UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)

Basic Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)

Table of Contents

Overview of the Financial Statements

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

The financial statements provide summary information about the overall financial condition of the Utility Debt Securitization Authority (UDSA). The notes provide explanation and more details about the contents of the financial statements.

UDSA is considered a special-purpose government entity engaged in business-type activities and follows financial reporting for enterprise funds. UDSA's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Management's Discussion and Analysis (Unaudited)

The management's discussion and analysis of UDSA's financial performance provides an overview of UDSA's financial information for the year ended December 31, 2014 and the period ended December 31, 2013. The discussion and analysis should be read in conjunction with the financial statements and accompanying notes, which follow this section. UDSA'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.

UDSA 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, UDSA records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively.

Nature of Operations

UDSA was created as a result of New York State legislation, signed into law on July 29, 2013, referred to as the LIPA Reform Act (the Reform Act). Part B of the Reform Act (referred to as the Securitization Law) which allowed for the retirement of certain outstanding indebtedness of the Long Island Power Authority (Authority) through the issuance of securitized restructuring bonds (Restructuring Bonds) by UDSA. The Authority is the owner of the transmission and distribution system located in the Counties of Nassau and Suffolk (with certain limited exceptions) and a small portion of Queens County known as the Rockaways (Service Area) and is responsible for facilitating the supply of electricity to customers within the Service Area.

UDSA is a special purpose corporate municipal instrumentality of the State of New York. UDSA has no commercial operations and is prohibited from engaging in any other activity except as specifically authorized by the Restructuring Cost Financing Order (Financing Order) described below. The Reform Act provides that 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 which may be issued by UDSA. UDSA was formed solely to issue the Restructuring Bonds for the purpose of purchasing restructuring property to finance the cost of purchasing, redeeming, or defeasing a portion of the outstanding debt of the Authority. The Restructuring Property is defined as the right, title, and interest (a) in and to rates and charges to recover from customers the debt service requirements on the Restructuring Bonds (referred to as Restructuring Charges); (b) in and to all revenues, collections, claims, payments, money, or proceeds of or arising from the Restructuring Charges, regardless of whether such revenues, collections, claims, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, claims, payments, money, or proceeds; and (c) in and to all rights to obtain adjustments to the Restructuring Charges pursuant to the terms of the Financing Order adopted by the Authority's Board of Trustees (Board) on October 3, 2013. This nonbypassable consumption-based Restructuring Charge is billed to 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 Restructuring Charge is established by UDSA and is not subject to oversight by the Department of Public Service or any other regulatory body. 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 securitization offset charge will be adjusted along with changes to the Restructuring Charge.

On December 18, 2013, UDSA issued $1.54 billion Restructuring Bonds Series 2013TE (Federally Tax Exempt) and $482.9 million Restructuring Bonds Series 2013T (Federally Taxable) and used the net proceeds to purchase the Restructuring Property from the Authority and pay expenses of issuance.

As of December 31, 2014, long-term debt consists of approximately $1.9 billion in remaining outstanding Restructuring Bonds as well as approximately $102 million in unamortized premium.

Below is summary-level information of UDSA's financial position:

Summary of Statement of Net Position
(Amounts in thousands)

		December 31	
Assets		**2014**	**2013**
Current assets:			
Restricted cash	$	22,483	10,513
Accounts receivable		38,338	—
Prepaid assets		322	—
Total current assets		61,143	10,513
Noncurrent assets:			
Restructuring property		2,018,955	2,112,990
Regulatory asset – unamortized debt issuance costs		13,146	15,095
Total noncurrent assets		2,032,101	2,128,085
Total assets	$	2,093,244	2,138,598
Liabilities and Net Position			
Current liabilities	$	18,644	93,173
Long-term debt		2,019,340	2,048,196
Total liabilities		2,037,984	2,141,369
Net position – unrestricted		55,260	(2,771)
Total liabilities and net position	$	2,093,244	2,138,598

(Continued)

		Year ended December 31, 2014	July 29, 2013 (inception) through December 31, 2013
Operating revenue	$	233,437	—
Operating expenses		96,730	—
Operating income		136,707	—
Other income		4	—
		136,711	—
Interest charges and credits		78,680	2,771
Change in net position		58,031	(2,771)
Net position – beginning of year		(2,771)	—
Net position – end of year	$	55,260	(2,771)

Change in Net Position

The change in net position for the year ended December 31, 2014 resulted in income of $58 million as compared to a loss of $3 million for the period ended December 31, 2013. UDSA issued the Restructuring Bonds on December 18, 2013 and the Authority began imposing the Restructuring Charge on customer bills on March 1, 2014.

Operating Revenues

For the year ended December 31, 2014 compared to the period ended December 31, 2013, UDSA had higher revenues of $233 million due to the Restructuring Charge being imposed on the Authority's customer bills effective March 1, 2014.

Operating Expenses

For the year ended December 31, 2014, UDSA incurred operating expenses of $97 million. UDSA recognizes the amortization of the Restructuring Property on a proportionate basis annually based on the total principal payments due for the restructuring bonds. For the period ended December 31, 2013, no principal payments were due, and therefore, no amortization was recorded.

UDSA also recognized $1.6 million for servicing and administrative costs for the year ended December 31, 2014. The Authority, as Servicer, is required to manage and administer the UDSA bondable Restructuring Property and to collect the Restructuring Charge on UDSA's behalf. The Authority withholds from the Restructuring Charge collections, an annual servicing fee equal to 0.05% of the initial balance of bonds issued for such services. As the Restructuring Charge was not imposed until March 1, 2014, no such fees were charged to UDSA for 2013.

(Continued)

Interest Charges and Credits

Interest charges and credits increased $76 million. The period ended December 31, 2013 only included 13 days of interest and amortization of both upfront financing costs and premium recognized on the issuance of debt, which occurred on December 18, 2013.

Cash and Liquidity

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. UDSA's restricted cash totaled approximately $22 million and $11 million at December 31, 2014 and 2013, respectively.

Debt

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

		2014	2013
UDSA Restructuring Bonds:			
Series 2013T	$	482,934	482,934
Series 2013TE		1,449,390	1,539,390
		1,932,324	2,022,324
Unamortized premium		102,016	115,872
Less current maturities and short-term debt		(15,000)	(90,000)
Total long-term debt	$	2,019,340	2,048,196

Debt decreased during 2014 due to $90 million of scheduled maturities.

Investment Ratings

Below are 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**
UDSA Restructuring Bonds	Aaa (sf)	AAA (sf)	AAA (sf)

Contacting the Utility Debt Securitization Authority

This financial report is designed to provide UDSA's bondholders, and other interested parties with a general overview of UDSA'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 UDSA's website at www.lipower.org.

KPMG LLP
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New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
Utility Debt Securitization Authority:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Utility Debt Securitization Authority (UDSA), a component unit of the Long Island Power Authority and the State of New York, which comprise the statement of net position as of December 31, 2014 and 2013, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year ended December 31, 2014 and the period from inception (July 29, 2013) through December 31, 2013 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 Utility Debt Securitization Authority as of December 31, 2014 and 2013, and the changes in its net position and its cash flows for the year ended December 31, 2014 and for the period from inception (July 29, 2013) to December 31, 2013 in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2016, on our consideration of UDSA'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 UDSA's internal control over financial reporting and compliance.

KPMG LLP

March 30, 2015

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)

Statements of Net Position

(Amounts in thousands)

Assets		**December 31 2014**	**December 31 2013**
Current assets:			
Restricted cash	$	22,483	10,513
Accounts receivable		38,338	—
Prepaid assets		322	—
Total current assets		61,143	10,513
Noncurrent assets:			
Restructuring property		2,018,955	2,112,990
Regulatory asset – unamortized debt issuance costs		13,146	15,095
Total noncurrent assets		2,032,101	2,128,085
Total assets	$	2,093,244	2,138,598
Liabilities and Net Position			
Current liabilities:			
Current maturities of long-term debt	$	15,000	90,000
Accrued interest		3,595	3,173
Accrued expenses		49	—
Total current liabilities		18,644	93,173
Noncurrent liabilities:			
Long-term debt, including unamortized premium		2,019,340	2,048,196
Net position – unrestricted		55,260	(2,771)
Total liabilities and net position	$	2,093,244	2,138,598

See accompanying notes to basic financial statements.

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)

Statements of Revenues, Expenses, and Changes in Net Position

(Amounts in thousands)

	For the year ended December 31, 2014	Period from July 29, 2013 (inception) through December 31, 2013
Operating revenue	$ 233,437	—
Operating expenses:		
Amortization of restructuring property	94,035	—
Uncollectible expense	1,067	—
Servicing and administrative fees	1,628	—
Total operating expenses	96,730	—
Operating income	136,707	—
Other income	4	—
	136,711	—
Interest charges:		
Interest expense	88,129	3,173
Amortization of restructuring bond premium and issuance costs	(9,449)	(402)
Total interest charges	78,680	2,771
Change in net position	58,031	(2,771)
Net position, beginning of year	(2,771)	—
Net position, end of period	$ 55,260	(2,771)

See accompanying notes to basic financial statements.

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)

Statements of Cash Flows

(Amounts in thousands)

	For the year ended December 31, 2014	Period from July 29, 2013 (inception) through December 31, 2013
Cash flows from operating activities:		
Operating revenues received	$ 194,031	—
Paid to suppliers:		
Servicing and administrative fees	(1,939)	—
Net cash provided by operating activities	192,092	—
Cash flow from investing activities:		
Purchase of restructuring bonds	—	(2,112,990)
Earnings received	4	—
Net cash provided by (used in) investing activities	4	(2,112,990)
Cash flows from financing activities:		
Proceeds from issuance of restructuring bonds	—	2,138,683
Interest paid	(90,029)	—
Redemption of long-term debt	(90,000)	—
Bond issuance and bond administration costs	(96)	(15,180)
Net cash (used in) provided by financing activities	(180,125)	2,123,503
Net increase in cash and cash equivalents	11,970	10,513
Restricted cash and cash equivalents at beginning of year	10,513	—
Restricted cash and cash equivalents at end of the period	$ 22,483	10,513
Reconciliation to net restricted cash provided by operating activities:		
Operating income	$ 136,707	—
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	94,035	—
Changes in operating assets and liabilities:		
Prepaid assets and accounts payable	(312)	—
Accounts receivable	(38,338)	—
Net restricted cash provided by operating activities	$ 192,092	—

See accompanying notes to basic financial statements.

(1) Basis of Presentation

The Utility Debt Securitization Authority (UDSA) was created as a result of New York State legislation, signed into law on July 29, 2013, referred to as the LIPA Reform Act (the Reform Act). Part B of the Reform Act (referred to as the Securitization Law) allowed for the retirement of certain outstanding indebtedness of the Long Island Power Authority (Authority) through the issuance of securitized restructuring bonds (Restructuring Bonds) by UDSA. The Authority is the owner of the transmission and distribution system located in the Counties of Nassau and Suffolk (with certain limited exceptions) and a portion of Queens County known as the Rockaways (Service Area), and is responsible for facilitating the supply of electricity to customers within the Service Area.

Under Governmental Accounting Standard Board Statement (GASB) No. 61, *The Financial Reporting Entity*, UDSA is considered a blended component unit of the Authority. The assets, liabilities, and results of operations are consolidated with the operation of the Authority for financial reporting purposes.

(2) Nature of Operations

UDSA is a special purpose corporate municipal instrumentality of the State of New York (the State). UDSA has no commercial operations and is prohibited from engaging in any other activity except as specifically authorized by a financing order. The Reform Act provides that 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 which may be issued by UDSA. UDSA was formed solely to issue the Restructuring Bonds for the purchase of Restructuring Property to finance the cost of purchasing, redeeming, or defeasing a portion of the outstanding debt of the Authority. The Restructuring Property is defined as the right, title, and interest: (a) in and to rates and charges to recover from customers the debt service requirements on the Restructuring Bonds (referred to as Restructuring Charges); (b) in and to all revenues, collections, claims, payments, money, or proceeds of or arising from the Restructuring Charges, regardless of whether such revenues, collections, claims, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, claims, payments, money, or proceeds; and (c) in and to all rights to obtain adjustments to the Restructuring Charges. This nonbypassable consumption-based Restructuring Charge is billed to 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 Restructuring Charge is established by UDSA, and is not subject to oversight by the Department of Public Service or any other regulatory body, including the Authority’s Board of Trustees (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 securitization offset charge will be adjusted along with changes to the Restructuring Charge.

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

The Restructuring Charges will be adjusted (True-Up Adjustments) at least annually and, if determined by the Servicer in connection with a midyear review process to be necessary, semiannually 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 Restructuring Bonds and all other ongoing financing costs when due.

(3) Summary of Significant Accounting Policies

(a) General

UDSA complies with all applicable pronouncements of GASB. The operations of UDSA are presented as an enterprise fund following the accrual basis of accounting in order to recognize the flow of economic resources. Revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The basic financial statements and the notes to the financial statements cover the year ended December 31, 2014 and the period from July 29, 2013 (inception) through December 31, 2013.

(b) 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) Recent Accounting Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application,* which addresses accounting and financial reporting issues related to fair value measurements. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government’s financial position. Statement No. 72 will take effect for periods beginning after June 15, 2015, and will not have a significant impact on the financial position or results of operations of UDSA.

(d) Accounting for the Effects of Rate Regulation

UDSA 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, as UDSA’s Board is its regulator and authorizes its ratemaking process, UDSA records these future economic benefits and obligations as regulatory assets or regulatory liabilities, respectively.

(e) Restricted Cash

Restricted cash consists of funds held in UDSA's restricted bank accounts to pay the principal, interest, and other expenses associated with the Restructuring Bonds. UDSA has specific investment guidelines that address the legal and contractual requirements of the transaction including that investments must be matched to meet the debt service obligations of the bonds.

The Trustee must maintain a segregated trust account for the bonds known as 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. For administrative purposes, the subaccounts may be established by the Trustee as separate accounts, which will be recognized 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, as of December 31, 2014 and 2013, included approximately $10.1 million in the Reserve Subaccount and approximately $0.4 million in the Upfront Financing Costs Subaccount, both held by the Trustee. As of December 31, 2014 and 2013, 100% of restricted cash is invested in money-market mutual funds with maturities of less than three months.

The Trustee shall have sole dominion and exclusive control over all money in the Collection Account and shall apply such money as provided in the Indenture. Each account shall remain at all times with a securities intermediary.

Only the Trustee shall have access to the Collection Account for the purpose of making deposits to and withdrawals from the Collection Account. Funds in the Collection Account shall not to be commingled with any other monies.

(f) Regulatory Assets – Unamortized Debt Issuance Costs

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* requires that debt issuance costs be expensed in the current financial period. As the UDSA charge provides recovery for debt issuance costs on a systematic basis over the life of the debt, UDSA has classified these costs as a regulatory asset, in accordance with GASB No. 62, to be collected over the life of the debt issuance to which they relate.

(g) Restructuring Property

The Restructuring Property consists primarily of the irrevocable contract right to impose, bill, and collect the nonbypassable consumption-based Restructuring Charge. The Restructuring Property is amortized on a proportionate basis annually based on the total principal payments due for the restructuring bonds as reflected in the Restructuring Charge, subject to the True-Up Adjustments.

(h) Revenues

Beginning on March 1, 2014, the Authority implemented the nonbypassable Restructuring Charge on behalf of UDSA. UDSA records revenue for the charge under the accrual method. UDSA accrues unbilled revenues by estimating unbilled consumption at the customer meter. Unbilled revenue totaled $16 million as of December 31, 2014.

(i) Income Taxes

UDSA is a political subdivision of the State and, therefore, is exempt from federal, state, and local income taxes.

(j) Long-Term and Short-Term Debt

The Financing Order (Financing Order), adopted by the Authority's Board on October 3, 2013, 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 Authority was authorized to use the proceeds from the sale of the Restructuring Property to purchase, redeem, repay, or defease certain of its outstanding debt.

The Restructuring Bonds are consolidated on the Authority's financial statements, however are not considered direct 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. UDSA was formed for the sole purpose of issuing and servicing securitization bonds related to New York State Securitization Legislation.

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

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

Interest payments on the Restructuring Bonds are due semiannually, which began on June 15, 2014. Restructuring Charges are set to collect amounts sufficient to pay principal of and interest on the bonds on a timely basis and any ongoing financing costs.

(Continued)

Below is the UDSA's schedule of capitalization for the period ended December 31, (amounts in thousands):

	Year of maturity	Interest rate	2014	2013
UDSA Restructuring Bonds:				
Series 2013T	2017–2023	2.04%-3.44%	$ 482,934	482,934
Series 2013TE	2015–2039	5.00	1,449,390	1,539,390
			1,932,324	2,022,324
Unamortized premium			102,016	115,872
Less current maturities and short-term debt			(15,000)	(90,000)
Total long-term debt			$ 2,019,340	2,048,196

The debt service requirements for UDSA's bonds as of December 31, 2014 are as follows (amounts in thousands):

Due	Principal	Interest	Total
2015	$ 15,000	86,286	101,286
2016	60,000	84,786	144,786
2017	13,148	82,469	95,617
2018	46,433	82,032	128,465
2019	130,761	80,592	211,353
2020–2024	322,827	363,140	685,967
2025–2029	657,980	283,243	941,223
2030–2034	223,115	139,185	362,300
2035–2039	463,060	80,424	543,484
Total	$ 1,932,324	1,282,157	3,214,481

(4) Significant Agreements and Related-Party Transactions

Under the Servicing Agreement entered into by the Authority and UDSA, concurrently with the issuance of the Restructuring Bonds, the Authority, as Servicer, is required to manage and administer the UDSA bondable Restructuring Property and to collect the Restructuring Charge on UDSA's behalf. Under the Finance Order, the Authority withholds from the Restructuring Charge collections an annual servicing fee equal to 0.05% of the initial balance of bonds issued. Pursuant to the A&R OSA, PSEG-LI will perform the billing and collections, meter reading, and forecasting required of the Servicer under the Servicing Agreement.

(5) Subsequent Events

In connection with the preparation of the financial statements, management has evaluated subsequent events from December 31, 2014 through March 30, 2015, which was the date the financial statements were available for issuance, and concluded that no additional disclosures were necessary.

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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
Utility Debt Securitization 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 Utility Debt Securitization Authority (UDSA), which comprise the statement of net position as of December 31, 2014 and the period from inception (July 29, 2013) through December 31, 2013, the related statements of revenues, expenses, and changes in net position, and cash flows for the period then ended, and the related notes to the basic financial statements, which collectively comprise UDSA's basic financial statements, and have issued our report thereon dated March 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered UDSA'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 UDSA's internal control. Accordingly, we do not express an opinion on the effectiveness of UDSA'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 UDSA'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 UDSA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UDSA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

March 30, 2015

<u>Certification of Financial Report</u>
Pursuant to Public Authorities Law § 2800 (3)

I, John D. McMahon, as Chief Executive Officer of the Utility Debt Securitization Authority (UDSA), do hereby certify in connection with the Financial Report, included in the Annual Report for the fiscal year ended December 31, 2014, that based upon information provided to me and my knowledge:

1. the information provided in the Financial Report is accurate, correct and does not contain any untrue statement of material fact;

2. the Financial Report does not omit any material fact which, if omitted, would cause the financial information to be misleading in light of the circumstances under which such reports are made; and

3. the Financial Report fairly presents in all material respects the financial condition and results of operations of the Authority as of, and for, the periods presented therein.

John D. McMahon
Chief Executive Officer

Dated: March 30, 2015

<u>Certification of Financial Report</u>
Pursuant to Public Authorities Law § 2800 (3)

I, Thomas Falcone, as Chief Financial Officer of the Utility Debt Securitization Authority (UDSA), do hereby certify in connection with the Financial Report, included in the Annual Report for the fiscal year ended December 31, 2014, that based upon information provided to me and my knowledge:

1. the information provided in the Financial Report is accurate, correct and does not contain any untrue statement of material fact;

2. the Financial Report does not omit any material fact which, if omitted, would cause the financial information to be misleading in light of the circumstances under which such reports are made; and

3. the Financial Report fairly presents in all material respects the financial condition and results of operations of the Authority as of, and for, the periods presented therein.

Thomas Falcone
Chief Financial Officer

Dated: March 30, 2015