KPMG

LONG ISLAND POWER AUTHORITY

Financial Statements and Schedule of Expenditures of Federal Awards

Year ended December 31, 2013

(With Independent Auditors' Reports Thereon)

LONG ISLAND POWER AUTHORITY

Table of Contents

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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, 2013 and 2012, 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 Long Island Power Authority as of December 31, 2013 and 2012, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2014, 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 and of 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.

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.

KPMG LLP

March 27, 2014

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 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 its operating subsidiaries including (i) the Long Island Lighting Company (LILCO), a wholly owned subsidiary of the Authority doing business as "LIPA," and Power Supply Long Island (PSLI), and (ii) the Utility Debt Securitization Authority (UDSA), a special purpose corporate municipal instrumentality of the State of New York (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, 2013 and 2012. 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, as owner of the transmission and distribution system located in the New York State Counties of Nassau and Suffolk (with certain limited exceptions) and a small portion of Queens County known as the Rockaways (Service Area), is responsible for facilitating the supply of electricity to customers within the Service

Area. The Authority has generally entered into operating and power supply agreements with third parties in order to ensure that the necessary resources are available to provide reliable electric service in the Service Area.

Beginning 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 addresses the reorganization of the Authority and substantially changed its operating responsibilities, and Part B created UDSA whose sole purpose is to refinance existing Authority debt at lower interest rates and collect those costs from customers, as described below. See Financing Charges for a further discussion.

Below is a 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 (T&D) 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-LI) provides operations, maintenance and related services for the T&D system under the Amended and Restated Operations Services Agreement (Amended and Restated OSA). The original Operations Services Agreement (OSA) dated December 28, 2011, was amended prior to its implementation to address changes imposed by Part A of the Reform Act. The Reform Act substantially changes the way the Authority manages the T&D System's operations by effectively shifting 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. The Amended and Restated OSA also extends 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. Under the Amended and Restated OSA, as of January 1, 2015, an affiliate of PSEG-LI will assume certain power supply management, fuel procurement and related services that have historically been provided pursuant to separate agreements between the Authority and the relevant service providers.

PSEG-LI will be paid a management fee plus incentives related to specified performance metrics under the contract. In addition, essentially all costs of operating and maintaining the Authority's T&D system incurred by PSEG-LI will be passed through to and paid by the Authority.

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

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): After a competitive bid process, the Authority selected Con Edison Energy, Inc. (CEE) to provide fuel management services effective May 28, 2013 for both the GENCO generating facilities and the non-GENCO units for which the Authority is responsible for providing fuel. The CEE agreement expires on December 31, 2014. Beginning January 1, 2015 these services will be provided by an affiliate of PSEG-LI under the Amended and Restated OSA. The agreement with PSEG-LI expires December 31, 2025. This term is also subject to extensions. Certain other services, namely "front-office", "mid-office" and "back-office" operations related to power supply management and certain commodity activities will also be provided by affiliates of PSEG-LI beginning in 2015.

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 described below. UDSA is not authorized to be a debtor under any provision of the Bankruptcy Code. Under the Reform Act, the Restructuring Bonds are the only bonds that 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.

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 Amended and Restated OSA, PSEG-LI will, among other things, perform the billing and collections, meter reading and forecasting required of the Servicer under the Servicing Agreement. The Authority is responsible for taking all necessary actions in connection with True-Up Adjustments (described below) and certain reporting requirements.

The Restructuring Charges will be 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 UDSA, which is not subject to oversight by DPS LI or any other regulatory body, including the Authority's Board. To pass 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, along with changes to the Restructuring Charge to maintain that equality.

Power Supply

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.

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

Summary of Statements of Net Position

(Amounts in thousands)

	December 31 2013	2012	2011
Assets:			
Current assets:			
Cash, cash equivalents and investments	$ 378,821	334,830	447,569
Restricted cash	273,515	—	—
Other current assets	1,044,876	965,890	937,169
Regulatory assets	926,615	820,363	765,766
Noncurrent assets:			
Utility plant, net	6,683,026	6,595,582	6,624,802
Promissory notes receivable	—	155,422	155,422
Nonutility property and other investments	102,389	91,742	85,534
Unrealized charges and long-term receivables	166,343	830,973	278,488
Acquisition adjustment, net	2,153,242	2,264,616	2,375,991
Deferred outflows of resources	236,337	251,664	246,878
Total assets and deferred outflows of resources	$ 11,965,164	12,311,082	11,917,619
Liabilities and net position:			
Regulatory liability	$ —	62,339	137,693
Other current liabilities	1,577,635	1,987,421	1,367,921
Noncurrent liabilities:			
Long-term debt	4,936,439	6,611,212	6,491,868
Long-term UDSA debt	2,048,196	—	—
Capital lease obligations	2,557,896	2,726,089	2,883,321
Other noncurrent liabilities	466,897	593,347	640,846
Total liabilities	11,587,063	11,980,408	11,521,649
Net position:			
Net investment in capital assets	(212,622)	(38,144)	(96,610)
Restricted	273,515	—	—
Unrestricted	317,208	368,818	492,580
Total net position	378,101	330,674	395,970
Total liabilities and net position	$ 11,965,164	12,311,082	11,917,619

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	Year ended December 31		
	2013	**2012**	**2011**
Electric revenue	$ 3,755,832	3,546,152	3,684,596
Operating expenses:			
Operations – fuel and purchased power	1,749,892	1,553,769	1,743,533
Operations and maintenance	1,009,792	948,660	923,863
Storm restoration	15,798	785,656	225,385
General and administrative	37,775	44,713	42,537
Depreciation and amortization	279,584	272,017	267,845
Payments in lieu of taxes	342,132	321,132	301,284
Total operating expenses	3,434,973	3,925,947	3,504,447
Operating income (loss)	320,859	(379,795)	180,149
Other income, net	34,134	37,351	35,389
Grant income – FEMA	5,000	604,500	119,658
Grant income – other	22,315	6,466	14,998
Interest charges	(334,881)	(333,818)	(331,393)
Change in net position	47,427	(65,296)	18,801
Net position – beginning of year	330,674	395,970	377,169
Net position – end of year	$ 378,101	330,674	395,970

Change in Net Position

The change in net position for the year ended December 31, 2013 was $47 million. The significant variance 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 transmission and distribution system in 2012 and was originally estimated to cost approximately $806 million. As of December 31, 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 exceeds 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.

Partially offsetting the downward adjustment of the estimate in 2013 was the reversal of the $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 now believes it will be eligible for additional funds from the State, the Authority

(Continued)

will 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.

The change in net position for the year ended December 31, 2012 was a loss of $65 million. The significant negative variance from 2011 of $84 million resulted from the costs associated with the restoration efforts due to Superstorm Sandy plus its unfavorable impact on sales and revenue.

Revenue

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 is the timing of the delivery rate increase that went into effect in March 2012 resulting in a 2013 variance of $9 million. The Authority also incurred higher miscellaneous revenues, such as late payment charges of $5 million.

Revenue for the twelve months ended December 31, 2012 decreased $138 million compared to 2011 primarily due to a reduction in the power supply charge totaling $228 million; lower sales that impacted delivery revenues by $30 million; and lower miscellaneous revenues of $1 million. The reductions were partially offset by higher delivery rates, which went into effect March 2012, increasing revenue by $111 million, and increased revenues to support the energy efficiency program of $10 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) – that provides for the amount and timing of fuel and purchased power cost recoveries. 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.

For the year ended December 31, 2012, fuel and purchased power costs decreased $190 million compared to 2011. The Authority experienced lower commodity costs of $197 million and lower sales that impacted fuel costs by $31 million. These decreases were offset by the lack of customer bill credits, which were fully amortized in 2011 totaling $38 million; therefore, no such credits were amortized in 2012.

Operations and Maintenance Expense (O&M)

O&M expense for the year ended December 31, 2013 increased $61 million compared to 2012. 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 while it transitions to a system with 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 Management Services Agreement (MSA) costs of $2 million, and higher various miscellaneous costs totaling $5 million.

Operations and maintenance (O&M) expense for the year ended December 31, 2012, increased $25 million compared to 2011. The Authority experienced higher energy efficiency and renewable costs of $27 million and higher MSA costs of $5 million. These increases were partially offset with lower bad debt expense of $5 million and lower PSA costs of $2 million.

Storm Restoration

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. As the Authority believes it will be eligible for additional funds from the State, the Authority will not pursue recovery of the $80 million of costs from customers.

For the year ended December 31, 2012 storm restoration expense increased $560 million compared to 2011. This is primarily attributable to Superstorm Sandy. The restoration, which included assistance from utilities across the nation, was estimated to cost $806 million. As the Authority expected to receive a minimum 75% reimbursement of such costs from FEMA (as discussed below in grant income-FEMA), the Authority's Board authorized the establishment of a regulatory asset totaling $80 million for the estimated unreimbursed Superstorm Sandy costs, partially offsetting the $806 million. Additionally in 2012, the Authority experienced several other significant storms totaling $60 million.

The estimated Superstorm Sandy charges exclude the anticipated costs to reconstruct many substations damaged by flooding, which the Authority believes will be largely covered by insurance.

General and Administrative Expenses (G&A)

General and administrative 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.

General and administrative expenses for the year ended December 31, 2012, increased by $2 million compared to 2011, due to higher pension costs and other retirement benefits based on an updated actuarial study.

Depreciation and Amortization

For the years ended December 31, 2013 and 2012, depreciation and amortization increased $8 million and $4 million, respectively, due to higher depreciable utility plant asset balances.

Payments in Lieu of Taxes

For the years ended December 31, 2013 and 2012, payments in lieu of taxes (PILOTs) increased $21 million and $20 million, respectively, due primarily to higher property based PILOT imposed by various government organization on transmission and distribution assets.

Other Income, Net

For the year ended December 31, 2013, other income decreased $3 million compared to 2012 due to the premium paid for 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 Nine Mile Point 2 (NMP2) trust account of $102 million.

For the year ended December 31, 2012, other income increased $2 million compared to 2011 due to gains realized on the Authority's NMP2 trust account.

Grant Income – FEMA

Grant income decreased approximately $599 million compared to 2012 due to the absence of any storms that qualified as federally declared disasters in 2013. The Authority has received $444 million of the Superstorm Sandy FEMA claim. Management believes it is probable that FEMA will remit the remaining amounts (discussed in note 4 to the Basic Financial Statements.)

Grant income increased $485 million compared to 2011 due to the estimated FEMA reimbursements related to Superstorm Sandy. Although the Authority believed New York State was eligible to recover up to 90% of its eligible storm costs, the Authority's 2012 results reflected the standard 75% funding level, estimated to be $605 million, until the FEMA imposed financial thresholds were met and necessary approvals were obtained.

Grant Income – Other

Grant income–other increased $16 million from 2012 due to a grant received from New York State Energy Research and Development Authority (NYSERDA) totaling $15 million for use in support of the Authority's Solar Pioneer program.

Grant income–other decreased $9 million from 2011 due to lower grants received under the American Recovery and Rehabilitation Act of 2009.

Interest Charges and Credits

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

For the year ended December 31, 2012, total interest charges increased $2 million compared to 2011 due primarily to higher letter of credit fees associated with the Authority's variable rate debt.

Cash and Cash Equivalents and Investments

The Authority's cash, cash equivalents and investments totaled $379 million, $335 million, and $448 million at December 31, 2013, 2012, and 2011, respectively. 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. The Authority anticipates finalization of the insurance claim by 2015 year-end.

The decrease from 2011 to 2012 is primarily due to lower revenues, resulting from the negative impacts of Superstorm Sandy and the timing of payments related to Tropical Storm Irene (2011 storm event).

Restricted Cash

The restricted cash balance for the year ended December 31, 2013 totaled $274 million.

In accordance with the Amended and Restated OSA, the Authority funded 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 $263 million at year-end. This operating account was funded with a draw on the Authority's senior revolving credit facility.

In addition, UDSA's restricted cash balance totaled $10.5 million for the year ended December 31, 2013. The restricted cash accounts for UDSA are held by a Trustee to manage any collections resulting from the Restructuring Charge 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 0.05% of the Restructuring Bonds outstanding. Restricted cash held by the Trustee, as of December 31, 2013, includes $10.1 million in the Reserve Subaccount and $.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 $263 million was drawn as of December 31, 2013. The Authority also has authorization to issue up to $300 million of commercial paper notes, of which none were outstanding at year-end. The Authority has approval from its Board and the Public Authorities Control Board (PACB) to issue $500 million of medium-term notes, if necessary. Given the above, the Authority believes it will have sufficient liquidity throughout 2014 to meet its planned operating, maintenance, and capital programs.

Capital Assets

For the years ended December 31, 2013 and 2012, capital improvements to the transmission and distribution system totaled $312 million and $231 million, respectively. These improvements included interconnection equipment, the replacement or upgrade of transformer banks and circuit breakers, new substations, enhanced transmission lines, and upgraded command and control equipment. The Authority invested in 2013 and 2012, $4 million and $19 million, respectively, in NMP2 and in 2013 invested $74 million in information technology assets for transition to the new service provider.

Regulatory Assets

Regulatory assets increased $106 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, approved for recovery over a 12-year period starting in 2014. 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 which reflects recovery of $42 million related to the Shoreham Property Tax Settlement Agreement, offset by carrying charges of $28 million (discussed in note 3 to the Basic Financial Statements);
- amortization of the power supply management transition costs totaling $3 million; and
- amortization of the deferred assessment fees totaling $17 million.

Regulatory assets increased $55 million for the year ended December 31, 2012 compared to 2011. The increase is the result of:

- estimated unrecovered Superstorm Sandy costs totaling $80 million (eliminated in 2013);
- 2013 excess fuel and purchased power costs totaling $43 million; and
- deferral of transition costs totaling $11 million related to the expiration of the MSA. These increases were partially offset by:
- recovery of the prior year excess fuel and purchased power costs totaling $58 million;
- decrease of $7 million which reflects recovery of $36 million related to the Shoreham Property Tax Settlement Agreement offset by carrying charges of $29 million;
- amortization of debt issuance costs totaling $7 million; and
- amortization of other certain deferred costs totaling $7 million.

Regulatory Liabilities

Regulatory liabilities decreased $62 million for the year ended December 31, 2013 compared to 2012 resulting primarily from the return to customers of:

- revised unbilled receivable estimate totaling $38 million; and
- excess collection of the 2012 and 2011 efficiency and renewable charge totaling $24 million.

Regulatory liabilities decreased $75 million for the year ended December 31, 2012 compared to 2011, resulting primarily from the return to customers of:

- excess fuel and purchased power costs recoveries totaling $25 million;

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- $36 million related to the deferral resulting from the revised unbilled receivable; and
- excess collection of the 2011 and 2012 efficiency and renewable charges totaling $31 million. These increases were partially offset by:
- the excess collection of the 2013 efficiency and renewable charge totaling $17 million.

Debt

As provided in the Securitization Law, 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 balance sheet.

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

		Balance at December 31		
		2013	2012	2011
General Revenue Bonds	$	4,594,248	6,166,540	6,013,987
Subordinated Revenue Bonds		350,000	350,000	525,000
Commercial Paper Notes		—	200,000	200,000
NYSERDA Notes		—	155,420	155,420
Restructuring Bonds		2,022,324	—	—
General Revenue Notes (Revolver)		263,000	—	—
	$	7,229,572	6,871,960	6,894,407

During 2013, debt increased $358 million compared to 2012 resulting from:

- issuance of UDSA Restructuring Bonds, Series 2013T and 2013TE totaling $2.022 billion;
- outstanding balance on the senior revolving credit facility totaling $263 million;
- accretion of the capital appreciation bonds totaling $29 million;
- partially offset by;
- scheduled maturities of $176 million; and
- refinancing of $1.780 billion of existing bonds and notes (excluding redemption of the senior revolving credit facility draw totaling $191 million).

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During 2012, debt decreased $22 million compared to 2011 resulting from the:

- issuance of Electric System General Revenue Bonds Series 2012A totaling $250 million;
- issuance of Electric System General Revenue Bonds Series 2012B totaling $252 million, which were used to refund $274 million of variable rate debt;
- issuance of Electric System General Revenue Bonds Series 2012C and Series 2012D totaling $324 million, which were used to refund $324 million of variable rate debt; and,
- accretion of the capital appreciation bonds totaling $30 million;
- partially offset by,
- scheduled maturities of $280 million.

For a full discussion on the Authority's debt activities during 2013 and 2012, see note 10 to the basic financial statements.

Risk Management

The Authority is routinely exposed to commodity and interest rate risk. To mitigate commodity risk exposure, the Authority established an energy risk management program to identify exposures to movements in fuel and purchased power prices, quantify the impact of these exposures on the Authority's financial position, liquidity and fuel and purchased power costs, and attempt to mitigate these exposures in line with the Authority's identified levels of risk tolerance. The Authority actively manages the program and adjusts its positions as necessary in an attempt to mitigate the impact of potential market movements. The Authority also hedges its interest rate exposure through certain interest rate derivatives. No collateral was held by or posted by the Authority as of December 31, 2013 to its counterparties in connection with its energy commodity or interest rate hedge positions. At December 2012, the Authority posted $1.1 million of collateral.

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 CFTC has been implementing its authority under the Dodd-Frank Act in an expansive manner. The Authority has implemented several compliance measures, and the Authority's Board has approved revisions to both its commodity and interest rate policies to recognize the obligations and requirements of the Authority under the Dodd-Frank Act. The Authority will still need to evaluate future CFTC rules and regulations to determine if there would be any 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, 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 (unrealized loss) and unrealized charges on commodity derivatives of $52 million, reflecting the negative mark-to-market on the Authority's fuel derivative positions as of December 31, 2013.

For the year ended December 31, 2012, the Authority had realized losses of $94 million and recognized $5 million of option premium amortization, which increased fuel and purchased power costs by $99 million. The Authority also recorded deferred outflows (unrealized loss) and unrealized charges on commodity derivatives of $113 million, reflecting the negative mark-to-market on the Authority's fuel derivative positions as of December 31, 2012.

Interest rate transactions – At December 31, 2013 and 2012, the Authority recorded deferred outflows of $4 million and $25 million, respectively, related to its interest rate hedging derivatives. The Authority also recorded net unrealized fair value losses on its investment derivatives of $120 million and $167 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.

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[1]	A-[1]	A-[1]
[1] Negative outlook			
UDSA Restructuring Bonds	Aaa (sf)	AAA (sf)	AAA (sf)

Certain Senior and all Subordinated Lien debt and the Commercial Paper notes are supported by either a Letter of Credit (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.

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

Statements of Net Position

December 31, 2013 and 2012

(Amounts in thousands)

Assets and Deferred Outflows of Resources		**2013**	**2012**
Current assets:			
Cash and cash equivalents	$	378,821	334,830
Restricted cash		273,515	—
Counterparty collateral – posted by the Authority		—	1,100
Accounts receivable (less allowance for doubtful accounts of $38,817 and $32,519 at December 31, 2013 and 2012, respectively)		528,165	645,975
Other receivable		355,546	138,268
Fuel inventory		119,632	148,436
Material and supplies inventory		8,729	8,234
Unrealized charges		8,124	12,227
Regulatory assets due within one year:			
Fuel and purchased power costs recoverable		49,016	83,936
Shoreham property tax settlement		41,578	40,692
New York State assessment		—	17,646
Transition costs – Power Supply Management		3,183	3,183
Debt issuance costs		4,359	4,359
Transition costs – Operations Services Agreement		4,336	—
Southampton visual benefit assessment		888	888
Prepayments and other current assets		24,680	11,650
		1,800,572	1,451,424
Noncurrent assets:			
Utility plant and property and equipment, net		6,683,026	6,595,582
Promissory Notes Receivable-KeySpan Energy		—	155,422
Nonutility property and other investments		102,389	91,742
Other long-term receivables		38,051	639,072
Unrealized charges		128,292	191,901
Regulatory assets:			
Shoreham property tax settlement		473,843	487,636
Employee benefit plan settlement		216,339	—
Storm restoration – Superstorm Sandy		—	80,000
Fuel and purchased power costs		36,088	38,460
Transition costs – Power Supply Management		—	3,184
Transition costs – Operations Services Agreement		47,703	10,547
Debt issuance costs		40,082	40,272
Southampton visual benefit assessment		9,200	9,560
Acquisition Adjustment (net of accumulated amortization)		2,153,242	2,264,616
Total noncurrent assets		9,928,255	10,607,994
Deferred outflows of resources:			
Deferred loss on debt refunding		189,391	138,193
Accumulated decrease in fair value of commodity derivatives		42,990	88,341
Accumulated decrease in fair value of financial derivatives		3,956	25,130
Total deferred outflows of resources		236,337	251,664
Total assets and deferred outflows of resources	$	11,965,164	12,311,082

See accompanying notes to basic financial statements.

Liabilities and Net Position		2013	2012
Current liabilities:			
Short-term debt	$	263,000	200,000
Current maturities of long-term debt		80,020	175,625
Current maturities of UDSA debt		90,000	—
Current portion of capital lease obligation		168,193	157,232
Accounts payable and accrued expenses		718,550	432,930
Regulatory liabilities:			
Fuel and purchased power costs refundable		—	37,764
Energy efficiency cost recovery variances		—	24,575
Commodity derivative instruments		28,717	55,682
Accrued payments in lieu of taxes		43,774	41,102
Accrued interest		43,583	55,666
Customer deposits		38,208	36,841
Accrued storm costs		103,590	832,343
Total current liabilities		1,577,635	2,049,760
Noncurrent liabilities:			
Long-term debt		4,936,439	6,611,212
Long-term UDSA debt		2,048,196	—
Borrowings		96,390	100,901
Commodity derivative instruments		23,057	57,591
Financial derivative instruments		150,044	261,237
Capital lease obligations		2,557,896	2,726,089
Asset retirement obligation		96,934	84,850
Long term liabilities and unrealized credits		79,289	66,870
Claims and damages		21,183	21,898
Total noncurrent liabilities		10,009,428	9,930,648
Net position:			
Net investment in capital assets		(212,622)	(38,144)
Restricted		273,515	—
Unrestricted		317,208	368,818
Total net position		378,101	330,674
Total liabilities and net position	$	11,965,164	12,311,082

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, 2013 and 2012

(Amounts in thousands)

	2013	2012
Operating revenues – electric sales	$ 3,755,832	3,546,152
Operating expenses:		
Operations – fuel and purchased power	1,749,892	1,553,769
Operations and maintenance	1,009,792	948,660
Storm restoration	15,798	785,656
General and administrative	37,775	44,713
Depreciation and amortization	279,584	272,017
Payments in lieu of taxes	342,132	321,132
Total operating expenses	3,434,973	3,925,947
Operating income (loss)	320,859	(379,795)
Nonoperating revenues and expenses:		
Other income, net:		
Investment (loss) income	(1,285)	6,917
Grant income – FEMA	5,000	604,500
Grant income – other	22,315	6,466
Carrying charges on regulatory assets	29,434	30,215
Other	5,985	219
Total other income, net	61,449	648,317
Interest charges and (credits):		
Interest on long-term debt, net	325,745	327,500
Other interest	17,514	15,657
Allowance for borrowed funds used during construction	(8,378)	(9,339)
Total interest charges and (credits)	334,881	333,818
Total nonoperating (expenses) revenues, net	(273,432)	314,499
Change in net position	47,427	(65,296)
Net position, beginning of year	330,674	395,970
Net position, end of year	$ 378,101	330,674

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, 2013 and 2012

(Amounts in thousands)

		2013	2012
Cash flows from operating activities:			
Received from customers for system sales, net of refunds	$	3,859,960	3,381,131
Other operating revenues received		28,999	44,349
Paid to suppliers and employees:			
Operations and maintenance		(1,536,815)	(1,063,728)
Fuel and purchased power		(1,651,319)	(1,469,973)
Payments in lieu of taxes		(447,606)	(408,684)
Collateral on fuel derivative transactions, net		(13,789)	(560)
Net cash provided by operating activities		239,430	482,535
Cash flows from investing activities:			
Sales of investment securities		—	9,999
Earnings received on investments		207	392
Termination of interest rate swaps		(44,229)	—
Other		10,615	(486)
Restricted cash		(273,515)	—
Net cash (used in) provided by investing activities		(306,922)	9,905
Cash flows from noncapital financing-related activities:			
Grant proceeds		402,904	52,658
Proceeds from credit facility draws		263,000	—
Net cash provided by noncapital financing-related activities		665,904	52,658
Cash flows from capital and related financing activities:			
Capital and nuclear fuel expenditures		(334,287)	(330,469)
Proceeds from insurance recoveries		26,670	—
Proceeds from promissory note		8,075	8,075
Proceeds from the issuance of bonds		476,365	867,716
Proceeds from the issuance of UDSA bonds, including premium		2,138,683	—
Bond issuance costs		(17,250)	(2,530)
Interest paid, net		(335,397)	(312,605)
Redemption of long-term debt		(2,517,280)	(878,025)
Net cash used in capital and related financing activities		(554,421)	(647,838)
Net increase (decrease) in cash and cash equivalents		43,991	(102,740)
Cash and cash equivalents at beginning of year		334,830	437,570
Cash and cash equivalents at end of year	$	378,821	334,830
Reconciliation to net cash provided by operating activities:			
Operating income (loss)	$	320,859	(379,795)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization		279,584	272,017
Nuclear fuel burned		12,654	9,140
Shoreham surcharges		42,701	36,238
Accrued storm costs and claims and damages		(64,202)	869,038
Accretion of asset retirement obligation		4,435	4,188
Other, net		(11,044)	(8,058)
Changes in operating assets and liabilities:			
Accounts receivable, net		125,982	(89,534)
Regulatory assets		(36,442)	(122,310)
Fuel and material and supplies inventory		28,309	16,830
Counterparty collateral		1,100	(560)
Claims, damages, and storm restoration		(665,266)	(77,307)
Accounts payable, accrued expenses, and other		200,760	(47,352)
Net cash provided by operating activities	$	239,430	482,535

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 its operating subsidiaries including (i) the Long Island Lighting Company (LILCO), a wholly owned subsidiary of the Authority, doing business as "LIPA," and Power Supply Long Island (PSLI), and (ii) the UDSA, a special purpose corporate municipal instrumentality 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 new legislation, the LIPA Reform Act (Reform Act). Part B of the Reform Act, 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 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, as owner of the transmission and distribution system located in the New York State Counties of Nassau and Suffolk (with certain limited exceptions) and a small portion of Queens County known as the Rockaways (Service Area), 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.

Below is a Summary of the Authority's Primary Operating Agreements

Amended and Restated Management Services Agreement (MSA), Amended and Restated Operations Services Agreement: Under the Amended and Restated MSA, which expired on December 31, 2013, KeySpan, a National Grid (NGRID) subsidiary, provided operations and maintenance services related to the transmission and distribution (T&D) system. Effective January 1, 2014, a wholly owned subsidiary of PSEG fully dedicated to the Authority's operations (PSEG-LI) will provide operations, maintenance, and related services for the T&D system under the Amended and Restated Operations Services Agreement (Amended and Restated OSA). The original Operations Services Agreement (OSA) dated December 28, 2011 was amended prior to its implementation to address changes imposed by Part A of the Reform Act. The Reform Act is intended to substantially change the way the Authority manages the T&D System's operations by effectively shifting 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. The Amended and Restated OSA also extends the term of the original OSA from 10 to 12 years, expiring December 31, 2025. Additionally, the Amended and Restated OSA includes a provision that if the 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. Under the Amended and Restated OSA, as of January 1, 2015, an affiliate of PSEG-LI will also provide certain power supply management, fuel procurement, and related services that have historically been provided pursuant to separate agreements between the Authority and the relevant service providers.

PSEG-LI will be paid a management fee plus incentives related to specified performance metrics under the contract. In addition, essentially all costs of operating and maintaining the Authority's T&D system incurred by PSEG-LI will be passed through to and paid by the Authority.

The Reform Act also makes various obligations of the Authority and PSEG-LI subject to review of the New York Department of Public Service's newly created Long Island office (DPS LI). For a further discussion, see note 6.

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 (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): Con Edison Energy, Inc. (CEE) provides fuel management services for both the GENCO generating facilities, effective May 28, 2013, and the non-GENCO units for which the Authority is responsible for providing fuel. The CEE agreement expires on December 31, 2014. Beginning January 1, 2015 these services will be provided by an affiliate of PSEG-LI under the Amended and Restated OSA. The agreement with PSEG-LI expires December 31, 2025. This term is also subject to extensions. Certain other services, namely "front-office", "mid-office" and "back-office" operations related to power supply management and commodity hedging activities will also be provided by affiliates of PSEG-LI beginning in 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. Whereas, 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 $2.2 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. 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. No collateral posting was necessary at December 31, 2013. At

(Continued)

December 31, 2012, the Authority was required to post $1.1 million of collateral to various counterparties, which is recorded as a current asset.

(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

This represents the Authority's share of material and supplies inventory needed to support the operation of the Nine Mile Point 2 (NMP2) nuclear power station.

(h) Promissory Note Receivable

On December 31, 2013, the Authority signed an Employee Benefit Plan Settlement with NGRID whereby the Authority agreed, among other things, to the dissolution of the promissory note receivable to settle and resolve any of the Authority obligations for employee benefit plan liabilities as it relates to NGRID's Authority-serving employees. For a further discussion on the Settlement, see note 3(m).

The Authority, as of December 31, 2012, had $155 million outstanding due from NGRID, whereby the interest rates and timing of principal and interest payments on the promissory notes were identical to the terms of indebtedness assumed by the Authority.

(i) Nonutility Property and Other Investments

The Authority's nonutility property and other investments consist primarily of the NMP2 Decommissioning Trust Funds (the Trusts). At December 31, 2013 and 2012, the value of the Trusts was $102 million and $92 million, respectively.

(j) Other Receivables and Long-Term Receivables

The current portion of other receivables, as of December 31, 2013, includes $301 million for the balance of the estimated amounts due from Federal Emergency Management Agency (FEMA) for reimbursement of Superstorm Sandy eligible restoration costs. As a result of the extensive damage, Long Island was declared a federal major disaster area making the Authority eligible to receive reimbursement from FEMA. As a result, the Authority recorded $605 million as a FEMA receivable in 2012. During 2013, the Authority received $308 million.

Subsequent to December 31, 2013, an additional $136 million was received from FEMA. Based on prior experience with other federal disaster aid claims, management believes it is probable FEMA will remit the remaining balance in 2014.

The remaining 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.

(k) Deferred Outflow 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, as deferred losses of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, such as debt refunding, and recognizes as outflows of resources (expenses or expenditures) and inflows or resources (revenues), certain items that were previously reported as assets and liabilities, such as debt issuance costs. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The adoption of GASB No. 65 did not have a significant impact on the Authority's financial statements. As of December 31, 2013 and 2012, $189 million and $138 million were reclassified from long-term debt to deferred inflow to comply with GASB No. 65, respectively.

In addition, the accumulated changes in the fair value of hedging derivative instruments are reported as deferred outflows. 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.

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.

(l) Unrealized Charges

Unrealized charges consist primarily of the ineffective balance of the investment derivative instruments.

(m) Regulatory Assets

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 future rates will be 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, 2013 and 2012 was $515 million and $528 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.

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 succeeds NGRID as the service provider, the successor shall assume the rights and obligations of NGRID regarding certain employee benefit plan liabilities. The Amended and Restated 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 will fund the costs for those NGRID electric-serving employees.

Although the Authority has consistently funded the annual plan costs throughout the MSA term, NGRID asserted that the Authority was responsible for pension and other employee plan benefit obligations that were underfunded or unfunded (such as OPEBs). As a result, on December 31, 2013, the Authority signed an Employee Benefit Plan Settlement with NGRID and its affiliates. The Settlement provides for a $91.5 million cash payment and the release of NGRID's payment obligations of the approximate $155 million promissory note receivable to settle and resolve the parties' respective employee benefit plan funding obligations and liabilities for NGRID's electric-serving employees. The balance, after applying carrying charge accruals, subject to recovery totaled $216 million. The Authority obtained Board approval to defer such costs for recovery from customers beginning in 2016 over a 10-year period, the remaining term of the Amended and

Restated OSA, as virtually all former employees of NGRID covered by these plans have been transitioned to PSEG-LI and continue to service the electric customers.

Fuel and Purchased Power Costs Recoverable

The Authority's tariff includes a fuel recovery provision – the Fuel and Purchased Power Cost Adjustment (FPPCA) – 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, 2013 and 2012, actual fuel and purchased power costs exceeded the amounts recovered in the power supply charge. As a result, a regulatory asset totaling $41 million and $43 million, respectively, was recorded. As prescribed by the monthly collection method, the 2013 and 2014 tariff reflects a recovery factor for this.

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 $43 million and $41 million as of December 31, 2013 and 2012, respectively.

Superstorm Sandy

Superstorm Sandy was originally estimated to cost $806 million. The Authority expects to receive as much as a 90% FEMA reimbursement. In 2012, the Board had originally approved recovery from customers $80 million of estimated storm costs which it believed would not be recoverable from FEMA. During 2013, this $80 million regulatory asset was reevaluated and eliminated as the Authority anticipates recovery of additional funding to cover unreimbursed FEMA costs from the State and as such is not expected to need to recover these storm costs from customers.

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, which are a component of the Authority's revenue requirement on a systematic basis over the life of the debt, the Authority obtained Board approval to reclass the unamortized balance of debt issuance costs incurred to a regulatory asset to be collected over the life of the debt issuance to which they relate.

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. As the Authority's rates did not include the recovery of this assessment until approved by the Authority's Board effective January 1, 2010, the 2009 assessment was deferred and collected ratably from customers over the four years ended December 31, 2013.

Transition Costs – Power Supply Management

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

Transition Costs – Operations Services Agreement

Transition costs are deferred costs related to the transition to PSEG-LI as the Authority's new management service provider, effective January 1, 2014. PSEG-LI was required to perform a variety of specified activities in order to position itself to assume responsibility to provide operation services under the Amended and Restated 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 contracts beginning on January 1, 2014 and expiring December 31, 2026, 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) that will be recovered from certain customers of the Town over a period of 20 years that began in 2009.

(n) 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.

(o) 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 reflects 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.

(p) 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. As of December 31, 2012, also included were amounts received from NGRID as a result of certain renegotiated agreements. Those credits have been fully amortized through a reduction to expense and provided as a benefit to the customer.

(q) 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).

(r) 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, 2013 and 2012, which approximates fair value.

(s) Accrued Storm Costs

Accrued storm costs consist of unbilled storm restoration costs related to Superstorm Sandy estimated to be $38 million and estimated unbilled costs related to other storms incurred during 2012 and 2013 totaling $66 million.

(t) 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.

(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 $210 million and $325 million as of December 31, 2013 and 2012, respectively.

For the year ended December 31, 2013, the Authority received approximately 52% of its revenues from residential sales, 43% 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 2.88% and 2.96% for December 31, 2013 and 2012, 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.

(Continued)

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

Category	Useful life
Generation – nuclear	39 – 46 years
Transmission and distribution	20 – 48 years
Common	4 – 41 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.

(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 4.856% and 5.189% for the years ended December 31, 2013 and 2012, 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) Regulatory Liability – Fuel and Purchased Power Costs Refundable

Regulatory liabilities represent amounts to be refunded to customers through the ratemaking process. In accordance with the FPPCA, the Authority must return any FPPCA revenues it recovers in excess of the fuel and purchased power costs it incurs. Any such over recoveries are recognized as regulatory liabilities.

In 2010, as a result of the change in the unbilled revenue estimate, a regulatory liability for $129 million was satisfied representing deferred revenue to be refunded to customers. The Authority returned $36 million in 2013 and 2012. As of December 31, 2013, all amounts have been returned to customers.

(aa) Asset Retirement Obligation

The Authority follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 410, *Asset Retirement and Environment Obligations* (ARO). An ARO exists when there is an obligation associated with the retirement of a tangible, long-lived asset that results from the acquisition, construction, or development and/or normal operation of the asset. The Authority, as an 18% owner of NMP2, has a legal obligation associated with its retirement. This initial obligation is offset by the capitalization of the asset which is included in “Utility plant and property and equipment.” As of December 31, 2013 and 2012, the NMP2 ARO totaled $89 million and $78 million, respectively. 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 the ARO 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.

Additionally, FASB ASC 410, *Asset Retirement and Environment Obligations* defines the term conditional ARO as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. As of December 31, 2013 and 2012, 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, 2013 and 2012 is included below (amount in thousands):

		2013	2012
Asset retirement obligation:			
Beginning balance	$	84,850	79,457
Changes in fair market value of decommissioning fund		7,359	931
Accumulated depreciation		290	274
Accretion expense		4,435	4,188
Balance at December 31	$	96,934	84,850

(bb) 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 reflects the decline in service utility.

(cc) 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.

(Continued)

(dd) Recent Accounting Pronouncements

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*, and Statement No. 68, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 27*. GASB No. 67 and 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 increases the transparency, consistency, and comparability of pension information. Statement No. 67 will take effect for periods beginning after June 15, 2013. Statement No. 68 will take effect for periods beginning after June 15, 2014. The Authority does not believe these statements will have a material impact on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. The Authority does not believe this statement will have an impact on its financial statements.

In April 2013, GASB issued Statement No. 70, *Accounting and Reporting for Nonexchange Financial Guarantees.* The objective of GASB Statement No. 70 is to improve the recognition, measurement and disclosure guidance for governments that have extended or received financial guarantees that are non-exchange transactions. This Statement also provides guidance for intra-entity non-exchange financial guarantees involving blended component units. GASB Statement No. 70 is effective for periods beginning after June 15, 2013. The Authority does not believe these statements 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. The Authority does not believe these statements will have a material impact on its financial statements.

(ee) Reclassifications

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

(4) Superstorm Sandy

In October 2012, Superstorm Sandy caused catastrophic damage to predominantly all of the Authority's Service Area. The Authority's Service Area was declared a federal major disaster area. The Authority's preliminary estimate of restoration costs, which included labor, material, equipment, travel and incidental expenses associated with assistance from utilities across the nation, totaled $806 million, which was accrued as of December 31, 2012. The Authority has updated this estimate to $677 million and adjusted its accrual in 2013 accordingly.

The damage caused by Superstorm Sandy exceeded the federal threshold, per capita level, and as such the State petitioned FEMA to provide 90% funding. However, final FEMA approval for 90% funding was not obtained as of December 31, 2012, and the Authority's results reflected the historical 75% FEMA reimbursement of eligible storm costs. The Authority received FEMA approval for the 90% funding level in 2013 and, therefore, has updated its FEMA estimated recovery from $605 million to $609 million as of December 31, 2013 to reflect both the reduction in the estimated eligible costs and the increase in the reimbursement percentage. As of December 31, 2013, the Authority has received $308 million and subsequent to December 31, 2013, the Authority received an additional $136 million for Superstorm Sandy reimbursement from FEMA.

In February 2014, the Authority and FEMA signed a Letter of Understanding that provides for FEMA funding of permanent repair work and future mitigation activities to strengthen the electric grid on Long Island. Under the terms of this agreement, the Authority expects to receive funding for $1.4 billion of eligible costs, including the costs for repair efforts immediately following the storm for which it has received partial reimbursement, and costs for infrastructure improvements, to be constructed in a future period. FEMA will provide 90% funding while the balance is anticipated to be funded through other grants that have been applied for but not yet approved. FEMA proceeds will be reduced by insurance recoveries related to substations damaged during the event. Costs incurred to provide emergency protective measures are not included within the settlement. Amounts to determine that reimbursement from FEMA have not been finalized as of December 31, 2013.

Following Superstorm Sandy and in response to considerable criticism of the response and restoration efforts of the Authority and other utilities, Governor Cuomo established a Moreland Commission on Utility Storm Preparation and Response (Moreland Commission) to review and make recommendations with respect to all New York utilities, including the Authority, and their responses to recent emergency weather events. The Moreland Commission issued a final report dated June 22, 2013 (Report) which as it relates to LIPA, made certain findings and recommendations related to various aspects of the Authority's financial and management practices, among other things. In response to the Report, in July 2013 an ad hoc committee of the Authority's Board was formed, the Special Moreland Committee (Special Committee), to ensure that the issues raised by the Moreland Commission were appropriately addressed. Following six months of review and analysis, the Special Committee concluded its review, having determined that all actions taken by staff to address the Report were reasonable, appropriate, and that the Report's findings were either unfounded or immaterial to the Authority's operations.

(5) Derivative Instruments

The Authority uses derivative instruments 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, net position 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. The Authority's derivative instruments that do not meet the definition of a hedging derivative instrument 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.

A portion of the Authority's fuel and purchased power derivative contracts are exchange-traded contracts with readily available quoted market prices. Another portion is non exchange-traded contracts valued using prices provided by external sources, primarily price quotations available through brokers or over-the-counter, on-line exchanges. The remainder of the fuel and purchased power as well as the financial derivative products represents contracts for which external sources or observable market quotes are not available. These contracts are valued based on various valuation techniques including but not limited to models internal to the Authority's energy risk management consultant based on extrapolation of observable market data with similar characteristics. Contracts valued with prices provided by models and other valuation techniques make up a significant portion of the total fair value of such derivative contracts. The Authority's policy 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 CFTC has been implementing its authority under the Dodd-Frank Act in an expansive manner. The Authority has implemented several compliance measures, including the Authority's Board approved revisions to both its commodity and interest rate policies to recognize the obligations and requirements of the Authority under the Dodd-Frank Act. The Authority will need to evaluate future 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 at December 31, 2013 are as follows (in thousands):

Derivative instrument description		Fair value December 31, 2013	Net change in fair value	Fair value December 31, 2012	Type of hedge	Financial statement classification for changes in fair value
Hedging derivative instruments:						
Financial derivatives:						
Interest Rate Swap 1	$	—	40,209	(40,209)	Cash flow	Deferred outflow
Interest Rate Swap 2		—	26,932	(26,932)	Cash flow	Deferred outflow
Interest Rate Swap 7		(3,956)	302	(4,258)	Cash flow	Deferred outflow
Total	$	(3,956)	67,443	(71,399)		
Commodity derivatives:						
Natural Gas Swaps	$	(20,254)	74,245	(94,499)	Cash flow	Deferred outflow
Residual Oil Swaps		88	(2,507)	2,595	Cash flow	Deferred outflow
Purchased Power Swaps		(27,896)	(31,460)	3,564	Cash flow	Deferred outflow
Natural Gas Basis Swaps		2,503	2,504	(1)	Cash flow	Deferred outflow
Natural Gas Options		2,569	2,569	—	Cash flow	Deferred outflow
Total	$	(42,990)	45,351	(88,341)		
Investment derivative instruments:						
Financial derivatives:						
Interest Rate Swap 3	$	(195,521)	(25,823)	(169,698)	N/A	Unrealized charges
Interest Rate Swap 4		(23,479)	(13,409)	(10,070)	N/A	Unrealized charges
Interest Rate Swap 5		(11,739)	(6,704)	(5,035)	N/A	Unrealized charges
Interest Rate Swap 6		(11,739)	(6,704)	(5,035)	N/A	Unrealized charges
Total	$	(242,478)	(52,640)	(189,838)		
Commodity derivatives:						
Natural Gas Options	$	—	2,369	(2,369)	N/A	Unrealized charges
Natural Gas Swaps		(8,784)	13,779	(22,563)	N/A	Unrealized charges
Total	$	(8,784)	16,148	(24,932)		

The terms of the Authority's commodity derivative instruments that were outstanding at December 31, 2013 and 2012 are summarized in the tables below:

	Notional amount (in thousands)	Beginning date	Ending date	Authority pays per unit	Authority receives
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
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

	Notional amount (in thousands)	Beginning date	Ending date	Authority pays per unit	Authority receives
2012:					
Natural Gas Swaps	208,870 Dths	1/1/2013	10/1/2015	$ 2.75 to 6.85	Natural Gas at Henry Hub
Residual Oil Swaps	103 Bbls	1/1/2013	8/1/2014	73.50 to 99.45	Residual Fuel Oil at NY Harbor
Purchased Power Swaps	7,597 Mwhs	1/1/2013	8/1/2015	31.17 to 81.40	Power at PJM East
Natural Gas Basis Swaps	5,493 Dths	1/1/2013	3/1/2013	0.44 to 3.735	Gas Basis between Henry Hub & Transco Z6, NY

The terms of the Authority's financial derivative instruments that were outstanding at December 31, 2013 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: In accordance with GASB No. 53, at the time of a termination event related to a current refunding of hedged debt, the balance of the amounts in deferred outflows are to be included in the net carrying amount of the refunded debt for the purpose of calculating the deferred loss on refunding. In 2012, portions of the debt associated with Swap 1 and 2 had a current refunding resulting in a reassignment for the interest rate swaps to a new underlying notional debt with similar terms. As a result, $32 million of the deferred outflow at the refunding dates was apportioned to the deferred loss on refunding.

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.

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

(Continued)

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 for all of its commodity derivatives. 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, 2013, the Authority had no posted collateral with counterparties. At December 31, 2012, the Authority had posted collateral with counterparties of $1.1 million.

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, 2013 (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.	Baa1	A-	—
Commodity derivative instruments:			
Barclays Bank PLC	A2	A+	25
BP Corporation North America Inc.	Baa1	A	10
Credit Suisse Int'l	A1	A	35
Deutsche Bank AG	A2	A	50
J. Aron & Company	Baa1	A-	40
JPMorgan Chase Bank, N.A.	Aa3	A+	35
Macquarie Energy LLC	A2	A	10
Merrill Lynch Commodities, Inc.	Baa2	A-	5
Morgan Stanley Capital Group Inc.	Baa2	A-	25
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, in 2013, the two-part Reform Act was passed and signed into law.

The Reform Act establishes a rate review process that requires that on or before February 1, 2015, the Authority and PSEG-LI submit for review to DPS LI a three-year rate proposal for rates and charges to take effect on or after January 1, 2016. DPS LI will review and make recommendations on the 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 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, the Authority and PSEG-LI 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 Trustees 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 Amended and Restated OSA, PSEG-LI will, among other things, perform 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 will be 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 one or two times a year, coincident with changes to the Restructuring Charge, to maintain that equality.

(Continued)

(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, 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.

(Continued)

The following schedule summarizes the utility plant and property and equipment of the Authority as of December 31, 2012 (amounts in thousands):

	Beginning balance	Additions	Deletions	Ending balance
Capital assets, not being depreciated:				
Land	$ 17,566	—	—	17,566
Retirement work in progress	31,509	22,923	21,439	32,993
Construction in progress	255,513	279,492	267,112	267,893
Total capital assets not being depreciated	304,588	302,415	288,551	318,452
Capital assets, being depreciated:				
Generation – nuclear	705,899	43,727	15,119	734,507
Transmission and distribution	3,650,660	203,986	10,511	3,844,135
Common	43,527	2,802	320	46,009
Nuclear fuel in process and in reactor	122,657	1,810	836	123,631
Office equipment, furniture, and leasehold improvements	16,549	1,426	531	17,444
Generation and transmission assets under capital lease	3,751,349	—	—	3,751,349
Total capital assets being depreciated	8,290,641	253,751	27,317	8,517,075
Less accumulated depreciation for:				
Generation – nuclear	286,395	22,112	15,119	293,388
Transmission and distribution	852,395	133,366	31,898	953,863
Common	20,728	2,550	387	22,891
Nuclear fuel in process and in reactor	82,691	9,140	—	91,831
Office equipment, furniture, and leasehold improvements	7,846	2,648	550	9,944
Generation assets under capital lease	720,372	147,656	—	868,028
Total accumulated depreciation	1,970,427	317,472	47,954	2,239,945
Net value of capital assets, being depreciated	6,320,214	(63,721)	(20,637)	6,277,130
Net value of all capital assets	$ 6,624,802	238,694	267,914	6,595,582

In 2012, depreciation expense related to capital assets was $161 million.

(8) Nine Mile Point Nuclear Power Station, Unit 2 (NMP2)

The Authority has an undivided 18% interest in NMP2, located in upstate New York, and operated by Constellation Energy Nuclear Group, LLC (Constellation) a division of Constellation Energy Group, Inc. (CEG).

In March 2012, Exelon Corporation acquired Constellation. The transfer of the NMP2 operating license is expected on April 1, 2014. The Authority does not anticipate any material differences in NMP2 operation due to this change of ownership. For purposes of this footnote, the majority owner of NMP2 will be referred to as Constellation.

NMP2 operated at an annual mean capacity through June 2013 of approximately 1298 MW. The Authority's share of the new rated capability of NMP2 is approximately 234 megawatts (MW). The net utility plant investment, excluding nuclear fuel, was $423 million and $441 million as of December 31, 2013 and 2012, 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 Constellation for NMP2 which provides for a management committee comprised of one representative from each co-tenant. Constellation controls the operating and maintenance decisions of NMP2 in its role as operator. The Authority and Constellation have joint approval rights for the annual business plan, the annual budget and material changes to the budget. In addition to its involvement through the management committee, the Authority maintains on-site nuclear oversight representation to provide additional support to protect the Authority's interests.

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 Constellation in 2010. The Authority's share of the total decommissioning costs for both the contaminated and noncontaminated portions is $89 million as of December 31, 2013 and is included in the statements of net position as a component of the ARO. The value reflects the lengthening of the expected dormancy period prior to the commencement of decommissioning activities as a result of the license extension, partially offset by additional costs associated with the expected delay by the U.S. Department of Energy (DOE) in providing a permanent centralized repository for spent nuclear fuel and the reduction in the credit-adjusted risk-free interest rate. The Authority maintains a nuclear decommissioning trust fund (NDT) for its share of the decommissioning costs of NMP2, which as of December 31, 2013 and 2012 had an approximate value of $102 million and $92 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

Constellation has contracted with the 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, 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, has 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. The Authority reimburses Constellation for its 18% share of the disposal costs of spent fuel at a rate of $1.00 per megawatt hour of net generation, less a factor to account for transmission line losses. Such costs are included in the cost of fuel and purchased power.

(c) Nuclear Plant Insurance

Constellation Energy Nuclear Group (CENG) procures nuclear liability and property insurance for NMP2 and the Authority reimburses Constellation 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. Under the TRIA, as amended and extended, property and casualty insurance companies are required to offer insurance for losses resulting from certified acts of terrorism. Certified acts of terrorism are determined by the U.S. Secretary of the Treasury, in concurrence with the Secretary of State and Attorney General, and primarily are based upon the occurrence of significant acts of terrorism as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion. The nuclear property and accidental outage insurance programs, as discussed later in this section provide coverage for certified acts of terrorism.

Property losses resulting from noncertified acts of terrorism are covered as a common occurrence, meaning that if noncertified terrorist acts occur against one or more commercial nuclear power plants insured by the insurers of NMP2 within a 12-month period, such acts would be treated as one event and the owners of the currently licensed nuclear power plants in the United States would share one full limit of liability (currently, $3.24 billion).

The Price Anderson Act, as amended and extended, mandates that nuclear power generators secure financial protection in the event of a nuclear accident. This protection must consist of two levels. The primary level provides liability insurance coverage of $375 million (the maximum amount available) in the event of a nuclear accident. If claims exceed that amount, a second level of protection is provided through a retrospective assessment of all licensed operating reactors. Currently, this "secondary financial protection" subjects each of the 104 presently licensed nuclear reactors in the United States to a retrospective assessment of up to $127.3 million for each nuclear incident, payable at a rate not to exceed $19 million per year. The Authority's interest in NMP2 could expose it to a maximum potential loss of $22.9 million per incident, through assessments of up to $3.4 million per year in the event of a serious nuclear accident at NMP2 or another licensed U.S. commercial nuclear reactor.

As of December 31, 2013, CENG participates in the American Nuclear Insurers Master Worker Program that provides coverage for worker tort claims filed for radiation injuries. The policy provides a single industry aggregate limit of $200 million for occurrences of radiation injury claims against all those insured by this policy prior to January 1, 2003; $300 million for occurrences of radiation injury claims against all those insured by this policy between January 1, 2003 and January 1, 2010; and $375 million for occurrences of radiation injury claims against all those insured by this policy after January 1, 2010.

CENG has also procured $500 million of primary nuclear property insurance and additional protection (including decontamination costs) of $1.25 billion of stand-alone excess property insurance and a $1.0 billion shared excess policy for NMP2 through the Nuclear Electric Insurance Limited (NEIL). Each member of NEIL, including the Authority, is also subject to retrospective premium adjustments in the event of losses at other member facilities. For its share of NMP2, the Authority could be assessed up to approximately $3.0 million per loss.

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. Constellation 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 three accounts: the Operating Fund, the Rate Stabilization Fund and the Construction Fund. 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, and the Construction Fund is used to fund capital expenditures from the proceeds of bonds. 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 the 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 of Trustees of the Authority may also specifically authorize, as it deems appropriate, other investments that are consistent with the Authority's investment objective. The Authority reviews its investment policy on an annual basis 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; (iv) money-market mutual funds up to 75% maximum; and, (v) investment contracts up to 10%.

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 Aa3/AA- or higher be fully collateralized above the

Federal Deposit Insurance Corporation coverage. Commercial banks with long-term credit ratings of Aa3/AA- or higher do not require collateralization unless otherwise required by the Authority's Chief Financial Officer.

As of December 31, 2013 and 2012, the Authority had deposits of $272 million and $9 million, respectively, of which $6 million and $1 million, respectively, were not collateralized or were uninsured. Uncollateralized balances were primarily the result of amounts temporarily held pending investment or disbursement. Collateral on the remaining 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, 2013 and 2012, all of the Authority's investments had maturities of less than 12 months.

As of December 31, 2013 and 2012, the Authority had the following investments and maturities (amounts in thousands):

			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	6%	$ 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	97%	$ 378,821	—

			2012	
			Investment maturities	
Deposit/investment type	**2012 Fair value**	**Percent of portfolio**	**Less than 3 months**	**3 months to 1 year**
Short-term discount notes:				
Commercial paper	$ 92,452	27%	$ 92,452	—
Federal agencies	5,492	2	5,492	—
Money-market mutual funds	228,026	68	228,026	—
Cash and collateralized deposits	8,860	3	8,860	—
Total	$ 334,830	100%	$ 334,830	—

(Continued)

(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 at least annually 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 or better rating; mortgage obligations rated 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+ 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. As shown in the table below the NDT investment in the commingled equity fund was above the targets identified in the guidelines. As approval of the contract for the NDT investment manager was delayed until late December 2013, a rebalancing of the investments was undertaken in January 2014 to realign the ratios.

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, 2013 and 2012, the NDT had the following investments (amounts in thousands):

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%

Investment type		2012 Fair value	Percent of portfolio
U.S. government and its agencies obligations	$	55,524	61%
Money-market mutual funds		1,572	1
Commingled equity fund		34,515	38
Total	$	91,611	100%

The overall duration of the three individual accounts averaged 4.3 years and 5.6 years at December 31, 2013 and 2012, respectively.

(c) Restricted Cash

PSEG-LI

In accordance with the Amended and Restated 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 $263 million. This operating account was funded with the Authority's draw on its senior revolving credit facility. As of December 31, 2013, the Authority funded $263 million into a collateralized deposit account.

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 who will establish and maintain 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 will consist 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, 2013, includes $10.1 million in the Reserve Subaccount and $0.4 million in the 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.

(10) Long-Term and Short-Term Debt

(a) UDSA

Pursuant to the Securitization Law, UDSA is a special purpose corporate municipal instrumentality, body corporate and politic, political subdivision and public benefit corporation of the State of New York. UDSA has no commercial operations. The Securitization Law also permitted the Authority's Board to adopt the 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 Cost 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 Amended and Restated OSA, PSEG-LI will, among other things, perform 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 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. The Securitization Law permitted the Authority's Board to adopt the 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.

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 and are 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%.

(b) 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

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.

2012

The Authority issued $250 million of its Electric System General Revenue Bonds, Series 2012A. The proceeds of these fixed rate bonds, including the original issue premium of $18 million, were used to fund capital programs and to pay bond issuance costs. The 2012A bonds have an average life of 28 years and an all-in cost of 4.57%.

The Authority issued $252 million of its Electric System General Revenue Bonds, Series 2012B. The proceeds of these fixed rate bonds, including the original issue premium of $35 million, were used to redeem $274 million of outstanding variable rate securities in a current refunding and to pay bond issuance costs. The refunding produced an approximate $30 million net present value savings. The 2012B bonds have an average life of 14 years and an all-in cost of 3.80%.

The Authority issued $324 million of its Electric System General Revenue Bonds, Series 2012C and Series 2012D. The proceeds of these variable rate bonds were used to refund certain of the Authority's outstanding variable rate securities. The 2012C and 2012D bonds have an average life of 18 years. Each of these bonds will be supported by payments made under its own irrevocable Letter of Credit. Each Letter of Credit will expire on June 12, 2015, unless extended prior to its expiration date in connection with the issuance of these bonds.

The Authority's 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
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

(Continued)

		Beginning balance	Accretion/ additions	Maturities	Refundings	Ending balance	Due within one year
Other long-term liabilities:							
Long term liabilites 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

The Authority’s bond and note indebtedness and other long-term liabilities as of December 31, 2012 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	$	143,055	7,557	(a)	12,970	—	137,642	12,970
Series 2000A		392,962	22,021	(a)	31,705	—	383,278	32,155
Series 2001A		165,175	—		—	165,175	—	—
Series 2003B		237,465	—		87,710	—	149,755	92,375
Series 2003C		256,000	—		—	108,825	147,175	8,875
Series 2003 D		73,625	—		—	—	73,625	—
Series 2003 H-J		167,600	—		—	102,000	65,600	—
Series 2003 L-O		134,000	—		—	47,000	87,000	—
Series 2004A		200,000	—		—	—	200,000	4,215
Series 2006A		839,245	—		—	—	839,245	—
Series 2006B		96,955	—		—	—	96,955	—
Series 2006C		198,020	—		—	—	198,020	—
Series 2006D		325,570	—		47,680	—	277,890	1,940
Series 2006E		507,600	—		—	—	507,600	—
Series 2006F		433,170	—		97,960	—	335,210	23,095
Series 2008A		605,055	—		—	—	605,055	—
Series 2008B		149,340	—		—	—	149,340	—
Series 2009A		435,825	—		—	—	435,825	—
Series 2010A		193,325	—		—	—	193,325	—
Series 2010B		210,000	—		—	—	210,000	—
Series 2011A		250,000	—		—	—	250,000	—
Series 2012A		—	250,000		—	—	250,000	—
Series 2012B		—	252,000		2,000	—	250,000	—
Series 2012C		—	175,000		—	—	175,000	—
Series 2012D		—	149,000		—	—	149,000	—
Subtotal		6,013,987	855,578		280,025	423,000	6,166,540	175,625

(Continued)

	Beginning balance	Accretion/ additions	Maturities	Refundings	Ending balance	Due within one year
Electric system subordinate revenue bonds:						
Series 1-3	$ 525,000	—	—	175,000	350,000	—
Subtotal	525,000	—	—	175,000	350,000	—
LIPA debt:						
NYSERDA notes	155,420	—	—	—	155,420	—
Net unamortized discounts/premiums and deferred amortization	75,486	55,027	15,636	—	114,877	—
Total bonds and notes, net of unamortized discounts/premiums	$ 6,769,893	910,605	295,661	598,000	6,786,837	175,625
Other long-term liabilities:						
Long term liabilities and unrealized credits	$ 78,779	5,651	17,560	—	66,870	—
Borrowings	105,315	—	4,414	—	100,901	—
Claims and damages	21,273	1,300	675	—	21,898	—
Capital lease obligations	3,030,977	—	147,656	—	2,883,321	157,232
Total other long-term liabilities	$ 3,236,344	6,951	170,305	—	3,072,990	157,232

(a) Represents accretion of capital appreciation bonds

Below is the Authority's capitalization schedule as of December 31, 2013 and 2012 (amounts in thousands):

Electric system	Year of maturity	Interest rate		2013	2012
General revenue bonds/notes:					
1998A	2014 – 2028	5.05%–5.30%	$	107,842	137,642
2000A	2014 – 2029	5.54%–5.95%		372,651	383,278
2003B	2014	5.25%		28,690	149,755
2003C	2014 – 2028	4.25%–5.00%		—	12,165
2003C	2027 – 2033	5.00%–5.25%		36,645	135,010
2003D-O	2,029	0.2%–5.25%		—	226,225
2004A	2014 – 2025	3.80%–4.88%		—	33,900
2004A	2029 – 2034	5.00%–5.10%		22,270	166,100
2006A	2016 – 2026	4.00%–5.25%		564,125	839,245
2006B	2035	4.50%		4,240	4,240
2006B	2035	5.00		91,415	92,715
2006C	2035	5.00		194,105	198,020
2006D	2014 – 2025	4.00%–5.00%		211,785	277,890
2006E	2017 – 2022	4.00%–5.00%		391,085	507,600
2006F	2014 – 2028	4.00%–5.00%		179,950	222,630
2006F	2033	4.25%		91,055	112,580
2008A	2033	5.50%–6.00%		598,720	605,055
2008B	2019 – 2033	5.25%–5.75%		146,725	149,340
2009A	2031 – 2033	6.25%		331,220	435,825
2010A	2014 – 2015	2.50%–5.00%		—	193,325
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	136,640
2012A	2042	5.00		250,000	250,000
2012B	2014 – 2029	3.00%–5.00%		192,135	250,000
2012C	2033	0.03%–0.23%	a	175,000	175,000
2012D	2033	0.03%–0.02%	a	149,000	149,000
2013A	2016	1.14%–3.25%	a	263,000	—
Subordinated revenue bonds:					
Series 1A, 1B, 2B and 3A	2033	0.04%–0.33%	a	350,000	350,000
				5,207,248	6,516,540
Commercial paper notes		0.09%–0.12%	a	—	200,000

Electric system	Year of maturity	Interest rate		2013	2012
NYSERDA financing notes:					
1985A,B	2016	5.15%	$	—	108,020
1993B	2023	5.30		—	29,600
1994A	2024	5.30		—	2,600
1995A	2025	5.30		—	15,200
				—	155,420
Total debt				5,207,248	6,871,960
Unamortized premium/(discount), net				72,211	114,877
Less current maturities and short-term debt				(343,020)	(375,625)
Total long-term debt			$	4,936,439	6,611,212
UDSA Restructuring Bonds:					
Series 2013T	2017 – 2023	2.04%–3.44%	$	482,934	—
Series 2013TE	2014 – 2039	5.00%		1,539,390	—
				2,022,324	—
Unamortized premium				115,872	—
Less current maturities and short-term debt				(90,000)	—
Total long-term debt				2,048,196	—

a Variable rate (rate presented is as of the fourth quarter of 2013)

b Certain bonds of this series are subject to interest rate exchange agreements – see note 5

c Taxable Build America Bonds subject to 35% federal subsidy, rate shown is pre-subsidy level

The debt service requirements for the Authority's consolidated bonds outstanding (excluding credit revolver but including UDSA Restructuring Bonds) as of December 31, 2013 are as follows (amounts in thousands):

Due		Principal	Interest	Net swap payments	Total
2014	$	170,020	294,825	27,130	491,975
2015		179,505	294,415	21,747	495,667
2016		260,515	296,763	13,183	570,461
2017		221,298	287,906	12,449	521,653
2018		233,288	279,400	12,449	525,137
2019 – 2023		1,314,223	1,275,659	62,246	2,652,128
2024 – 2028		1,531,355	1,008,103	58,316	2,597,774
2029 – 2033		1,904,070	623,191	4,374	2,531,635
2034 – 2038		954,205	267,723	—	1,221,928
2039 – 2044		465,365	41,588	—	506,953
		7,233,844	4,669,573	211,894	12,115,311
Unamortized discounts/premiums		188,083	—	—	188,083
Unaccreted interest on capital appreciation bonds		(267,272)	—	—	(267,272)
Total	$	7,154,655	4,669,573	211,894	12,036,122

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 2014, 1.50% and 3.00% for 2015 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 effective 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, 2013, the Authority had $263 million outstanding.

Commercial Paper Notes

The Supplemental Bond Resolution authorizes the issuance of Commercial Paper Notes, Series CP-l through CP-3 (Notes) up to a maximum amount of $300 million. The aggregate principal amount of the Notes outstanding at any time may not exceed $300 million. The Notes do not have maturity dates of longer than 270 days from their date of issuance and as Notes mature, the Authority traditionally continually replaces them with additional Notes. However, as part of the securitization, the Authority repaid these Notes thereby providing the Authority with an additional $300 million of available liquidity. As of December 31, 2013, the Authority had no commercial paper Notes outstanding.

The Authority also entered into three Letter of Credit and Reimbursement Agreements totaling $300 million in principal amount supporting the Notes. These Letter of Credit and Reimbursement Agreements are for a period of three years with a stated expiration date of January 27, 2015.

The Authority's short-term indebtedness as of December 31, 2013 and 2012 is comprised of the following obligations (amounts in thousands):

		2013			
		Beginning balance	**Issuances**	**Retirements**	**Ending balance**
Short-term debt – CP-1	$	150,000	899,000	(1,049,000)	—
Short-term debt – CP-3		50,000	417,484	(467,484)	—
	$	200,000	1,316,484	(1,516,484)	—

		2012			
		Beginning balance	**Issuances**	**Retirements**	**Ending balance**
Short-term debt – CP-1	$	150,000	900,000	(900,000)	150,000
Short-term debt – CP-3		50,000	336,723	(336,723)	50,000
	$	200,000	1,236,723	(1,236,723)	200,000

(11) Retirement Plans

The Authority participates in the New York State and Local Retirement System (the 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. For full-time employees, 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 3% of their gross earnings toward retirement benefits during for the fiscal year 2012-2013. However, beginning April 1, 2013, 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.

Under this plan, the Authority’s required contributions and payments made to the Retirement System were $2 million, $1.9 million, and $1.6 million, for the years ended December 31, 2013, 2012, and 2011, respectively. Contributions are made in accordance with funding requirements determined by the actuary of the Retirement System using the aggregate cost method. 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 rate relative to payroll for the fiscal years ended December 31, 2013 was 19%. The average contribution rates relative to payroll for the fiscal years ended December 31, 2013 and 2012 were 16% and 15%, 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.

The Authority also participates in a Voluntary Defined Contribution Plan (VDC). On March 16, 2012, Chapter 18 of the Laws of 2012 introduced a new defined contribution retirement plan option as an alternative to the State’s existing defined benefit pension systems. This new 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.

(12) Postemployment Healthcare Plan

(a) Plan Description

The Authority is a participating employer in the New York State Health Insurance Program (NYSHIP), which is administered by the State as an agent multiple employer defined benefit plan. Under the plan, 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, satisfied the requirements for retiring as a member of the Retirement System and is enrolled in NYSHIP. 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 77 employees and retired and/or spouses of retired employees who were eligible to receive these benefits at December 31, 2013. 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 other post-employment benefit (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. Since the Authority expensed the entire prior service cost in 2007, 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 (which was $24 million at December 31, 2013), and as the Authority has not funded the "required" amount, future valuations may produce larger ARCs. For December 31, 2013 and 2012, the current period ARC was approximately $96,000 and $4.7 million, respectively, as detailed in (d).

(b) Funding

The contribution requirements (funding) of the Authority's Net OPEB obligation are at the discretion of management and the Board of Trustees. The Net OPEB obligation is paid on a pay-as-you-go basis. The Authority has not funded a qualified trust or its equivalent.

(c) Actuarial Methods and Assumption

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 2013 and 2012, actuarial valuation, the projected unit credit actuarial cost method was used. For 2013 and 2012, the actuarial assumptions included an investment rate of return (net of administrative expenses) of 3.15% and 2.00%, respectively. The medical trend assumption begins at 8.2% and decreases to a 5.0% long-term trend rate for all health care benefits after four years. The drug trend assumption begins at 9.0% and decreases to a 5.0% long-term trend rate for all health care benefits after four years. The Medicare Part B trend assumption begins at 5.3% and decreases to a 5.0% long-term trend rate for all health care benefits after eight years.

(d) OPEB Status and Funding Progress

The OPEB obligation, which is included in long-term liabilities, and the funded status of the plan as of December 31, 2013 and 2012 is as follows (amounts in thousands):

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

		2013	2012	2011
Actuarial valuation date:				
Actuarial value of assets	$	—	—	—
Accrued actuarial liability (AAL)		22,734	32,875	18,688
Unfunded AAL		22,734	32,875	18,688
Funded ratio		—%	—%	—%
Covered payroll	$	11,022	11,714	11,401
UAAL as percentage covered payroll		206.3%	280.6%	163.9%

(13) Commitments and Contingencies

(a) Power Supply Agreement (PSA)

The PSA provided 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. The PSA expired on May 28, 2013, and was replaced by an Amended and Restated PSA (A&R PSA).

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. These rates continued through May 27, 2013, after which the A&R PSA, which was approved by the Office of the State Comptroller and accepted by FERC, became effective. The annual capacity charge in 2013 and 2012 was $441 million and $452 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 PSA provided incentives and penalties of up to $4 million annually to maintain the output capability of the facilities, as measured by annual industry-standard tests of operating capability. The A&R PSA, however, does not provide for incentives, but does have provisions for penalties in the event that annual guarantees for heat rate and unforced capacity (UCAP) are not met. The Authority paid incentives of $0.5 million and $4.0 million in 2013 and 2012, respectively. No penalties were assessed in either 2012 or 2013.

(b) Purchased Power and Transmission Agreements Assumed from LILCO

As a result of the merger with LILCO, the Authority became party to power purchase agreements (PPAs) with Independent Power Producers (IPPs) and the New York Power Authority (NYPA) for electric generating capacity. Certain of these agreements have been renegotiated by the Authority or modified to comply with market rules instituted by the New York Independent System Operator (NYISO).

Under the terms of a 1989 agreement with NYPA, which will expire in 2015, the Authority purchases power from a pumped storage plant in upstate New York at tariff rates established by NYPA. Under the terms of a 1994 agreement with NYPA, the Authority purchases the electric capacity and energy produced at the NYPA facility located within the service territory at Holtsville, New York. In 2012, LIPA exercised its right to terminate the agreement in April 2014.

The Authority also became party to contracts with NYPA and Con Edison for firm transmission (wheeling) capacity in connection with the pumped storage PPA, as well as a contract with NYPA associated with a transmission cable that was constructed, in part, for the benefit of the Authority. With the inception of the NYISO on November 18, 1999, these transmission contracts were provided with “grandfathered rights” status. The Authority was provided with the opportunity to convert its grandfathered rights for Existing Transmission Agreements (ETAs) into Transmission Congestion Contracts (TCCs). Although the Authority has converted its ETA’s into TCCs, the Authority will continue to pay all transmission charges per the ETAs. In return, the Authority receives revenues from congestion charges collected by the NYISO. All such charges and revenue are considered components of or reductions to fuel and purchased power costs.

With respect to PPAs entered into with the IPPs, the Authority is obligated to purchase all the energy they make available to the Authority. However, the Authority has no obligation to the IPPs if they fail to deliver energy.

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

The following table represents the Authority's commitments under the PPAs and transmission contracts assumed from LILCO, as renegotiated or modified (amounts in thousands):

	PPA*	Firm transmission	IPPs*	Total
Years ended:				
2014	$ 12,815	24,538	38,744	76,097
2015	—	25,506	39,822	65,328
2016	—	25,181	13,923	39,104
2017	—	22,275	—	22,275
2018	—	21,987	—	21,987
2019 through 2023	—	54,687	—	54,687
2024 through 2028	—	18,567	—	18,567
2029 through 2033	—	20,185	—	20,185
2034 through 2037	—	22,296	—	22,296
Subtotal	12,815	235,222	92,489	340,526
Less imputed interest	—	67,142	7,512	74,654
Total	$ 12,815	168,080	84,977	265,872

* Assumes full performance by NYPA and the IPPs.

(c) Additional 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.

The Authority has entered into several agreements to purchase renewable energy from on and off-Island sources. Certain of these power producing facilities have been accounted for as capitalized lease obligations. Facilities that do not meet the criteria for capitalization, under GASB No. 62, are being accounted for as operating leases.

The following table represents the minimum payments under these various capacity and/or energy contracts (amounts in thousands):

		Capital leases	Operating leases
Minimum lease/rental payments:			
2014	$	309,011	160,446
2015		310,882	163,506
2016		312,944	165,808
2017		302,529	168,292
2018		277,367	171,809
2019 through 2023		1,239,291	526,186
2024 through 2028		927,769	382,710
2029 through 2033		184,985	83,092
2034 through 2036		—	663
Total		3,864,778	1,822,512
Less imputed interest		1,138,688	500,219
Net present value	$	2,726,090	1,322,293

(d) *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 Authority recorded a deferred credit to reflect the excess of rent expense over cash payments since inception of the lease.

The termination date of the new lease agreement is April 30, 2024. The future minimum payments under the lease are as follows for the years ended (amounts in thousands):

Minimum lease/rental payments:		
2014	$	1,051
2015		1,528
2016		1,577
2017		1,629
2018		1,682
2019 through 2023		9,264
2024 through 2025		2,724
Total		19,455
Less imputed interest		2,205
Net present value	$	17,250

(e) 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. Liability related to construction projects and similar risks is transferred through contractual indemnification and compliance with Authority insurance requirements. The Authority also has various 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 the self-insurance provisions. For general liability, including automobile liability, the Authority is self-insured up to $3 million. For transmission assets, such as substations, the Authority is self-insured up to $7.5 million and distribution assets are self-insured up to $1.5 million. Transformers are self-insured up to $2.0 million.

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

(14) Legal Proceedings

(a) 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 and 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.

(b) 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 Authority and NGRID entered into an Amended and Restated Power Supply Agreement, (A&R PSA) which commenced on May 28, 2013. The A&R PSA 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.

On December 28, 2011, the Authority and PSEG-LI entered into an Operations Services Agreement (OSA) related to LIPA's transmission and distribution system whereby PSEG-LI would begin providing operation services on or after January 1, 2014. An Amended and Restated Operations Services Agreement was entered into as of December 31, 2013. With regard to allocation of risk of certain costs and liabilities, 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. However, other than losses attributable to PSEG-LI's gross negligence or willful misconduct, PSEG-LI's liability to 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 occur prior to December 31, 2013.

(c) 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 $260,700, which will not have a material adverse effect on its financial position or cash flows.

Metal Bank –this is a ten-acre 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 be immaterial to its position.

(d) 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.

(e) Other Claims

The Authority is subject to legal proceedings and claims that arise in the ordinary course of business. These include various environmental related claims, primarily to clean air and water standards. The Authority would expect to capitalize and recover in rates any capital additions necessary to comply with these standards. Other than those capital additions, any potential environmental related settlements are not expected to materially impact the Authority's operating results or financial position.

(15) Subsequent Event

In accordance with the terms of the Amended and Restated OSA, PSEG-LI employees that were NGRID transitioned employees will be provided similar employee benefit plans as those offered by NGRID. These plans include, but are not limited to, pension and other postretirement health and life insurance benefit plans (OPEB). 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, shall be entitled to receive substantially equivalent postretirement health and life insurance benefits under a postretirement health and life insurance plan established by PSEG-LI. In addition, the PSEG-LI pension plan will credit the 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.

Under the MSA, pension and OPEB costs associated with the NGRID electric serving employees were included in the fees paid by the Authority and any unfunded liability was recognized by NGRID as required by the MSA. However, under the Amended and Restated OSA, these obligations are "Pass-Through Expenditures." The pension and OPEB benefits remain legal obligations of PSEG-LI, and the employees are covered by the plans are PSEG-LI employees, not Authority employees. The costs associated with these benefits are solely a contractual liability of the Authority. As such the Authority estimates a contractual liability of $401 million as of January 1, 2014 equal to the unfunded pension and OPEB liability. The Authority may seek rate recovery of these costs prospectively.

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Independent Auditors' 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, 2013 and 2012 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 27, 2014.

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 27, 2014

LONG ISLAND POWER AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended December 31, 2013

Federal grantor/program title	Federal CFDA number	Grant number	Total federal expenditures
U.S. Department of Energy:			
ARRA – Long Island Smart Energy Corridor	81.122	DE-OE0000220	$ 3,934,419
U.S. Department of Homeland Security:			
Pass through the New York State Office of Emergency Management:			
Disaster Grants – Public Assistance (Presidentially Declared Disasters) (note 5)	97.036	Various	467,118,268
Total expenditures of federal awards			$ 471,052,687

See accompanying notes to schedule of expenditures of federal awards.

LONG ISLAND POWER AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2013

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the Long Island Power Authority (Authority) and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The amounts reported as federal expenditures were obtained from the general ledger records maintained by the Authority. These general ledger records were also the source of the basic financial statements.

(2) Matching Costs

Matching costs, i.e., the nonfederal share of program costs, are not included in the accompanying schedule of expenditures of federal awards.

(3) Relationship to Federal Financial Report

The regulations and guidelines governing preparation of federal financial reports may not match the accounting principles used by the Authority to present amounts in the Schedule. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared on the basis explained in note 1.

(4) Subrecipients

In OMB Circular A-133 Section _.105, subrecipients are defined as nonfederal entities that expend federal awards received from a pass-through entity to carry out a federal program, but do not benefit from that program. For CFDA No. 81.122, ARRA – Long Island Smart Energy Corridor, the Authority passed through $3,045,383 to two subrecipients.

(5) Disaster Grants – Public Assistance

In both 2012 and 2013, the Authority incurred expenditures as a result of the October 2012 Hurricane Sandy Storm. The Storm significantly impacted the service territory of the Authority and, in 2013 the Authority received approval of disaster relief assistance of $467,118,268 from the Federal Emergency Management Agency (FEMA), which is the amount reported on the Schedule for the year ended December 31, 2013. The Authority received $308,581,356 of this amount in 2013.

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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Trustees
Long Island Power Authority:

Report on Compliance for Each Major Federal Program

We have audited the Long Island Power Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2013. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Long Island Power Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the basic financial statements of the Long Island Power Authority, a component unit of the State of New York, as of and for the years ended December 31, 2013 and 2012, and have issued our report thereon dated March 27, 2014, which contained an unmodified opinion on those basic financial statements. Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2013 is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 2013 basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2013 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 2013 basic financial statements or to the 2013 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the 2013 basic financial statements as a whole.

KPMG LLP

New York, New York
September 30, 2014

LONG ISLAND POWER AUTHORITY

Schedule of Findings and Questioned Costs

Year ended December 31, 2013

(1) Summary of Auditors' Results

Financial Statements

a) An unmodified opinion was issued on the financial statements of the Long Island Power Authority (the Authority) as of and for the year ended December 31, 2013.

b) There were no significant deficiencies or material weaknesses reported in connection with the financial statements of the Authority as of and for the year ended December 31, 2013.

c) There were no instances of noncompliance reported that would be material to the basic financial statements of the Authority as of and for the year ended December 31, 2013.

Single Audit

d) An unmodified opinion was issued on the Authority's compliance with the requirements of its major federal programs for the year ended December 31, 2013.

e) No material weaknesses or significant deficiencies were reported in connection with the major federal programs of the Authority for the year ended December 31, 2013.

f) No audit findings were required to be reported under section 510(a) of OMB Circular A-133 for the year ended December 31, 2013.

g) The dollar threshold to determine Type A programs was $3,000,000. The major federal programs of the Authority for the year ended December 31, 2013 are as follows:

Name of federal program	CFDA number
ARRA – Long Island Smart Energy Corridor	81.122
Disaster Grants – Public Assistance (Presidentially Declared Disasters) – passed through the New York State Office of Emergency Management	97.036

h) The Authority qualified as a low-risk auditee under Section _.530 of OMB Circular A-133 for the year ended December 31, 2013.

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

No findings were reported.

(3) Findings and Questioned Costs Relating to Federal Awards

No findings or questioned costs were reported.