annual retrospective premium obligation for the Authority is approximately $3.0 million.

The above nuclear insurance programs include coverage for certified and noncertified acts of terrorism as defined by TRIPRA. However, in the event that one or more acts of terrorism cause accidental property damage insured by within a twelve-month period from the first accidental property damage under one or more policies for all NEIL insured plants, the maximum recovery for all losses by all insured's will be an aggregate of $3.24 billion, plus such additional amounts as the insurer may recover for all such losses from reinsurance, indemnity and any other source, including TRIPRA, applicable to such losses.

The Authority has obtained insurance coverage from NEIL for the expense incurred in purchasing replacement power during prolonged accidental outages. Under this program, coverage would commence twelve weeks after any covered accidental outage, with reimbursement from NEIL at the rate of approximately $630,000 per week for the first 52 weeks, reduced to $504,000 per week for an additional 110 weeks for the purchase of replacement power, with a maximum limit of $88.2 million.

(d) Other

In March 2012, the NRC issued additional safety enhancement requirement orders as a result of the disaster at the Fukushima Daiichi facility. These orders are applicable to operating U.S. reactors, as well as all construction permits and combined license holders. The orders require safety enhancements to mitigate the response to natural events resulting in the loss of system power at plants, reliable hardened containment vents and enhancing spent fuel pool instrumentation. Implementation of all safety enhancements is required by the end of the second quarter in 2016. The NRC has also requested each reactor reevaluate the seismic and flooding hazards at their site using present-day methods and information, conduct walk downs of their facilities to ensure protection against the hazards in their current design basis, and reevaluate their emergency communications systems and staffing levels. Exelon is preparing a response to these new regulations in accordance with NRC rules and indicates that they will comply with all NRC requirements within the allotted timeframe. The Authority believes that the costs of such safety enhancements, if any, will not have a material impact on the Authority's operations or cash flows.

(9) Cash, and Cash Equivalents and Investments

(a) Authority

The Authority's investments are managed by an external investment manager and consist of five accounts: the Operating Fund, the Rate Stabilization Fund, Grant Proceeds Fund and the taxable and tax exempt Construction Funds. The Operating Fund is managed to meet the liquidity needs of the Authority, the Rate Stabilization Fund is managed to maximize the return on investment, the Grant

Proceeds Fund holds proceeds from FEMA designated for future mitigation projects, and the Construction Funds are used to fund capital expenditures from the proceeds of bonds and are separately managed to distinguish between tax status. The Authority must maintain in the Rate Stabilization Fund an amount determined by the Authority from time to time in accordance with the Authority's bond resolution. In accordance with its agreements with banks issuing letters of credit to secure the Authority's bonds, the Authority has agreed that such amount will not be less than $150 million. Additionally, the Authority is required to maintain compensating balances of $1.2 million.

The Authority's investment policy places limits on investments by issuer and by security type and addresses various risks described below. The Board may also specifically authorize, as it deems appropriate, other investments that are consistent with the Authority's investment objective. The Authority regularly reviews its investment policy to ensure continued effectiveness.

Credit Risk: The Authority's permissible investments and related minimum credit ratings include U.S. Treasury and Federal Agency obligations (AA- or Aa3), repurchase agreements (A-1), commercial paper (A1 or P-1), corporate notes (AA- or Aa3), master notes (AA- or Aa3) and asset backed securities (AAA), certificates of deposit (AA- or Aa3), money-market mutual funds (AAAm or AAAm-G), investment contracts (AA- or Aa3), municipal obligations (AA- or Aa3), and variable rate notes (based on the specific asset type noted above). The Authority's investment policy prohibits investments involving complex derivatives, reverse repurchase agreements, auction rate securities and short selling and arbitrage related investment activity.

Concentration of Credit Risk: To address concentration of credit risk, the Authority's investment policies have established limits such that no more than 5% of the investment portfolio may be invested in the securities of any one issuer except as follows: (i) U.S. Treasury Obligations up to 100%; (ii) each Federal agency up to 10%; (iii) repurchase agreements up to 10% or $50 million; and, (iv) money-market mutual funds up to 75% maximum.

Custodial Credit Risk: The Authority believes that custodial credit risk related to its investments is minimal, as it is the Authority's policy and practice, as stipulated in its Investment Guidelines, that investments be held by a third-party custodian who may not otherwise be a counter-party to the transactions, and that all securities are free and clear of any lien and held in a separate account, in the name of the Authority.

Custodial credit risk for cash deposits (including demand deposits, time deposits and certificates of deposit issued by a commercial bank) is the risk that in the event of a bank failure, the Authority's deposits may not be returned, either in part or in whole. The Authority's policy to address this risk requires that all demand deposits, time deposits and certificates of deposits issued by a commercial bank not having a long-term credit rating of AA-or higher be fully collateralized above the Federal Deposit Insurance Corporation coverage. Commercial banks with long-term credit ratings of AA-/Aa3 or higher do not require collateralization unless otherwise required by the Authority's Chief Financial Officer.

As of December 31, 2014 and 2013, the Authority had deposits of $180 million and $272 million, respectively, of which $6 million of the 2013 balance was not collateralized or was uninsured.

Uncollateralized balances were primarily the result of amounts temporarily held pending investment or disbursement. Collateral on deposits was held in an account for the Authority at 102% of the available deposit balance.

Interest Rate Risk: The Authority's investment policy states that investments have maturities of 12 months or less, generally. Investment maturities may exceed 12 months provided that the maturity does not exceed the expected disbursement date of those funds, the total average portfolio maturity is one year or less and no individual maturity exceeds three years, with the exception of U.S. government obligations and investment contracts. As of December 31, 2014 and 2013, all of the Authority's investments had maturities of less than 12 months.

As of December 31, 2014 and 2013, the Authority had the following investments and maturities (amounts in thousands):

			2014	
			Investment maturities	
Deposit/investment type	2014 Fair value	Percent of portfolio	Less than 3 months	3 months to 1 year
Short-term discount notes:				
Commercial paper	$ 91,646	12%	$ 91,646	—
Federal agencies	9,041	1	9,041	—
Treasury Bills	84,649	11	84,649	—
Money-market mutual funds	565,142	72	565,142	—
Cash and collateralized deposits	31,988	4	31,988	—
Total	$ 782,466	100%	$ 782,466	—

			2013	
			Investment maturities	
Deposit/investment type	2013 Fair value	Percent of portfolio	Less than 3 months	3 months to 1 year
Short-term discount notes:				
Commercial paper	$ 35,064	9%	$ 35,064	—
Federal agencies	66,600	18	66,600	—
Money-market mutual funds	267,782	71	267,782	—
Cash and collateralized deposits	9,375	2	9,375	—
Total	$ 378,821	100%	$ 378,821	—

(b) *Nuclear Decommissioning Trusts (NDT)*

The Authority maintains a separate investment policy applicable to the long-term investments in the NDT which is held to meet the Authority's obligation with respect to the eventual decommission of the Authority's 18% interest in the NMP2 nuclear facility. The NDT guidelines detail permissible investments and portfolio restrictions. This investment policy is reviewed regularly to ensure that the value in the trusts in 2046 (the year in which decommissioning activities are scheduled to begin), will be sufficient to meet decommissioning obligations.

Credit Risk: The guidelines attempt to minimize risk by limiting permissible investments to include: obligations of the U.S. government and its agencies; corporate or other obligations with an A/A or better rating; mortgage obligations rated AA/Aa or higher; commercial paper with a rating of A1 or P1; certificates of deposit; Eurodollar certificates of deposit and bankers acceptances of domestic banks with A+/A1 rating or better, short-term money market investment accounts that conform to the aforementioned permissible investments; and with respect to the long-term NDT investment portfolio only, equity investments limited to portfolio funds of securities designed to replicate the overall market measured by the S&P 500 Index, and futures contracts on the S&P 500 Index. Within the NDT investment portfolio, the use of equity investments as a permissible investment is limited to a target exposure of 35% with a quarterly rebalancing within plus or minus 5%. The fixed income portion of the NDT investment portfolio must maintain an average credit rating of AA or better with no more than 30% of the portfolio invested in notes and bonds rated A and no more than 20% of the portfolio invested in municipal securities.

Concentration of Credit Risk: To address this risk, the investment policies have established limits such that no more than 5% of the portfolio may be invested in the securities of any one issuer with the exception of U.S. government and its agencies securities. In addition, no more than 25% of the portfolio may be invested in securities of issuers in the same industry.

Custodial Credit Risk: The NDT does not have a policy relative to custodial credit risk of its deposits, however, as a practical matter, it defers to the policies of the Authority, as discussed above.

Interest Rate Risk: Due to the long-term nature of the NDT asset, interest rate risk is managed to track the Barclays Capital U.S. government/Credit Bond Index. The portfolio's duration is required to fall within a range of 20% below the duration of the index and 10% above the duration of the index.

As of December 31, 2014 and 2013, the NDT had the following investments (amounts in thousands):

Investment type	2014 Fair value	Percent of portfolio
U.S. government and its agencies obligations	$ 48,254	44%
Corporate Notes/Bonds	21,835	20
Commingled equity fund	40,580	36
Total	$ 110,669	100%

(Amounts in thousands, unless otherwise stated)

Investment type		2013 Fair value	Percent of portfolio
U.S. government and its agencies obligations	$	45,175	44%
Money-market mutual funds		10,115	10
Commingled equity fund		46,969	46
Total	$	102,259	100%

The overall duration of the three individual accounts averaged 5.9 years and 4.3 years at December 31, 2014 and 2013, respectively.

(c) ***Restricted Cash***

PSEG-LI

In accordance with the A&R OSA, the Authority is required to advance fund a restricted operating account to pay for pass through expenditures of PSEG-LI. The Authority is required to maintain in this account three months of anticipated T&D operating and capital costs, which totaled $148 million and $263 million, as of December 31, 2014 and 2013, respectively, and was held in a collateralized deposit with JP Morgan Chase.

UDSA

UDSA was created by the Reform Act to restructure a portion of the Authority’s debt. Any proceeds remaining from the restructuring transaction are held by the UDSA Trustee which has established and maintained a segregated trust account. In addition, any collections resulting from the restructuring charge are held by the Trustee to satisfy debt service on the Restructuring Bonds in the Collection Account. The Collection Account for the bonds consists of four subaccounts: a General Subaccount, an Excess Funds Subaccount, a Reserve Subaccount, and an Upfront Financing Costs Subaccount. The Collection Account (other than the Upfront Financing Costs Subaccount) secures the Restructuring Bonds. For administrative purposes, the subaccounts may be established by the Trustee as separate accounts which will be recognized individually as subaccounts and collectively as the Collection Account. The balance in the Reserve Subaccount was established at a reserve level of 0.5% of the initial principal amount of the Restructuring Bonds originally issued and must be maintained at a level of 0.5% of the Restructuring Bonds outstanding.

Restricted cash held by the Trustee, as of December 31, 2014, includes $12 million in the General Subaccount, and $10.5 million in the Reserve Subaccount and Upfront Financing Costs Subaccount.

UDSA has a separate set of investment guidelines that are specifically designed to address its legal and contractual requirements. These guidelines follow similar credit requirements and eligible investments of the Authority but are mandated such that investments must be matched to meet the obligations of the bond and interest payments.

FEMA Grant Proceeds

The Authority received from FEMA in advance approximately $448 million for storm mitigation work on certain of the Authority assets as well as initial repair costs. The Authority has not funded such projects and has segregated those funds for specific use as required by the FEMA grant agreement.

As of December 31, 2014 and 2013, the Authority had the following investments and maturities of its restricted cash balances (amounts in thousands):

			2014	
			Investment maturities	
Deposit/investment type	2014 Fair value	Percent of portfolio	Less than 3 months	3 months to 1 year
Short-term discount notes:				
Commercial paper	$ 63,200	10%	$ 63,200	—
Federal agencies	22,718	4	22,718	—
Treasury bills	48,369	8	48,369	—
Money-market mutual funds	335,810	54	335,810	—
Cash and collateralized deposits	148,287	24	148,287	—
Total	$ 618,384	100%	$ 618,384	—

			2013	
			Investment maturities	
Deposit/investment type	2013 Fair value	Percent of portfolio	Less than 3 months	3 months to 1 year
Cash and collateralized deposits	$ 273,515	100%	$ 273,515	—
Total	$ 273,515	100%	$ 273,515	—

(d) OPEB Account

Under the A&R OSA, certain post-employment health and life insurance benefit plan expenses for the PSEG-LI employees are pass-through expenditures ultimately payable by the Authority during the term of the A&R OSA and at the termination of the agreement. Additionally, the Authority incurs similar liabilities for the post-employment health and life insurance benefits for its own employees. To meet these obligations, the Authority's Board authorized the establishment and funding of an OPEB Account to provide a source of payment for such future OPEB expenses as they become due and to provide for the investment of such funds in the account as permitted by the Authority's investment guidelines, which are similar to investments commonly made in accounts dedicated to OPEB obligations. As of December 31, 2014, the Authority had on deposit $22.3 million in the OPEB Account, of which $20.2 million is related to the PSEG-LI employee benefit obligation and $2.1 million related to the Authority employee benefit obligation. The Authority's Board required that any deposits to the OPEB Account be subject to a determination by the Chief Executive Officer (CEO) or the Chief Financial Officer (CFO) that, on a projected basis in such officer's judgment, making a deposit in the OPEB Account will not cause the Authority to be in violation of any debt service coverage requirements or any other of its covenants. Additionally, in the event that the CEO or CFO determine there would be insufficient revenues to pay reasonable and necessary operating expenses or to make payments on bonds or parity obligations, then the CEO or CFO is authorized after notifying the Finance and Audit Committee of the Board to release funds from the OPEB Account for such purposes. As such, the OPEB Account is not restricted cash and is included in the table above.

(10) Long-Term and Short-Term Debt

(a) Electric System General Revenue Bonds

The Authority financed the cost of acquiring the T&D system with Electric System General Revenue Bonds and Electric System Subordinated Revenue Bonds (collectively, the Bonds). Ongoing capital improvements are funded through the issuance of debt, except where excess cash flow provides an ability to cash fund such expenditures. LIPA and the Authority entered into a Financing Agreement, whereby LIPA transferred to the Authority all of its right, title and interest in and to the revenues generated from the operation of the transmission and distribution system, including the right to collect and receive the same.

All of the Authority's bonds are secured by a Trust Estate as pledged under the Authority's Bond Resolution (the Resolution). The Trust Estate consists principally of the revenues generated by the operation of the transmission and distribution system and has been pledged to the Authority

2014

The Authority issued $413 million of Electric System General Revenue Bonds, Series 2014A. The proceeds of these fixed rate bonds, including the original issue premium of $37 million, were used to fund capital programs, refund Electric System General Revenue Bonds Series 2004A totaling $22 million, and pay bond issuance costs. The 2014A bonds have an average life of 19.7 years and an all-in cost of 4.40%. The refunding produced an approximate $2 million net present value savings.

The Authority issued $165 million of Electric System General Revenue Taxable Bonds, Series 2014B. The proceeds of these fixed rate bonds were used to fund capital and information technology projects developed by PSEG-LI, to fund a portion of the Authority's contractual obligations related to the PSEG-LI pension fund, and to pay bond issuance costs. The 2014B bonds have an average life of 7.8 years and an all-in cost of 3.69%.

The Authority also issued $150 million of its Electric System General Revenue Bonds, Series 2014C Floating Rate Notes. The proceeds of these notes were used to refund Electric System Subordinated Revenue Bonds Series 2001 1B and 2001 3A totaling $150 million. The refunding was completed on January 2, 2015. The 2014C bonds have an average life of 17.3 years and an all-in cost of 1.90%, however, the interest rate will reset monthly based on 70% of LIBOR plus 0.65%. The refunding produced an approximate $16 million net present value savings.

2013

The Authority issued $226 million of its Electric System General Revenue Bonds, Series 2013B. The proceeds of these bonds were used to redeem $226 million of outstanding variable rate securities in a current refunding. These bonds were refunded as part of the securitization discussed below.

(b) UDSA

The Authority's Board adopted the Financing Order authorizing the creation of the Restructuring Property and issuance of Restructuring Bonds by UDSA to provide funds for the purchase of the Restructuring Property from the Authority. The Restructuring Property consists primarily of the irrevocable contract right to impose, bill, and collect the nonbypassable consumption-based Restructuring Charge from all existing and future retail electric customers taking electric T&D service within the Service Area from the Authority or any of its successors or assignees. The Authority was authorized to use the proceeds from the sale of the Restructuring Property to purchase, redeem, repay or defease certain of its outstanding debt.

The Restructuring Bonds are not obligations of the Authority, PSEG-LI or any of their affiliates. The Restructuring Bonds are also not a debt and do not constitute a pledge of the faith and credit or taxing power of the State or of any county, municipality, or any other political subdivision, agency or instrumentality of the State other than UDSA. The UDSA was formed for the sole purpose of issuing and servicing securitization bonds related to New York State Securitization Legislation.

On December 18, 2013, UDSA issued its Restructuring Bonds Series 2013TE (Tax Exempt), totaling $1.54 billion and Series 2013T (Federally Taxable) totaling $482.9 million. As of December 31, 2014 the outstanding balance totals $1.9 billion and is displayed separately in the current and long-term section on the statements of net position.

The refunding of a portion of the Authority's outstanding debt produced an approximate $132 million net present value savings. The Restructuring Bonds have an average life of 14.3 years and an all-in cost of 4.22%.

The Authority's consolidated bond and note indebtedness and other long-term liabilities as of December 31, 2014 are comprised of the following obligations (amounts in thousands):

		Beginning balance	Accretion/ additions		Maturities	Refundings	Ending balance	Due within one year
Authority debt:								
Electric system general revenue bonds:								
Series 1998A	$	107,842	5,780	(a)			113,622	—
Series 2000A		372,651	20,968	(a)	32,605		361,014	33,065
Series 2003B		28,690	—		28,690		—	—
Series 2003C		36,645	—				36,645	—
Series 2004A		22,270	—			22,270	—	—
Series 2006A		564,125	—				564,125	—
Series 2006B		95,655	—				95,655	—
Series 2006C		194,105	—				194,105	—
Series 2006D		211,785	—		15,915		195,870	110,715
Series 2006E		391,085	—				391,085	—
Series 2006F		271,005	—				271,005	20,115
Series 2008A		598,720	—				598,720	—
Series 2008B		146,725	—				146,725	—
Series 2009A		331,220	—				331,220	—
Series 2010B		210,000	—				210,000	—
Series 2011A		245,590	—				245,590	—
Series 2012A		250,000	—				250,000	—
Series 2012B		192,135	—		2,810		189,325	610
Series 2012C		175,000	—				175,000	—
Series 2012D		149,000	—				149,000	—
Series 2014A		—	413,070				413,070	—
Series 2014B		—	164,950				164,950	—
Series 2014C FRN		—	150,000				150,000	—
Subtotal		4,594,248	754,768		80,020	22,270	5,246,726	164,505
Electric system subordinate revenue bonds Series 1-3		350,000	—		—	—	350,000	—
UDSA Restructuring bonds:								
Series 2013T		482,934	—		—	—	482,934	—
Series 2013TE		1,539,390	—		90,000	—	1,449,390	15,000
Subtotal		2,022,324	—		90,000	—	1,932,324	15,000
Net unamortized discounts/ premiums deferred amortization		188,083	37,291		23,028	—	202,346	—
Total bonds and notes, net of unamortized discounts/ premiums	$	7,154,655	792,059		193,048	22,270	7,731,396	179,505

		Beginning balance	Accretion/ additions	Maturities	Refundings	Ending balance	Due within one year
Other long-term liabilities:							
Long term liabilities and unrealized credits	$	79,289	25,025	7,023	—	97,291	—
Borrowings		96,390	—	4,611	—	91,779	—
Claims and damages		21,183	1,200	1,448	—	20,935	—
Capital lease obligations		2,726,089	—	167,842	—	2,558,247	178,997
Total other long-term liabilities	$	2,922,951	26,225	180,924	—	2,768,252	178,997

The Authority's consolidated bond and note indebtedness and other long-term liabilities as of December 31, 2013 are comprised of the following obligations (amounts in thousands):

		Beginning balance	Accretion/ additions		Maturities	Refundings	Ending balance	Due within one year
Authority debt:								
Electric system general revenue bonds:								
Series 1998A	$	137,642	7,241	(a)	12,970	24,071	107,842	—
Series 2000A		383,278	21,528	(a)	32,155	—	372,651	32,605
Series 2003B		149,755	—		92,375	28,690	28,690	28,690
Series 2003C		147,175	—		8,875	101,655	36,645	—
Series 2003 D		73,625	—		—	73,625	—	—
Series 2003 H-J		65,600	—		—	65,600	—	—
Series 2003 L-O		87,000	—		—	87,000	—	—
Series 2004A		200,000	—		4,215	173,515	22,270	—
Series 2006A		839,245	—		—	275,120	564,125	—
Series 2006B		96,955	—		—	1,300	95,655	—
Series 2006C		198,020	—		—	3,915	194,105	—
Series 2006D		277,890	—		1,940	64,165	211,785	15,915
Series 2006E		507,600	—		—	116,515	391,085	—
Series 2006F		335,210	—		23,095	41,110	271,005	—
Series 2008A		605,055	—		—	6,335	598,720	—
Series 2008B		149,340	—		—	2,615	146,725	—
Series 2009A		435,825	—		—	104,605	331,220	—
Series 2010A		193,325	—		—	193,325	—	—
Series 2010B		210,000	—		—	—	210,000	—
Series 2011A		250,000	—		—	4,410	245,590	—
Series 2012A		250,000	—		—	—	250,000	—
Series 2012B		250,000	—		—	57,865	192,135	2,810
Series 2012C		175,000	—		—	—	175,000	—
Series 2012D		149,000	—		—	—	149,000	—
Subtotal		6,166,540	28,769		175,625	1,425,436	4,594,248	80,020

(Amounts in thousands, unless otherwise stated)

	Beginning balance	Accretion/ additions	Maturities	Refundings	Ending balance	Due within one year
Electric system subordinate revenue bonds:						
Series 1-3	$ 350,000	—	—	—	350,000	—
Subtotal	350,000	—	—	—	350,000	—
LIPA debt:						
NYSERDA notes	155,420	—	—	155,420	—	—
UDSA Restructuring bonds:						
Series 2013T	—	482,934	—	—	482,934	—
Series 2013TE	—	1,539,390	—	—	1,539,390	90,000
Subtotal	—	2,022,324	—	—	2,022,324	90,000
Net unamortized discounts/ premiums and deferred amortization	114,877	116,359	17,742	25,411	188,083	—
Total bonds and notes, net of unamortized discounts/ premiums	$ 6,786,837	2,167,452	193,367	1,606,267	7,154,655	170,020
Other long-term liabilities:						
Long term liabilities and unrealized credits	$ 66,870	35,236	22,817	—	79,289	—
Borrowings	100,901	—	4,511	—	96,390	—
Claims and damages	21,898	1,300	2,015	—	21,183	—
Capital lease obligations	2,883,321	—	157,232	—	2,726,089	168,193
Total other long-term liabilities	$ 3,072,990	36,536	186,575	—	2,922,951	168,193

(Continued)

Below is the Authority's capitalization schedule as of December 31, 2014 and 2013 (amounts in thousands):

Electric system	Year of maturity	Interest rate			2014	2013
General revenue bonds/notes:						
1998A	2015–2028	5.05%–5.30%		$	113,622	107,842
2000A	2015–2029	5.54%–5.95%			361,014	372,651
2003B	2014	5.25%			—	28,690
2003C	2029	5.25%	b		36,645	36,645
2004A	2029–2034	5.00%–5.10%	b		—	22,270
2006A	2016–2026	4.00%–5.25%	b		564,125	564,125
2006B	2035	4.50%	b		4,240	4,240
2006B	2035	5.00%			91,415	91,415
2006C	2035	5.00%	b		194,105	194,105
2006D	2015–2025	4.11%–5.00%	b		195,870	211,785
2006E	2017–2022	4.00%–5.00%	b		391,085	391,085
2006F	2015–2028	4.00%–5.00%	b		179,950	179,950
2006F	2030–2033	4.25%	b		91,055	91,055
2008A	2030–2033	5.50%–6.00%			598,720	598,720
2008B	2019–2033	5.25%–5.75%			146,725	146,725
2009A	2016–2033	3.50%–6.25%			331,220	331,220
2010B	2020–2041	4.85%–5.85%	c		210,000	210,000
2011A	2016–2036	4.00%–5.00%			113,360	113,360
2011A	2038	5.00%			132,230	132,230
2012A	2037–2042	5.00%			250,000	250,000
2012B	2014–2029	3.00%–5.00%	b		189,325	192,135
2012C	2033	0.02%–0.05%	a,b		175,000	175,000
2012D	2033	0.01%–0.05%	a,b		149,000	149,000
2013A Revolver	2016	1.01%–3.25%	a		65,000	263,000
2014A	2034–2044	4.00%–5.00%			413,070	—
2014B	2018–2026	2.36%–4.13%			164,950	—
2014C	2033	1.10%	a,b		150,000	—
Subordinated revenue bonds:						
Series 1A, 1B, 2B and 3A	2033	0.02%–0.11%	a,b		350,000	350,000
					5,661,726	5,207,248
Commercial paper notes		0.12%–0.18%	a,b		215,000	—
Total debt					5,876,726	5,207,248

Electric system	Year of maturity	Interest rate		2014	2013
Unamortized premium/(discount), net			$	100,330	72,211
Less current maturities and short-term debt				(444,505)	(343,020)
Total long-term debt			$	5,532,551	4,936,439
UDSA Restructuring Bonds:					
Series 2013T	2017–2023	2.04%–3.44%	$	482,934	482,934
Series 2013TE	2015–2039	5.00%		1,449,390	1,539,390
				1,932,324	2,022,324
Unamortized premium				102,016	115,872
Less current maturities and short-term debt				(15,000)	(90,000)
Total long-term debt			$	2,019,340	2,048,196

a Variable rate (rate presented is as of the fourth quarter of 2014)
b Certain bonds of this series are subject to interest rate exchange agreements – see note 5
c Taxable Build America Bonds subject to federal subsidy, rate shown is pre-subsidy level

The debt service requirements for the Authority's consolidated bonds outstanding (excluding credit revolver and commercial paper notes but including UDSA Restructuring Bonds) as of December 31, 2014 are as follows (amounts in thousands):

Due		Principal	Interest	Net swap payments	Total
2015	$	179,505	291,814	27,130	498,449
2016		260,515	303,344	21,258	585,117
2017		221,298	308,740	12,449	542,487
2018		251,803	300,986	12,449	565,238
2019		268,096	291,621	12,449	572,166
2020–2024		1,431,797	1,328,782	62,246	2,822,825
2025–2029		1,636,475	1,035,599	50,241	2,722,315
2030–2034		1,890,670	640,366	—	2,531,036
2035–2039		1,205,535	289,506	—	1,495,041
2040–2044		423,880	52,545	—	476,425
		7,769,574	4,843,303	198,222	12,811,099

(Amounts in thousands, unless otherwise stated)

Due		Principal	Interest	Net swap payments	Total
Unamortized discounts/ premiums	$	202,346	—	—	202,346
Unaccreted interest on capital appreciation bonds		(240,524)	—	—	(240,524)
Total	$	7,731,396	4,843,303	198,222	12,772,921

Future debt service on the variable rate bonds and floating rate portion of any floating-to-fixed rate swaps use an assumed rate of 0.50% for 2015, 1.50% and 3.00% for 2016 and thereafter, respectively. For bonds subject to floating-to-fixed rate swap agreements, the "net swap payments" represent the fixed swap rate payment net of the assumed future variable rate swap receipts for each agreement.

(c) Interest Rate Swap Agreements

The Authority has entered into several interest rate swap agreements with various counterparties to modify the interest rate on outstanding debt. For a further discussion, see note 5.

(d) Short-Term Liquidity

Revolving Credit Facility

In 2013, the Authority secured a three-year senior revolving credit facility that allows borrowing for up to $500 million. As of December 31, 2014 and 2013, the Authority had $65 million and $263 million outstanding, respectively.

Commercial Paper Notes

In 2014, the Authority issued Series 2014 Commercial Paper (CP) Notes, CP-1 and CP-2, in two subseries, taxable and tax-exempt. Series 2014 CP-1A Taxable Notes and Series 2014 CP-1B Tax-Exempt Notes shall not exceed $200 million outstanding at any time. Series 2014 CP-2A Taxable Notes and Series 2014 CP-2B Tax-Exempt Notes shall not exceed $100 million outstanding at any time. As of December 31, 2014, no 2014 CP Notes were outstanding.

In connection with the issuance of the Series 2014 CP Notes, the Authority has entered into Letter of Credit agreements. The Letter of Credit for the Series 2014 CP-1 Notes is scheduled to expire on December 21, 2017. The Letter of Credit for the Series 2014 CP-2 Notes is scheduled to expire on December 15, 2017.

As of December 31, 2014, $215 million of the Authority's existing CP Notes, Series CP-l through CP-3, were outstanding. The aggregate principal amount of these Notes outstanding at any time may not exceed $300 million. The CP Notes do not have maturity dates of longer than 270 days from their date of issuance and as CP Notes mature, the Authority traditionally continually replaces them with additional CP Notes. The Letter of Credit agreements supporting the existing Notes expired on

January 27, 2015. As a result, in January 2015, the Authority redeemed all of its outstanding Notes, Series CP-1 through CP-3, with funds from its 2014 CP Notes program.

The Authority's short-term indebtedness as of December 31, 2014 and 2013 is comprised of the following obligations (amounts in thousands):

	2014			
	Beginning balance	Issuances	Retirements	Ending balance
Short-term debt – CP-1	$ —	150,000	(10,000)	140,000
Short-term debt – CP-2	—	100,000	(25,000)	75,000
Short-term debt – CP-3	—	50,000	(50,000)	—
	$ —	300,000	(85,000)	215,000

	2013			
	Beginning balance	Issuances	Retirements	Ending balance
Short-term debt – CP-1	$ 150,000	—	(150,000)	—
Short-term debt – CP-3	50,000	—	(50,000)	—
	$ 200,000	—	(200,000)	—

(11) Operations Services Agreement Employee Retirement Benefit Obligations

PSEG-LI employee pension and other post-employment benefit (OPEB) obligations remain legal obligations of PSEG-LI, and the employees covered by these plans are PSEG-LI employees, not Authority employees. In accordance with the terms of the A&R OSA, the costs of these benefits are a "pass through expenditure" to the Authority. The costs associated with these benefits are a contractual liability of the Authority.

The PSEG-LI benefit plans also credited NGRID transitioned employees for service prior to the contract effective date with NGRID for purposes such as eligibility, participation, vesting, company match levels, subsidies (including any type of early retirement subsidy) and attainment of retirement dates. In addition, those employees who immediately prior to the contract effective date could have become eligible to participate in the NGRID postretirement health and life insurance benefit plans, are entitled to receive substantially equivalent postretirement health and life insurance benefits under a postretirement health and life insurance plan established by PSEG-LI. This arrangement created a prior service cost obligation totaling $126 million for pensions and $316 million for OPEBs as of January 1, 2014. This reported liability increased during 2014 due to a decline in prevailing market interest rates (which reduced the discount rate for the future liabilities), the adoption of newly released mortality tables (which predicted longer life expectancies), and the update of certain assumptions regarding the covered population and claims cost. In total, these changes resulted in an actuarial loss of $42 million for pension and $106 million for OPEB benefits, of which

$36 million and $70 million, respectively, are attributable solely to the decline in market prevailing interest rates. Mortality assumptions resulted in increases of $2 million and $17 million, while all other changes in census data and assumptions resulted in changes of $4 million and $37 million, respectively.

The unfunded pension and unfunded OPEB obligations, which are based on valuations from PSEG-LI actuarial studies, have been recorded as a long term contractual liability by the Authority. OPEB benefits are costs which will not be incurred until employees retire and the Authority does not fund PSEG-LI until these costs are paid. However, during 2014, the Authority's Board authorized the creation of an OPEB Account to allow the Authority to segregate funds to meet these future OPEB obligations. The Authority deposited $20.1 million into its OPEB Account to meet future PSEG-LI OPEB obligations. For a further discussion, see note 9.

The following tables outline the determination of the Authority's contractual obligation to PSEG-LI based upon changes in benefit obligations due to the PSEG-LI employees, and as included in the accompanying financial statements (amounts in thousands). These tables do not reflect the balance in the Authority's OPEB account.

		Pension benefits 2014	**Postretirement benefits 2014**
Change in benefit obligation:			
Benefit obligation at beginning of year	$	—	—
Service Cost		20,300	12,816
Interest Cost		6,938	17,004
Actuarial loss		41,591	106,808
Benefits paid		(39)	(66)
Plan Amendment		126,181	315,510
Benefit obligation at end of year		194,971	452,072
Change in plan assets:			
Fair value of assets at beginning of year		—	—
Actual return on plan assets		1,745	—
Employer contribution		66,900	66
Gross benefits paid		(39)	(66)
Fair value of assets at end of year		68,606	—
Funded status:			
Authority unfunded obligation	$	(126,365)	(452,072)

The actuarial valuations provided involve estimates of the value of reported amounts and assumptions about the probability of an occurrence of events in the future. Below are the weighted average assumptions used to calculate actuarial present values of benefit obligations at December 31, 2014:

	Pension benefits 2014	Postretirement benefits 2014
Discount rate	4.50%	4.60%
Rate of compensation increase	3.25	3.25

Plan Assets

During 2014, the Authority funded approximately $67 million to PSEG-LI for deposit in its pension plan trust fund. The trust is sponsored, overseen and managed by the PSEG Thrift & Pension Investment Committee. The benefit plan assets are maintained separately by PSEG-LI and are not commingled with other PSEG plans. The benefit plan assets are not assets of the Authority; and therefore, are not reflected on the statements of net position. These assets, however, reduce the Authority's contractual obligation to PSEG-LI for the benefit obligations of the PSEG-LI employees. The following table outlines the PSEG-LI pension assets (amounts in thousands) as of December 31, 2014:

Investment type		Amount	Allocation
Equity	$	36,914	54%
International		11,110	16
Fixed income		20,224	30
	$	68,248	100%

(12) Authority Employee Benefits

All full-time Authority employees must participate in one of two employee benefit plans offered by the Authority, either (i) the New York State or Local Retirement System (the Retirement System) or (ii) the New York State Voluntary Defined Contribution Plan (VDC).

(a) Pension Plans

The Authority is a participant Retirement System, which is a cost-sharing, multiple employer, and public employee retirement system. The plan benefits are provided under the provisions of the New York State Retirement and Social Security Law that are guaranteed by the State Constitution and may be amended only by the State Legislature. Membership in and annual contributions to the Retirement System are required by the New York State Retirement and Social Security Law. The Retirement System offers plans and benefits related to years of service and final average salary, and, effective

January 1, 2010, benefits for new members vest after ten years of accredited service; all others generally vest after five years.

Tier II, III, and IV members of the Retirement System with less than 10 years of service or 10 years of membership contribute 3% of their gross salaries and the Authority pays the balance of the annual contributions for these employees. After 10 years of service or membership, Tier II, III, and IV members of the Retirement System no longer contribute 3% of their gross salaries and the Authority pays the entire amount of the annual contributions of these employees. Tier V members contribute 3% of their gross salaries for their entire career. Tier VI members are required to contribute a specific percentage of their gross earnings for all years of public service after the date of membership.

The Authority's required contributions and payments made to the Retirement System were \$0.9 million, \$2 million, and \$1.9 million, for the years ended December 31, 2014, 2013, and 2012, respectively. The Authority's contributions to the Retirement System were equal to 100% of the required contributions for each year.

A decline in financial markets could adversely impact state pension investment market values, including those of the Retirement System. If the Retirement System's investment market values are adversely impacted, increases in the annual contributions in subsequent years may occur. The average contribution rates relative to payroll for the fiscal years ended December 31, 2014 and 2013 were 19% and 16%, respectively.

The State and the various local governmental units and agencies which participate in the Retirement System are jointly represented, and benefits for Authority employees are not separately computed. The Retirement System issues a publicly available financial report. The report may be obtained from the New York State and Local Retirement System, 110 State Street, Albany, New York 12244-0001.

(b) Deferred Compensation and Savings Plans

The Authority offers certain full-time employees participation in a Voluntary Defined Contribution Plan which is an alternative to the State's existing defined benefit pension systems. This defined contribution plan option is available to all unrepresented State, New York City, and local public employees who are hired on or after July 1, 2013 and are paid at a rate of \$75,000 or more on an annual basis. For those employees choosing this option, the Authority is required to contribute 8% of their gross salary.

An independent trustee is responsible for the administration of this plan.

(c) Deferred Savings Plans

The Authority also offers employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. This plan permits participants to defer a portion of their salaries until future years. Amounts deferred under the plan are not available to employees or beneficiaries until termination, retirement, death or unforeseeable emergency.

An independent trustee is also responsible for the administration of this plan.

(d) Other Postemployment Benefits

The Authority is a participating employer in the New York State Health Insurance Program (NYSHIP), which is administered by the New York State Department of Civil Service, as an agent multiple employer defined benefit plan. Through NYSHIP, the Authority provides certain health care for eligible retired employees and their dependents. Article XI of the New York State Civil Service Law assigns the authority to NYSHIP to establish and amend the benefit provisions of the plans and to establish maximum obligations of the plan members to contribute to the plan. The Authority's Board is authorized to establish the contribution rates of its employees and retirees below those set by Civil Service Law. Participation in the NYSHIP program provides for employees and/or their dependents to continue eligibility for these benefits in retirement if the employee had at least one year of full-time service with the Authority, and satisfied the requirements for retiring as a member of the Retirement System or is enrolled in the VDC. Eligible retirees contribute 10% of the cost of single coverage and 25% of the cost of dependent coverage for health insurance benefits. Participants included approximately 76 employees and retired and/or spouses of retired employees who were eligible to receive these benefits at December 31, 2014. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State.

The Authority accounts for its OPEB obligations, in accordance with GASB Statement No. 45, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment mortality and the healthcare cost trend. Amounts determined regarding the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The Authority's annual OPEB cost for the plan is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. GASB No. 45 does not require that an employer actually fund its ARC, but allows for the financing of these benefits on a pay-as-you-go basis. The ARC in future periods represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year, actuarial assumptions and plan changes, and interest on the unfunded actuarial liability. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the Net OPEB Obligation.

(Amounts in thousands, unless otherwise stated)

The following table shows the components of the Authority's annual OPEB cost and the changes in the Authority's net OPEB obligation as recorded in long term liabilities:

		2014	2013	2012
Annual OPEB cost:				
Annual required contribution (ARC):				
Normal cost	$	937	1,175	3,028
Amortization payment		23,444	23,451	20,874
Interest to the end of the year		—	—	475
Total		24,381	24,626	24,377
ARC adjustment		(25,007)	(25,303)	(20,061)
Interest on net OPEB obligation		764	772	400
Annual OPEB cost	$	138	95	4,716
Net OPEB obligation:				
Net OPEB obligation at beginning of fiscal year	$	24,243	24,530	19,977
Annual required contribution:				
Annual OPEB cost		138	95	4,716
Employer contribution:				
Benefit payments for retirees during year		(410)	(382)	(163)
Net OPEB obligation at end of fiscal year	$	23,971	24,243	24,530

The contribution requirements (funding) of the Authority's Net OPEB obligation are at the discretion of management and the Board. The Net OPEB obligation is paid on a pay-as-you-go basis. However, during 2014, the Board authorized the creation of an OPEB Account to fund in advance the OPEB obligations of the both the Authority and the PSEG-LI employees (as discussed above). As such the Authority deposited $2.1 million into this account to meet the OPEB obligations of Authority employees, which are not reflected in the table above.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the 2014 and 2013, actuarial valuation, the projected unit credit actuarial cost method was used. For 2014 and 2013, the actuarial assumptions included an investment rate of return (net of administrative expenses) of 3.15%. The medical trend assumption begins at 8.25% and decreases to a 5.0% long-term trend rate after eight years. The drug trend assumption begins at 6.75% and decreases to a 4.75% long-term trend rate after four years. The Medicare Part B trend assumption begins at 5.5% and decreases to a 4.75% long-term trend rate after six years.

(13) Commitments and Contingencies

(a) Amended and Restated Power Supply Agreement

The A&R PSA, which became effective on May 28, 2013, is the successor agreement to the original PSA between NGRID and LIPA. The A&R PSA provides for the sale to the Authority by NGRID of all the capacity, energy and, ancillary services from the oil and gas-fired generating plants on Long Island formerly owned by LILCO. Sales are made at cost-based wholesale rates regulated by the Federal Energy Regulatory Commission (FERC). The rates may be modified from time to time in accordance with the terms of the A&R PSA for: (i) agreed-upon labor and expense indices applied to the base year; (ii) a return of and return on net capital additions, which require approval by the Authority; and (iii) certain reasonably incurred expenses that are outside of the control of NGRID. The PSA rates were reset in 2009, in accordance with the terms of the PSA and as approved by FERC. The annual capacity charge in 2014 and 2013 was $440 million and $445 million, respectively. The variable charge under both the PSA and A&R PSA is constant at $0.90/MWH of electric energy generated by the plants.

The A&R PSA has provisions for penalties in the event that annual guarantees for heat rate and unforced capacity (UCAP) are not met. No penalties were assessed in either 2014 or 2013 under the A&R PSA.

Included in the annual capacity charge are pension and other post-employment benefit (P&OPEB) expenses of NGRID employees. Each contract year, the annual capacity charge will be adjusted through a single purpose filing with FERC, in mid-year, to reflect the actuarially determined amounts of P&OPEB expense for that contract year. Although the Authority has consistently funded the annual plan costs through the PSA and the A&R PSA annual capacity charge, NGRID has asserted that the pension and OPEB obligations are underfunded. The nature and extent of the Authority’s potential obligation for these underfunded plans is being assessed and the Authority, at this preliminary stage, cannot predict or estimate any possible liability.

(b) Power Purchase and Transmission Agreements

The Authority has entered into power purchase agreements (PPAs) with several private companies to develop and operate generating units at sites throughout Long Island. Generally, the PPAs provide for the Authority to purchase 100% of the capacity (and associated energy as needed), for the term of each contract, which vary in duration up to 30 years from contract initiation date. These PPAs have been accounted for as capitalized lease obligations on the Statements of Net Position.

The Authority has also entered into several agreements to purchase renewable energy from on and off Island sources. Certain of these power producing facilities have also been accounted for as capitalized lease obligations. The Authority also had various firm, noncancelable purchase power commitments that do not meet the criteria for capitalization and are being accounted for as operating leases.

The following table presents estimated future payments pertaining to purchase power commitments with remaining terms greater than one year for both the capital and operating leases (in thousands):

		Capital leases	Operating leases
Minimum lease/rental payments:			
2015	$	310,882	305,145
2016		312,944	279,440
2017		302,529	246,930
2018		277,367	193,799
2019		256,886	179,097
2020 through 2024		1,225,782	478,868
2025 through 2029		765,271	378,183
2030 through 2034		104,106	81,755
2035 through 2037		—	18,020
Total		3,555,767	2,161,237
Less imputed interest		997,520	570,854
Net present value	$	2,558,247	1,590,383

As provided by the Authority’s tariff, the costs of all of the facilities noted above are includable in the calculation of Fuel and Purchased Power Cost. As such, these costs are expected to be recoverable through the FPPCA.

(c) Office Lease

The Authority’s office lease agreement includes scheduled base rent increases and rent “holidays” over the term of the lease. The total amount of the base rent payments is charged to expense on the straight-line method over the term of the lease. The termination date of the new lease agreement is April 30, 2024. The Authority recorded a deferred credit to reflect the excess of rent expense over cash payments since inception of the lease.

The future minimum payments under these leases are as follows for the years ended (amounts in thousands):

Minimum lease/rental payments:		
2015	$	1,577
2016		1,629
2017		1,682
2018		1,736
2019		1,792
2020 through 2024		8,459
Total		16,875
Less imputed interest		2,717
Net present value	$	14,158

(d) Insurance Programs

The Authority's insurance program is comprised of a combination of policies, from major insurance companies, self-insurance and contractual transfer of liability, including naming the Authority as an additional insured and indemnification.

The Authority has purchased Workers' Compensation insurance from the New York State Insurance Fund to provide coverage for claims arising from employee injuries. In addition, the Authority carries Employment Practices Liability Insurance from a major insurance company and the Authority's office property and liability coverage is administered by New York State Office of General Services through a master policy the State procures for various State entities, including the Authority. Liability related to construction projects and similar risks is transferred through contractual indemnification and compliance with Authority insurance requirements. The Authority also has insurance coverage on its interest in NMP2 as disclosed in detail in note 8.

The Authority has commercially available excess general liability and property insurance for claims above its self-insurance provisions. For general liability, including automobile liability, the Authority is self-insured up to $3 million. For transmission and distribution assets, such as substations, the Authority is self-insured up to $2.5 million with exception for loss or damage due to a named windstorm and flood, which is self-insured up to $7.5 million.

The Authority has no general property insurance for damage to its poles and wires and is self-insured.

(14) Legal Proceedings

(a) PSEG-LI

In accordance with the A&R OSA entered into as of December 31, 2013, effective January 1, 2014 PSEG-LI is not entitled to payment from the Authority for any losses attributable to a third party claim arising from any negligent act, omission or willful misconduct by PSEG-LI in performing its obligations to operate and maintain the Authority's transmission and distribution system. Other than losses attributable to PSEG-LI's gross negligence or willful misconduct for which there is no limitation on PSEG-LI's liability, PSEG-LI's liability for third party claims is generally limited to amounts above $2.5 million in the aggregate in one year up to a maximum aggregate amount of $2.5 million in any contract year. PSEG-LI is not responsible for any liabilities that occurred prior to January 1, 2014.

(b) Superstorm Sandy

Four class actions were filed against the Authority and NGRID related to Superstorm Sandy which contain common allegations of wrongdoing and/or gross negligence relating to the Authority's and NGRID's preparedness for and response to the storm. All of these actions seek monetary damages, fees and other relief. Eight more individual actions have been filed and more than 100 notices of claim have been received related to property losses incurred by certain residents in the Breezy Point and Belle Harbor portions of its Queens service territory as a result of Superstorm Sandy. The suits and claims allege that the failure to de-energize the electrical system in advance of the tidal surges experienced resulted in house fires that caused various types of property damage, ranging from all or partial loss of customers' homes. These cases and claims are being defended and/or evaluated and although the amounts sought in damages are material, the outcome of these matters cannot be predicted with certainty, at this time. The Authority does not believe that they will have a material impact on operating results or the financial condition of the Authority.

(c) Environmental

NGRID and the Authority are parties to the Liabilities Undertaking and Indemnification Agreements which, when taken together, provide, generally, that environmental liabilities will be divided between NGRID and the Authority on the basis of whether they relate to assets transferred to NGRID or retained by the Authority as part of the 1998 LIPA/LILCO Merger (Merger). In addition, to clarify and supplement these agreements, NGRID and the Authority also entered into an agreement to allocate between them certain liabilities, including environmental liabilities, arising from events occurring prior to the Merger and relating to the business and operations to be conducted by the Authority after the Merger (the Retained Business) and to the business and operations to be conducted by NGRID after the Merger (the Transferred Business).

NGRID is responsible for all liabilities arising from all manufactured gas plant operations on Long Island (MGP Sites), including those currently or formerly operated by NGRID or any of its predecessors, whether or not such MGP Sites related to the Transferred Business or the Retained Business. In addition, NGRID is liable for all environmental liabilities traceable to the Transferred Business and certain scheduled environmental liabilities. Environmental liabilities that arise from the nonnuclear generating business may be recoverable by NGRID as part of the capacity charge under the PSA. The Authority is responsible for all environmental liabilities traceable to the Retained Business and certain scheduled environmental liabilities.

Environmental liabilities other than those related to MGP sites that existed as of the date of the Merger that are untraceable, including untraceable liabilities that arise out of common and/or shared services have been allocated to the Authority and NGRID, as provided for in the Merger.

The A&R PSA between the Authority and NGRID, which commenced on May 28, 2013, addresses the terms by which the Authority will continue to purchase electricity from certain NGRID facilities. Generally, NGRID's liabilities under this contract are limited to losses due to gross negligence or willful misconduct or violations of environmental laws not consistent with prudent utility practices.

(d) Environmental Matters Retained by the Authority

Superfund Sites – Under Section 107(a) of the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA, also commonly referred to as Superfund), parties who generated or arranged for disposal of hazardous substances are liable for costs incurred by the Environmental Protection Agency (EPA) or others who are responding to a release or threat of release of the hazardous substances.

Port Washington Landfill – LILCO is a Potentially Responsible Party (PRP) at this 54-acre municipal solid waste landfill located in the Town of North Hempstead. The landfill operated from 1973 to 1983. Since January 2001, LILCO and 11 other parties have been signing tolling agreements with the New York State Attorney General to extend the statute of limitations under CERCLA. Six of the 11 tolling agreement PRPs, including LILCO, have formed a Joint Defense Group (JDG) that acts as one with respect to dealing with the Attorney General. The Attorney General is seeking to recover Environmental Quality Bond Act funds advanced to the Town of North Hempstead so it could properly close out the site with oversight by the New York State Department of Environmental Conservation (DEC). The landfill has been remediated and this matter is only concerned with cost recovery. In August 2013, the Attorney General accepted JDG's settlement offer of $1.8 million. A consent decree between the Attorney General and JDG has been executed and accepted by the federal court (EDNY), under which the Authority's contribution is $260 thousand, which will not have a material impact on the operating results or financial condition of the Authority.

Metal Bank –is a site with PCB contamination on the Delaware River that EPA had sued and settled with a number of utility companies, including the Authority, in 2005 for allegedly sending used transformers to the site. The National Oceanic and Atmospheric Administration (NOAA) has notified the PRP group that it (NOAA) will be initiating discussions about natural resource damages for marine resources. After NOAA performs a preliminary assessment study to determine whether injury to natural resources has occurred, and if so, the severity, NOAA will quantify that injury, and then consider possible restoration projects, such as replanting wetlands and restoring fish. At this preliminary stage the Authority is unable to estimate potential liability, but believes that it would not have a material impact on the operating results or financial condition of the Authority.

(e) Asbestos Proceedings

Litigation is pending in State Court against the Authority, LILCO, NGRID and various other defendants, involving thousands of plaintiffs seeking damages for personal injuries or wrongful death allegedly caused by exposure to asbestos. The cases for which the Authority may have financial responsibility involve employees of various contractors and subcontractors engaged in the construction or renovation of one or more of LILCO's six major power plants. These cases include extraordinarily large damage claims, which have historically proven to be excessive. The actual aggregate amount paid to plaintiffs alleging exposure to asbestos at LILCO power plants over the years has not been material to the Authority. Due to the nature of how these cases are litigated, it is difficult to determine how many of the remaining cases that have been filed (or of those that will be filed in the future) involve plaintiffs who were exposed to asbestos at any of the LILCO power plants. Based upon experience, it is likely that the Authority will have financial responsibility in a significantly smaller percentage of cases than are currently pending (or which will be filed in the future) involving plaintiffs who allege exposure to asbestos at any of the LILCO power plants.

(15) Subsequent Events

In connection with the preparation of the financial statements, the Authority evaluated subsequent events from December 31, 2014 through March 26, 2015, which was the date the basic financial statements were available for issuance, and concluded that no additional disclosures were required.

LONG ISLAND POWER AUTHORITY
(A Component Unit of the State of New York)

Consolidating Statement of Revenues, Expenses, and Change in Net Position

Year ended December 31, 2014

(Amounts in thousands)

		Authority	UDSA	Eliminations	Consolidated
Operating revenues – electric sales	$	3,380,545	233,437		3,613,982
Other revenues		1,111	—	(1,111)	—
Total revenues		3,381,656	233,437	(1,111)	3,613,982
Operating expenses:					
Operations – fuel and purchased power		1,659,272	—	—	1,659,272
Operations and maintenance		1,071,927	1,067	—	1,072,994
Operations and maintenance-amortizations		11,422	—	—	11,422
Storm restoration		30,462	—	—	30,462
General and administrative		28,547	1,628	(1,111)	29,064
Depreciation and amortization		215,544	—	—	215,544
Amortization of restructuring property		(94,035)	94,035	—	—
Payments in lieu of taxes		332,621	—	—	332,621
Total operating expenses		3,255,760	96,730	(1,111)	3,351,379
Operating income		125,896	136,707	—	262,603
Nonoperating revenue and expenses:					
Other income, net:					
Investment income		6,985	4	—	6,989
Grant Income – FEMA		1,707	—	—	1,707
Grant Income – other		112,814	—	—	112,814
Carry charges on regulatory assets		28,565	—	—	28,565
Other		2,303	—	—	2,303
Total other income, net		152,374	4	—	152,378
Interest charges and (credits):					
Interest on long-term debt, net		250,847	88,129	—	338,976
Other interest		37,924	(9,449)	—	28,475
Allowance for borrowed funds used during construction		(8,961)	—	—	(8,961)
Total interest charges and (credits)		279,810	78,680	—	358,490
Change in net position	$	(1,540)	58,031	—	56,491

See accompanying independent auditors’ report.

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Long Island Power Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Long Island Power Authority (the Authority), which comprise the statements of net position as of December 31, 2014 and 2013 and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 26, 2015.

Internal Control over Financial Reporting

In planning and performing our audits of the basic financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

March 26, 2015