

New Issue—Full-Book-Entry

In the opinion of Hawkins Delafield & Wood LLP as Bond Counsel to the Authority (“Bond Counsel”), (1) under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2014A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2014A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations, and (2) interest on the Series 2014B Bonds is included in gross income for federal income tax purposes pursuant to the Code. In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Series 2014A Bonds and the Series 2014B Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, and the Series 2014A Bonds and the Series 2014B Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State of New York, except estate or gift taxes and taxes on transfers. See “TAX MATTERS” in Part 1 of this Official Statement.



\$578,020,000
LONG ISLAND POWER AUTHORITY
ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2014

Consisting of:

\$413,070,000
LONG ISLAND POWER AUTHORITY
ELECTRIC SYSTEM GENERAL REVENUE
BONDS, SERIES 2014A

\$164,950,000
LONG ISLAND POWER AUTHORITY
ELECTRIC SYSTEM GENERAL REVENUE
BONDS, SERIES 2014B
(FEDERALLY TAXABLE)

Dated: Date of Delivery

Maturity: As shown on inside cover page

The Electric System General Revenue Bonds, Series 2014A (the “Series 2014A Bonds”) and the Electric System General Revenue Bonds, Series 2014B (the “Series 2014B Bonds”) and together with the Series 2014A Bonds, the “Offered Bonds”), will be issued only as fully registered bonds registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Offered Bonds under the book-entry-only system described herein. Individual purchases of beneficial ownership interests in the Offered Bonds may be made in the principal amount of \$5,000 or any integral multiple thereof. Beneficial Owners of the Offered Bonds will not receive physical delivery of bond certificates. The Bank of New York Mellon, New York, New York, is the Trustee under the Resolution (defined herein).

The Series 2014A Bonds are being issued (i) to fund certain system improvements, (ii) to refund certain outstanding bonds of the Authority and (iii) to pay costs relating to the issuance of the Series 2014A Bonds. The Series 2014B Bonds are being issued (i) to fund certain system improvements and other costs and (ii) to pay costs relating to the issuance of the Series 2014B Bonds. For a more complete description of the purposes for which the Offered Bonds are being issued, see “PLAN OF FINANCE” in Part 1 of this Official Statement.

The original purchasers and holders of the Offered Bonds shall be deemed to have consented to a proposed amendment to the Resolution relating to the Authority’s ability to issue short-term indebtedness as senior lien obligations under the Resolution. See “PROPOSED AMENDMENT TO THE RESOLUTION” in Part 1 of this Official Statement.

Interest on the Offered Bonds is payable on each March 1 and September 1, beginning March 1, 2015. The Offered Bonds are subject to redemption prior to maturity as and to the extent described herein.

The scheduled payment of principal of and interest on the Series 2014A Bonds maturing on September 1, 2039 (bearing interest at 4.000%) (the “Insured Bonds”), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by **ASSURED GUARANTY MUNICIPAL CORP.**



MATURITY SCHEDULE — See Inside Cover Page

The Offered Bonds are special obligations of the Authority payable principally from the revenues generated by the electric system owned by its subsidiary, LIPA, after the payment of operating expenses of the System, on a parity with other Electric System General Revenue Bonds and other Parity Obligations of the Authority. The Offered Bonds shall not be a debt of the State of New York or of any municipality, and neither the State of New York nor any municipality shall be liable thereon. The Authority shall not have the power to pledge the credit, the revenues or the taxing power of the State of New York or any municipality, and neither the credit, the revenues nor the taxing power of the State of New York or any municipality shall be, or shall be deemed to be, pledged to the payment of any of the Offered Bonds. The Authority has no taxing power.

The Offered Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority. Certain legal matters with respect to the Authority and LIPA will be passed upon by Bobbi O’Connor, Esquire, Acting General Counsel to the Authority and LIPA, and by Squire Patton Boggs (US) LLP, New York, New York, Disclosure Counsel to the Authority and LIPA. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, New York, New York, Counsel to the Underwriters. It is expected that the Offered Bonds will be available for delivery in book-entry-only form through The Depository Trust Company in New York, New York on or about December 16, 2014.

BofA Merrill Lynch
(Senior Manager for Series 2014A Bonds)

Barclays
(Senior Manager for Series 2014B Bonds)

Goldman, Sachs & Co.
Morgan Stanley

J.P. Morgan
Wells Fargo Securities

BMO Capital Markets
Ramirez & Co., Inc.
Siebert Brandford Shank & Co., L.L.C.

Citigroup

Jefferies
RBC Capital Markets
TD Securities (USA) LLC

Maturity Schedule

LONG ISLAND POWER AUTHORITY \$413,070,000 ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2014A

Serial Bonds

<u>Maturity September 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2034	\$48,215,000	5.000%	3.500% ¹	5426903D2
2035	29,360,000	5.000	3.590 ¹	5426903E0

Term Bonds

\$71,990,000 5.000% Term Bonds due September 1, 2039 – Yield 3.700%¹
(CUSIP* Number 5426903F7)

\$60,000,000 4.000%** AGM Insured Term Bonds due September 1, 2039 – Yield 3.980%¹
(CUSIP* Number 5426903B6)

\$203,505,000 5.000% Term Bonds due September 1, 2044 – Yield 3.760%¹
(CUSIP* Number 5426903C4)

LONG ISLAND POWER AUTHORITY \$164,950,000 ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2014B (FEDERALLY TAXABLE)

Serial Bonds

<u>Maturity September 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP*</u>
2018	\$18,515,000	2.355%	100%	5426903G5
2019	18,950,000	2.755	100	5426903H3
2020	19,475,000	3.107	100	5426903J9
2021	20,085,000	3.407	100	5426903K6
2022	20,770,000	3.633	100	5426903L4
2024	21,530,000	3.883	100	5426903M2
2025	22,365,000	3.983	100	5426903N0
2026	23,260,000	4.133	100	5426903P5

¹ Priced at the stated yield to the September 1, 2024 optional redemption date at a redemption price of 100%.

*CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the Offered Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to the correctness of the CUSIP numbers on the Offered Bonds or as indicated above.

**Insured by Assured Guaranty Municipal Corp.

LONG ISLAND POWER AUTHORITY

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Uniondale, New York 11553
Telephone:(516) 222-7700
Facsimile:(516) 222-9137

BOARD OF TRUSTEES

Ralph V. Suozzi — Chairman

Elkan Abramowitz
Marc S. Alessi
Sheldon L. Cohen
Matthew Cordaro

Mark Fischl
Jeffrey H. Greenfield
Thomas J. McAteer
Suzette C. Smookler

AUTHORITY MANAGEMENT

John D. McMahon—*Chief Executive Officer*
Thomas Falcone—*Chief Financial Officer*
Bobbi O'Connor—*Acting General Counsel and Secretary*
Rick Shansky—*Managing Director of Contract Oversight*
Jim Parmalee—*Managing Director of Power Supply Long Island*
Kenneth Kane—*Managing Director of Finance and Budgeting*
Donna Mongiardo—*Controller*

Bond Counsel

Hawkins Delafield & Wood LLP
New York, New York

Independent Accountants

KPMG LLP
Melville, New York

Disclosure Counsel

Squire Patton Boggs (US) LLP
New York, New York

Trustee

The Bank of New York Mellon
New York, New York

Financial Advisor

Public Financial Management, Inc.
New York, New York

No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any representation, other than the information and representations contained in this Official Statement, in connection with the offering of the Offered Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the Authority or the Underwriters. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Offered Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The information set forth herein has been furnished by the Authority and LIPA and includes information obtained from other sources, all of which are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, LIPA, PSEG, PSEG Long Island, National Grid or Keyspan Corporation since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party.

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Offered Bonds or the advisability of investing in the Offered Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” (other than the information under the subheading “- Rights of AGM”) in Part 1 to this Official Statement and “Appendix 6 - Specimen Municipal Bond Insurance Policy.”

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

In connection with the offering of the Offered Bonds, the Underwriters may overallocate or effect transactions that stabilize or maintain the market price of the Offered Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE OFFICIAL STATEMENT AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT CONSISTS OF THE COVER PAGE, THE INSIDE COVER PAGE, THE TABLE OF CONTENTS, THE SUMMARY STATEMENT AND THIS PART 1, INCLUDING THE APPENDICES TO THIS PART 1 (ALL OF THE FOREGOING ARE REFERRED TO COLLECTIVELY AS “PART 1”) AND THE ATTACHED PART 2, INCLUDING ITS TABLE OF CONTENTS (COLLECTIVELY, “PART 2”), AND THE INFORMATION INCLUDED BY SPECIFIC CROSS-REFERENCE HEREIN. BOTH THIS PART 1 AND PART 2 ARE DATED THE DATE SHOWN ON THE COVER PAGE OF PART 1. THIS PART 1, TOGETHER WITH PART 2 AND THE INFORMATION INCLUDED BY SPECIFIC CROSS-REFERENCE HEREIN CONSTITUTES THE AUTHORITY’S OFFICIAL STATEMENT RELATING TO THE OFFERED BONDS (AND ONLY SUCH OFFERED BONDS). BOTH PART 1 AND PART 2 (INCLUDING ALL THE INFORMATION INCLUDED BY SPECIFIC CROSS-REFERENCE HEREIN) SHOULD BE READ IN THEIR ENTIRETY. INFORMATION CONTAINED ON THE AUTHORITY’S WEB SITE DOES NOT CONSTITUTE PART OF THIS OFFICIAL STATEMENT.

SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Official Statement and should not be considered a complete statement of the facts material to making an investment decision. The offering of the Offered Bonds to potential investors is made only by means of the entire Official Statement. Certain terms used herein are defined in this Official Statement.

The Authority	The Long Island Power Authority (the “Authority” or the “Issuer”) is a corporate municipal instrumentality and political subdivision of the State of New York. The Authority has a wholly-owned subsidiary, the Long Island Lighting Company, which does business under the name of LIPA (“LIPA”).
LIPA	LIPA owns and operates the electric transmission and distribution system (the “T&D System”) located in its service area, which includes the New York Counties of Nassau and Suffolk (with certain limited exceptions) and a small portion of Queens County, New York known as the Rockaways. LIPA also owns an 18% interest in the Nine Mile Point 2 nuclear generating facility located in Oswego, New York.
The Purpose of the Offered Bonds	The Series 2014A Bonds are being issued (i) to fund certain system improvements, (ii) to refund certain outstanding bonds of the Authority and (iii) to pay costs relating to the issuance of the Series 2014A Bonds. The Series 2014B Bonds are being issued (i) to fund certain system improvements and certain other costs and (ii) to pay costs relating to the issuance of the Series 2014B Bonds. For a more complete description of the purposes for which the Offered Bonds are being issued, see “PLAN OF FINANCE” in Part 1 of this Official Statement.
Outstanding Indebtedness	As of September 30, 2014, the Authority had senior lien Electric System General Revenue Bonds outstanding in the aggregate principal amount of approximately \$4.9 billion (including the \$338 million outstanding under the Authority’s Senior Credit Facility that allows for borrowing up to \$500 million). The Offered Bonds are on a parity with all of these senior lien Bonds. The Authority also had outstanding, as of September 30, 2014, subordinate lien indebtedness in the aggregate principal amount of \$650 million. Also, the Authority currently expects to issue additional bonds to finance system improvements in the future. See “PLAN OF FINANCE” and “DEBT SERVICE” in Part 1 of this Official Statement for additional information relating to the Authority’s indebtedness and near-term financing plans.
System Operation	<p>The Authority is managed by a senior management team supported by a small staff. To assist management in the supervision of its principal agreements and to provide other functions requiring specific expertise, the Authority employs outside consultants.</p> <p>The day-to-day operations of the electric system are accomplished through certain principal contracts with various service providers. Since 1998, the service providers had generally been subsidiaries of National Grid with some exceptions. In 2014, the Authority transitioned to a new business model first adopted by the Board in late 2011 when it authorized the execution of the ten-year operations services agreement between LIPA and PSEG Long Island (as the new service provider) to provide operations, maintenance and related services for the T&D System beginning on January 1, 2014 upon the expiration of the Management Services Agreement with National Grid. The parties also entered into a two-year Transition Services Agreement (“TSA”). The original operations services</p>

agreement was modified in 2013 in response to the requirements of the LIPA Reform Act (defined below) as described below.

The LIPA Reform Act

In October 2012, Superstorm Sandy impacted all of the Service Area, which was declared a federal major disaster area. Following Superstorm Sandy, Governor Cuomo established a Moreland Act Commission on Utility Preparedness and Storm Response (the “Moreland Commission”) to review and make recommendations with respect to all New York utilities, including LIPA, and their responses to recent emergency weather events.

In response to the Moreland Commission’s findings and recommendations, the Governor introduced legislation, which was enacted (L2013, Chapter 173) on July 29, 2013 (the “LIPA Reform Act”).

Part A of the LIPA Reform Act imposed new substantive obligations on PSEG Long Island and effectively shifted major operational and policy-making responsibilities for the T&D System. In response, LIPA negotiated the twelve-year Amended and Restated Operations Services Agreement (“OSA”) with PSEG Long Island to address the changed relationship between the parties in connection with the provision of electric service in LIPA’s Service Area. Beginning on January 1, 2014, a wholly-owned subsidiary of Public Service Enterprise, PSEG Long Island, became the service provider pursuant to a twelve-year Amended and Restated Operations Services Agreement (the “OSA”) executed in accordance with the LIPA Reform Act, as well as the retail brand for electric service on Long Island. Pursuant to the OSA and in furtherance of the objectives of the LIPA Reform Act, beginning on January 1, 2015, a PSEG Long Island affiliate is also expected to provide energy and fuel management services. The transition from National Grid to PSEG Long Island began with the execution of the TSA, has occurred without interruption and is largely complete.

Part A also created a new Long-Island-based office in the Department of Public Service (“DPS”), which is the staff arm of the New York Public Service Commission (“PSC”), to assist with oversight of core utility operations of PSEG Long Island.

See “RECENT DEVELOPMENTS – Restructuring of the Authority and LIPA and Relationship to PSEG Long Island” in Part 2 of this Official Statement

**Authority to Set Electric Rates;
2016- 2018 Rate Proposal**

Under current New York law, the Authority is empowered to set rates for electric service in its service area without being required to obtain the approval of PSC or any other State regulatory body.

Part A of the LIPA Reform Act established a rate review process that requires that on or before February 1, 2015, the Authority and PSEG Long Island submit for review to DPS a three-year rate proposal for rates and charges to take effect on or after January 1, 2016. The Authority’s Board retains final rate-setting power. After the 2016-2018 period, the Authority and PSEG Long Island are only required to submit a proposed rate increase for DPS review if it would increase the rates and charges by an amount that would increase the Authority’s annual revenues by more than 2.5%. See “RATES AND CHARGES – Authority to Set Electric Rates” in Part 2 of this Official Statement.

Current Rate Structure

The Authority has adopted a set of customer rates, which include base rates, the Fuel and Purchased Power Cost Adjustment (“FPPCA”) clause, and certain riders and credits. See “RATES

AND CHARGES – Rate Tariffs and Adjustments” in Part 2 of this Official Statement.

Service Area.....

LIPA’s service area includes approximately 1.1 million customers and experienced its peak usage of approximately 5,771 MW in the summer of 2011. Approximately 52 percent of annual electric revenues are received from residential customers, with 45 percent coming from commercial/industrial customers, and the balance from street lightings, sales to municipalities and public authorities and miscellaneous others. LIPA’s largest customer, the Long Island Rail Road, accounts for less than two percent of LIPA’s total sales and less than two percent of revenue.

Transmission and Distribution Facilities

LIPA’s transmission system includes approximately 1,350 miles of overhead and underground lines with voltage levels ranging from 23 kV to 345 kV. The distribution system has approximately 14,000 circuit miles of overhead and underground line (9,000 overhead and 5,000 underground) and approximately 185,000 line transformers with a total capacity of approximately 12,275 MVA. See “THE SYSTEM” in Part 2 of this Official Statement for a discussion of the service area and the transmission and distribution system.

Power Supply Resources

LIPA’s power supply resources consist principally of various power purchase contracts. The principal power purchase contract is a Power Supply Agreement (“PSA”) that commenced in May 2013 for a maximum term of 15 years under which LIPA obtains rights to and has obligations to pay for all of the capacity of the fossil-fueled on-Island generating facilities owned by National Grid. The PSA provides approximately 3,700 MW of on-Island capacity for the term of the agreement and also provides LIPA with the option to ramp down (i.e., cease purchasing capacity from), retire and/or potentially re-power the PSA units.

In addition, LIPA currently purchases approximately 2,100 MW of capacity from other generating facilities on Long Island and outside the service area through various transmission interconnections between LIPA’s transmission and distribution system and other systems in the region.

LIPA also has an 18% ownership interest in the 1,294 MW Nine Mile Point 2 nuclear unit currently operated by Constellation Energy Nuclear Group, LLC, which owns the remaining 82% interest.

Security and Sources of Payment for Bonds.....

The Offered Bonds, all Bonds heretofore and hereafter issued on a parity therewith and all Parity Obligations will be payable from and secured by the Trust Estate pledged under the Authority’s Resolution, subject to the prior payment of Operating Expenses. The Trust Estate consists principally of the revenues generated by the operation of LIPA’s electric transmission and distribution system.

The Bond Resolution contains a basic flow of funds, including a Rate Stabilization Fund, but does not require specific periodic advance deposits to be made into, or specific balances maintained in, the various funds and accounts. There is no debt service reserve fund.

Additional Bonds may be issued without any historical or projected debt service coverage test and, in the case of Refunding Bonds, without compliance with any debt service savings test.

See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” in Part 2 of this Official Statement.

The Securitization

Part B of the LIPA Reform Act created the Utility Debt Securitization Authority (“UDSA”) and authorized a one-time issuance of the UDSA bonds to retire a portion of the Authority’s existing debt. It established a process through which the Authority’s Board adopted a Financing Order that authorized, among other things, the creation of a Restructuring Charge (a non-bypassable consumption based charge on the Authority’s customers) and certain related rights and interests (collectively, the “Restructuring Property”) and the issuance of the UDSA bonds to provide funds for the purchase of the Restructuring Property from the Authority. The Authority used the sale proceeds of the Restructuring Property to retire approximately \$2 billion of its debt. The Restructuring Charge is a Transition Charge for purposes of the Resolution and amounts collected in respect thereof are thus not Revenues subject to the lien of the Resolution or the Subordinated General Resolution. In addition, the UDSA bonds are not obligations of the Authority, LIPA, PSEG Long Island or any of their affiliates and are not secured by the Trust Estate described herein. See “RECENT DEVELOPMENTS – The Securitization Authority and Securitization Transaction” in Part 2 of this Official Statement.

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PART 1
of the
OFFICIAL STATEMENT
of the
LONG ISLAND POWER AUTHORITY
Relating to its
\$578,020,000
ELECTRIC SYSTEM GENERAL REVENUE BONDS, SERIES 2014
Consisting of:

\$413,070,000
LONG ISLAND POWER AUTHORITY
ELECTRIC SYSTEM GENERAL REVENUE
BONDS, SERIES 2014A

\$164,950,000
LONG ISLAND POWER AUTHORITY
ELECTRIC SYSTEM GENERAL REVENUE
BONDS, SERIES 2014B
(FEDERALLY TAXABLE)

INTRODUCTION

The \$413,070,000 Electric System General Revenue Bonds, Series 2014A (the “Series 2014A Bonds”) and the \$164,950,000 Electric System General Revenue Bonds, Series 2014B (Federally Taxable) (the “Series 2014B Bonds”) and together with the Series 2014A Bonds, the “Offered Bonds”), are being issued by Long Island Power Authority (the “Authority”) pursuant to the Long Island Power Authority Act, being Title 1-A of Article 5 (§ 1020 et seq.) of the Public Authorities Law of the State of New York, as amended (the “Act”), and the Electric System General Revenue Bond Resolution of the Authority adopted on May 13, 1998 (the “Bond Resolution”), as supplemented, including as supplemented by a resolution of the Authority authorizing the Offered Bonds (the “Supplemental Resolution”). The Bond Resolution, as supplemented to the date hereof, including as supplemented by the Supplemental Resolution and as it may be further supplemented or amended in the future, is herein called the “Resolution.”

As of September 30, 2014, the Authority had outstanding approximately \$4.9 billion of senior lien bonds (including the \$338 million outstanding under the Authority’s Senior Credit Facility that allows for borrowing up to \$500 million), all of which were issued under the Bond Resolution (the “Outstanding Senior Lien Bonds”). The Offered Bonds will be on a parity as to security and source of payment with the Outstanding Senior Lien Bonds. The Authority has the ability to issue under the Bond Resolution additional senior lien bonds, and other obligations (“Parity Obligations”), that will be on a parity as to security and source of payment with the Outstanding Senior Lien Bonds and the Offered Bonds. As used in this Official Statement, the term “Bonds” means the Outstanding Senior Lien Bonds, the Offered Bonds and all additional senior lien bonds, notes or other evidence of indebtedness and Parity Obligations of the Authority hereafter issued under the Resolution which are on a parity as to security and source of payment. The Bonds have priority as to security and payment over the Subordinated Indebtedness mentioned in the next paragraph.

The Authority also had outstanding \$650 million of subordinate lien indebtedness (the “Outstanding Subordinated Lien Bonds”) as of September 30, 2014, which amount reflects principal payments made through that date and includes \$300 million of Commercial Paper Notes issued and outstanding under the Authority’s existing \$300 million Commercial Paper program. The Outstanding Subordinated Lien Bonds were all issued under the Authority’s Electric System General Subordinated Revenue Bond Resolution adopted on May 20, 1998 (the “General Subordinated Resolution”) and various supplemental resolutions (the General Subordinated Resolution, as so supplemented, is herein called the “Subordinated Resolution”). The Authority has the ability to issue under the General Subordinated Resolution additional subordinated lien bonds and other obligations that will be on a parity as to security and source of payment with the Outstanding Subordinated Lien Bonds. As used in this Official Statement, the term “Subordinated Indebtedness” means the Outstanding Subordinated Lien Bonds and all other subordinated lien bonds, notes or other

evidence of indebtedness of the Authority issued pursuant to the Subordinated Resolution which are on a parity as to security and source of payment. All Subordinated Indebtedness is, in all respects, on a junior and subordinate basis as to security and source of payment to the Bonds. See “PLAN OF FINANCE” and “DEBT SERVICE” in Part 1 of this Official Statement for recent developments relating to the Authority’s outstanding indebtedness.

Capitalized terms not otherwise defined in this Official Statement have the meanings set forth in “Appendix 5 - Glossary of Certain Defined Terms.”

INFORMATION INCLUDED BY SPECIFIC CROSS-REFERENCE

The following documents filed with the Electronic Municipal Market Access System (“EMMA”) of the Municipal Securities Rulemaking Board (“MSRB”) by the Authority are included by specific cross-reference in this Official Statement:

- The Authority’s Annual Report for the Fiscal Year 2013 (which includes the Authority’s Basic Financial Statements December 31, 2013 and 2012 (With Independent Auditors’ Report Thereon) and Management’s Discussion and Analysis (Unaudited));
- Interim Financial Information of the Authority as of September 30, 2014 and September 30, 2013 (Unaudited);
- The Resolution;
- The Financing Agreement;
- The Amended and Restated Operations Services Agreement (the “OSA”); and
- The Amended and Restated Power Supply Agreement (the “PSA”).

For convenience, copies of these documents can be found on the Authority’s website (www.lipower.org) under the caption “About LIPA – Financials” and “Reports and Contracts.” No statement on the Authority’s website is included by specific cross-reference herein.

PLAN OF FINANCE

The proceeds of the Series 2014A Bonds will be used to (i) fund costs of T&D System improvements and/or reimburse such costs already incurred, (ii) refund the Authority’s Series 2004A Bonds listed on Appendix 2 hereto (the “Refunded Bonds”), and (iii) pay costs (estimated to be \$2,745,545.07) relating to the issuance of the Series 2014A Bonds, including underwriters’ discount.

The proceeds of the Series 2014B Bonds will be used to (i) fund costs of certain T&D System improvements and/or reimburse such costs already incurred, (ii) fund costs in connection with (a) PSEG Long Island’s pension plans for employees of ServCo (as defined in the OSA), (b) a new system to manage T&D System outages, (c) an Enterprise Resource Planning System, and (d) various information technology transition costs, and (iii) pay costs (estimated to be \$695,758.57) relating to the issuance of the Series 2014B Bonds, including underwriters’ discount.

In addition, the Authority expects to (i) issue approximately \$350 million of Floating Rate Notes (\$150 million in a public offering on the same day as the Offered Bonds in a separate transaction (the “Series 2014C Bonds”), \$200 million will be offered pursuant to a private placement in January 2015), (ii) extend certain Letters of Credit on approximately \$175 million of its outstanding variable rate Bonds for up to four years by January 2015, and (iii) implement its new commercial paper and senior notes programs for \$625 million with associated Letters of Credit (with 3-5 year staggered renewal terms) a portion of which (approximately \$325 million) is expected to be issued as senior lien obligations by January 2015 and a portion of which (approximately \$300 million) is expected to be issued as subordinate lien obligations in December 2014.

DEBT SERVICE

The following table shows information regarding the Authority's consolidated debt service requirements following the issuance of the Offered Bonds (based on the assumptions in the footnotes to said table). Amounts shown reflect (i) the results of the refunding of any Refunded Bonds in conjunction with the issuance of the Series 2014A Bonds and (ii) the issuance of the Series 2014C Bonds and related refunding. Amounts shown do not reflect any of the other new issuances described above under "PLAN OF FINANCE." In addition, the table also shows the debt service relating to the UDSA bonds (based on the assumption in footnote 5 to said table). The UDSA bonds are not obligations of the Authority, LIPA, PSEG Long Island or any of their affiliates and are not secured by the Trust Estate described herein. The UDSA bonds are secured by an irrevocable, non-bypassable consumption-based Restructuring Charges which secures only those bonds. Restructuring Charges are not subject to the lien of the Resolution or Subordinated General Resolution.

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DEBT SERVICE

Twelve Months Ended	Offered Bonds		Outstanding Senior Lien ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾		Total Senior Lien Debt Service	Subordinate Lien ⁽²⁾⁽⁴⁾		Net Total Debt Service	UDSA Debt Service ⁽⁵⁾
	Principal	Interest	Principal	Interest		Principal	Interest		
12/31/2014	-	-	\$ 62,398,302	\$217,285,819	\$279,684,121	-	\$5,137,725	\$284,821,846	\$180,029,731
12/31/2015	-	\$18,235,123	145,671,507	219,702,196	383,608,825	-	3,513,883	387,122,708	101,286,283
12/31/2016	-	25,743,703	172,528,634	226,545,056	424,817,393	-	5,013,883	429,831,277	144,786,283
12/31/2017	-	25,743,703	178,748,651	221,763,415	426,255,769	-	5,513,883	431,769,652	95,617,510
12/31/2018	\$18,515,000	25,743,703	156,115,903	216,124,912	416,499,518	-	6,013,883	422,513,402	128,464,980
12/31/2019	18,950,000	25,307,674	86,379,395	209,988,346	340,625,415	-	6,013,883	346,639,299	211,353,844
12/31/2020	19,475,000	24,785,602	113,121,458	207,975,944	365,358,003	-	6,013,883	371,371,887	183,821,767
12/31/2021	20,085,000	24,180,514	154,194,641	204,413,122	402,873,277	-	6,013,883	408,887,160	146,057,003
12/31/2022	20,770,000	23,496,218	178,148,452	198,908,181	421,322,851	-	6,013,883	427,336,734	114,280,989
12/31/2023	-	22,741,644	186,058,523	191,853,529	400,653,696	-	6,013,883	406,667,579	143,931,317
12/31/2024	21,530,000	22,741,644	217,366,733	183,928,876	445,567,253	-	6,013,883	451,581,136	97,875,625
12/31/2025	22,365,000	21,905,634	233,422,169	174,931,613	452,624,416	-	6,013,883	458,638,299	92,027,500
12/31/2026	23,260,000	21,014,836	181,073,608	165,643,372	390,991,815	-	6,013,883	397,005,699	142,731,500
12/31/2027	-	20,053,500	82,965,137	158,608,800	261,627,437	-	6,013,883	267,641,320	250,350,625
12/31/2028	-	20,053,500	114,629,755	155,894,838	290,578,093	-	6,013,883	296,591,976	228,754,500
12/31/2029	-	20,053,500	125,610,237	143,040,157	288,703,894	-	6,013,883	294,717,777	227,359,125
12/31/2030	-	20,053,500	241,285,000	100,287,573	361,626,073	\$45,950,000	6,013,883	413,589,957	106,422,375
12/31/2031	-	20,053,500	279,785,000	87,141,652	386,980,152	48,250,000	4,632,194	439,862,346	85,107,375
12/31/2032	-	20,053,500	303,210,000	72,645,684	395,909,184	50,850,000	3,181,344	449,940,529	72,474,375
12/31/2033	-	20,053,500	317,790,000	55,600,039	393,443,539	54,950,000	688,198	449,081,737	69,467,250
12/31/2034	48,215,000	20,053,500	127,270,000	47,977,950	243,516,450	-	-	243,516,450	28,829,000
12/31/2035	29,360,000	17,642,750	162,490,000	41,614,450	251,107,200	-	-	251,107,200	24,022,125
12/31/2036	30,830,000	16,174,750	107,655,000	31,927,150	186,586,900	-	-	186,586,900	115,859,625
12/31/2037	32,230,000	14,772,450	108,705,000	26,573,400	182,280,850	-	-	182,280,850	120,171,500
12/31/2038	33,700,000	13,307,150	118,855,000	20,942,400	186,804,550	-	-	186,804,550	115,652,125
12/31/2039	35,230,000	11,775,650	83,420,000	14,352,075	144,777,725	-	-	144,777,725	167,778,625
12/31/2040	36,830,000	10,175,250	51,810,000	11,953,750	110,769,000	-	-	110,769,000	-
12/31/2041	38,670,000	8,333,750	110,000,000	6,145,750	163,149,500	-	-	163,149,500	-
12/31/2042	40,605,000	6,400,250	58,565,000	2,928,250	108,498,500	-	-	108,498,500	-
12/31/2043	42,635,000	4,370,000	-	-	47,005,000	-	-	47,005,000	-
12/31/2044	44,765,000	2,238,250	-	-	47,003,250	-	-	47,003,250	-

(1) Accreted interest on capital appreciation bonds is shown in the year of maturity.

(2) Variable rate bonds are assumed to pay interest at the rate of 0.50% for 2014, 1.25% for 2015, 2.00% in 2016, 2.25% in 2017, and 2.50% for 2018 and thereafter. The interest payments on variable rate bonds also include certain ongoing fees (e.g. liquidity fees, remarketing agent fees) or any respective spreads to an index for floating rate notes, which are assumed at current levels through maturity. Expected net receipts or payments under certain interest rate and basis swaps are not reflected. In particular, not reflected in the table above are anticipated payments under an outstanding \$587,225,000 interest rate swap that terminates in 2029 for which LIPA pays 5.12% and receives 69.47% of 1-Month LIBOR. The obligation of the Authority to make payments under such swap constitutes Subordinated Indebtedness.

(3) Interest has not been reduced on the Series 2010B Bonds to reflect expected receipt of "build America bonds" interest rate cash subsidies; such cash subsidies constitute Revenues under the Resolution.

(4) Does not include the Authority's (a) outstanding Commercial Paper Notes, which as of September 30, 2014, the Authority had \$300 million issued and outstanding under its existing \$300 million Commercial Paper program. Assuming interest at a rate of 2.5% per annum, maintaining this level of outstanding Commercial Paper would result in an additional \$7.50 million per year of debt service interest and (b) outstanding Senior Credit Facility that allows for borrowing up to \$500 million, under which \$338 million is outstanding as of September 30, 2014. Assuming interest at a rate of 2.5% per annum, maintaining this level of outstanding Revolving Credit Facility Notes would result in an additional \$8.45 million per year of debt service interest.

(5) Debt service assumes that the UDSA bonds are paid in accordance with the applicable Scheduled Maturity Date rather than the applicable legal Final Maturity Date which is 2 years later for each Tranche of the UDSA bonds. The UDSA bonds are not obligations of the Authority, LIPA, PSEG Long Island or any of their affiliates and are not secured by the Trust Estate described herein. The UDSA bonds are secured by an irrevocable, non-bypassable consumption-based Restructuring Charges which secures only those bonds. Restructuring Charges are not subject to the lien of the Resolution or Subordinated General Resolution.

DESCRIPTION OF THE OFFERED BONDS

General

The Offered Bonds will be dated the date of delivery and will mature at the times and in the principal amounts as set forth on the inside cover page of this Official Statement. Interest on the Offered Bonds is payable on each March 1 and September 1, beginning March 1, 2015. The Offered Bonds will be offered in authorized denominations of \$5,000 and integral multiples thereof. The record date for the Offered Bonds is the fifteenth (15th) day (whether or not a Business Day) of the calendar month next preceding each interest payment date.

Securities Depository

Upon initial issuance, the Offered Bonds will be available only in book-entry form. The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the Offered Bonds, and the ownership of one fully registered bond for each maturity of Offered Bonds in the principal amount of such maturity will be registered in the name of Cede & Co., as nominee for DTC, and deposited with DTC. See Appendix 4 to this Official Statement for a description of DTC and its book-entry-only system that will apply to the Offered Bonds.

As long as the book-entry system is used for the Offered Bonds, The Bank of New York Mellon, New York, New York (the “Trustee”) and the Authority will give any notice required to be given owners of Offered Bonds only to DTC. BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS FOR THE DIRECT PARTICIPANT THROUGH WHOSE DTC ACCOUNT THEIR BENEFICIAL OWNERSHIP INTEREST IS RECORDED TO RECEIVE NOTICES THAT MAY BE CONVEYED TO DIRECT PARTICIPANTS AND INDIRECT PARTICIPANTS.

Redemption

Series 2014A Optional. The Series 2014A Bonds are subject to optional redemption prior to maturity on and after September 1, 2024 at the option of the Authority, as a whole or in part at any time, at par, plus accrued interest to the redemption date.

Series 2014B Make-Whole Optional. The Series 2014B Bonds are subject to redemption prior to their stated maturity dates at the option of the Authority, as a whole or in part at any time, at a redemption price (the “Make-Whole Redemption Price”) equal to the greater of:

- (1) 100% of the principal amount of the Series 2014B Bonds to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2014B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2014B Bonds are to be redeemed, discounted to the date on which the Series 2014B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 35 basis points;

plus, in each case, accrued interest on the Series 2014B Bonds to be redeemed to the redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Series 2014B Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days, but not more than forty-five (45) calendar days, prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2014B Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Calculation of Series 2014B Redemption Price. At the request of The Bank of New York Mellon, as Trustee, the redemption price of the Series 2014B Bonds to be redeemed at the option of the Authority as described under “Make-Whole Optional” shall be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Authority at the Authority’s expense to calculate such redemption price. The Authority may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and shall not be liable for such reliance.

Series 2014 Sinking Fund. The Series 2014A Bonds are also subject to redemption in part on September 1 of the years and in the respective principal amounts set forth below at 100% of the principal amount thereof, plus accrued interest to the redemption date, from mandatory sinking fund installments which are required to be made in amounts sufficient to redeem on September 1 of each year the principal amount of such Series 2014A Bonds specified for each of the years shown below:

**Series 2014A Bonds Due September 1, 2039
(bearing interest at 5.000%)**

Year	Principal Amount
2036	\$16,910,000
2037	17,610,000
2038	18,350,000
2039 ¹	19,120,000

¹Final Maturity

**Series 2014A AGM Insured Bonds Due
September 1, 2039 (bearing interest at 4.000%)**

Year	Principal Amount
2036	\$13,920,000
2037	14,620,000
2038	15,350,000
2039 ¹	16,110,000

¹Final Maturity

Series 2014A Bonds Due September 1, 2044

Year	Principal Amount
2040	\$36,830,000
2041	38,670,000
2042	40,605,000
2043	42,635,000
2044 ¹	44,765,000

¹Final Maturity

Credit Against Sinking Fund Installments. In the event a principal amount of Series 2014A Bonds is deemed to be no longer Outstanding, except by a redemption from moneys credited to the Debt Service Fund as sinking fund installments, such principal amount shall be applied to reduce the remaining sinking fund installments for such Series 2014A Bonds in such order and amounts as is determined by the Authority.

Selection of Bonds for Redemption. If fewer than all of the Offered Bonds of an entire maturity shall be called for redemption, the particular Offered Bonds or portions of Offered Bonds to be redeemed shall be selected as described below.

During such time as the Offered Bonds are registered in book-entry-only form in the name of Cede & Co. or other nominee of DTC, partial redemptions of the Offered Bonds of a maturity will be determined in accordance with DTC's procedures as from time to time in effect. See "Book-Entry-Only System" in Appendix 4 to this Official Statement.

If less than all of the Offered Bonds of a maturity are to be redeemed, DTC and the Direct Participant and, where appropriate, Indirect Participants will determine the particular beneficial ownership interests of such Offered Bonds of such maturity to be redeemed in accordance with their procedures as from time to time in effect. If the Offered Bonds are not registered in book-entry only form, the particular Offered Bonds to be redeemed will be determined by the Trustee, using such method as it deems fair and appropriate.

Notice of Redemption

If any of the Offered Bonds are to be redeemed, notice of such redemption is to be mailed by the Trustee to registered owners of such Offered Bonds to be redeemed not less than 30 nor more than 45 days preceding each redemption date. Any notice of optional redemption may provide that such redemption is conditioned on, among other things, the availability of sufficient moneys on the redemption date.

The Trustee, so long as a book-entry-only system is used for determining ownership of the Offered Bonds, shall send the notice to DTC or its nominee, or its successor. Any failure of DTC or a Direct Participant or, where appropriate, Indirect Participants to do so, or to notify a Beneficial Owner of an Offered Bond of such redemption, will not affect the sufficiency or the validity of the redemption of such Bond. The Authority can make no assurances that DTC, Direct Participants, Indirect Participants or other nominees of the Beneficial Owners of the Offered Bonds to be redeemed will distribute such notices to the Beneficial Owners of such Bonds, or that they will do so on a timely basis. See "Book-Entry-Only System" in Appendix 4 to this Official Statement.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Offered Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series 2014A Bonds maturing on September 1, 2039 (bearing interest at 4.000%) (the "Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as an Appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On November 13, 2014, KBRA assigned an insurance financial strength rating of "AA+" (stable outlook) to AGM. AGM can give no assurance as to any further ratings action that KBRA may take.

On July 2, 2014, S&P issued a credit rating report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On July 2, 2014, Moody's issued a rating action report stating that it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Capitalization of AGM

At September 30, 2014, AGM's policyholders' surplus and contingency reserve were approximately \$3,683 million and its net unearned premium reserve was approximately \$1,810 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (filed by AGL with the SEC on February 28, 2014);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 (filed by AGL with the SEC on May 9, 2014);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014 (filed by AGL with the SEC on August 8, 2014); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014 (filed by AGL with the SEC on November 7, 2014).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Offered Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Insured Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. AGM or such affiliate may hold such Insured Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Insured Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Offered Bonds or the advisability of investing in the Offered Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” (other than the information under the subheading “-Rights of AGM”) and “Appendix 6 – Specimen Municipal Bond Insurance Policy.”

Rights of AGM

So long as AGM is not in default under the Policy, AGM shall, under the terms of the Resolution, at all times be deemed to be the exclusive owner of the Insured Bonds for the purpose of all approvals, consents, waivers or institution of any action and the direction of all remedies. If AGM pays the principal, mandatory sinking fund installments or interest on any Insured Bonds pursuant to the terms of the Policy, AGM will be subrogated to all of the rights of the owners of such Insured Bonds, including the right to receive payment of principal or mandatory sinking fund installments on, and interest on, the Insured Bonds. AGM shall have no rights under the Resolution, other than the rights of subrogation to the extent it has made payments under the Policy, in the event AGM is in default on its payment obligations under such Policy.

PROPOSED AMENDMENT TO THE RESOLUTION

The Authority has amended the Resolution as described below, subject to the consent or deemed consent of the holders of a majority in principal amount of all Outstanding Bonds. The original purchasers and holders of the Offered Bonds, by their purchase and acceptance thereof, thereby (i) consent, and shall be deemed to have consented, to such amendment, and (ii) waive, and shall be deemed to have waived, any and all other formal notices, implementation or timing requirements that may otherwise be required under the Resolution. The Underwriters have not been requested to consent, and will not be consenting, to the amendment on behalf of any other holder of Offered Bonds.

The Twenty-Second Supplemental Resolution authorizing the Offered Bonds amends the General Resolution by deleting a proviso appearing in a section of the General Resolution relating to Supplemental Resolutions which authorize the issuance of Bonds. Such proviso stated that “no Bonds shall have a stated maturity less than 271 days after the date of issue thereof unless constituting a serial maturity of a Series with principal maturing in more than three consecutive Fiscal Years including the year of such maturity.” The proposed amendment is intended to provide the Authority with additional flexibility in its issuance of short-term indebtedness as senior lien obligations under the Resolution; when and if the necessary consents or deemed consents are received, there would be no minimum stated maturity for Bonds.

Following the issuance of the Offered Bonds and the Series 2014C Bonds, the holders of approximately 13.4% of the Outstanding Bonds will have consented to the amendment described above. However, such amendment may become effective at a later date as a result of consents or deemed consents of holders of additional Bonds, consents solicited from other Bondholders, or the retirement or defeasance of Bonds which may reduce the principal amount of Bonds Outstanding for purposes of computing the percentage of Bondholders consenting to the proposed amendment.

Any consent to any such proposed amendment may be revoked, as to any Bond, by the then current holder thereof through written notice filed with the Authority and the Trustee prior to the effectiveness of the amendment. Under the Resolution, the Authority and the Trustee may deem and treat the person in whose name any Bond is registered at the time on the books of registry as the absolute owner of such Bond for all purposes whatsoever, and neither the Authority nor the Trustee will be affected by any notice to the contrary.

Any Beneficial Owner of Offered Bonds desiring to revoke a consent given with respect to the proposed amendment must make arrangements with the Direct Participant or Indirect Participant of DTC through which such Beneficial Owner’s ownership interest in the Offered Bonds is recorded (see Appendix 4 – “BOOK-ENTRY ONLY SYSTEM”) in order for such revocation to be made by the Direct Participant in whose account such ownership interest is recorded. NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY OBLIGATION TO BENEFICIAL OWNERS, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WITH RESPECT TO ANY PROCEDURES OR ARRANGEMENTS AMONG THEM OR WITH DTC RELATING TO THE REVOCATION OF ANY SUCH CONSENT, THE ADHERENCE TO ANY DTC PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

The amendment made by the Twenty-Second Supplemental Resolution will be effective upon the filing with the Trustee of consents (which have not been revoked), executed by Holders (or, to the extent provided by the Supplemental Resolution authorizing any series of Bonds, bond insurers or others deemed to be Holders or the underwriters of any series of Bonds), or upon the deemed consent of the Holders, of not less than a majority in principal amount of the Bonds then Outstanding. The Twenty-Second Supplemental Resolution provides that following the effectiveness of such

amendment, the Authority will mail notice of such amendment to the Holders of the Bonds as provided in the General Resolution. The General Resolution provides that, upon the filing of certain proofs with the Trustee as to such consent and the giving of required notice to the Holders of Bonds, the amendment made by the Twenty-Second Supplemental Resolution shall be deemed conclusively binding upon the Authority, the Trustee and the Holders of all Bonds.

TAX MATTERS

Series 2014A Bonds

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority (“Bond Counsel”), under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2014A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2014A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority and LIPA in connection with the Series 2014A Bonds, and Bond Counsel has assumed compliance by the Authority and LIPA with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2014A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Series 2014A Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, and the Series 2014A Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State of New York, except estate or gift taxes and taxes on transfers.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to the Series 2014A Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, or any facts or circumstances that may thereafter come to its attention, or changes in law or in interpretations thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion on the effect of any action thereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2014A Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2014A Bonds in order that interest on the Series 2014A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2014A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2014A Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and LIPA have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2014A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Series 2014A Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Series 2014A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2014A Bonds.

Prospective owners of the Series 2014A Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S

corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Series 2014A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Series 2014A original issue discount” (“Series 2014A OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2014A Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the Series 2014A Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity of underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2014A Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Series 2014A Bonds having Series 2014A OID (a “Discount Bond”), Series 2014A OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the Series 2014A Bonds.

In general, under Section 1288 of the Code, Series 2014A OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued Series 2014A OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2014A Bond. Accrued Series 2014A OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2014A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2014A Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Series 2014A Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2014A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a

“payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2014A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2014A Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2014A Bonds under federal or state law or otherwise prevent owners of the Series 2014A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2014A Bonds. For example, the Fiscal Year 2015 Budget proposed on March 4, 2014, by the Obama Administration recommends a 28% limitation on “all itemized deductions, as well as other tax benefits” including “tax-exempt interest.” The net effect of such a proposal, if enacted into law, would be that an owner of a tax-exempt bond with a marginal tax rate in excess of 28% would pay some amount of federal income tax with respect to the interest on such tax-exempt bond. Similarly, on February 26, 2014, Dave Camp, Chairman of the United States House Ways and Means Committee, released a discussion draft of a proposed bill which would significantly overhaul the Code, including the repeal of many deductions; changes to the marginal tax rates; elimination of tax-exempt treatment of interest for certain bonds issued after 2014; and a provision similar to the 28% limitation on tax-benefit items described above (at 25%), which, as to certain high income taxpayers, effectively would impose a 10% surcharge on their “modified adjusted gross income,” defined to include tax-exempt interest received or accrued on all bonds, regardless of issue date.

Prospective purchasers of the Series 2014A Bonds should consult their own tax advisors regarding the foregoing matters.

Series 2014B Bonds

Opinion of Bond Counsel

In the opinion of Bond Counsel, interest on the Series 2014B Bonds (i) is included in gross income for federal income tax purposes pursuant to the Code, and (ii) is exempt, under existing statutes, from personal income taxes imposed by the State of New York or any political subdivision thereof, and the Series 2014B Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State of New York, except estate or gift taxes and taxes on transfers.

Certain Federal Tax Consequences

The following discussion is a brief summary of the principal United States federal income tax consequences of the acquisition, ownership and disposition of Series 2014B Bonds by original purchasers of the Series 2014B Bonds who are “U.S. Holders”, as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the Series 2014B Bonds will be held as “capital assets”; and (iii) does not discuss all of the United States federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Series 2014B Bonds as a position in a “hedge” or “straddle”, holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, holders who acquire Series 2014B Bonds in the secondary market, or individuals, estates and trusts subject to the tax on unearned income imposed by Section 1411 of the Code.

Holders of Series 2014B Bonds should consult with their own tax advisors concerning the United States federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Series 2014B Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Original Issue Discount

In general, if Series 2014B original issue discount (“Series 2014B OID”) is greater than a statutorily defined *de minimis amount*, a holder of a Series 2014B Bond having a maturity of more than one year from its date of issue must include in federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Series 2014B Bond) the daily portion of Series 2014B OID, as it accrues (generally on a constant yield method) and regardless of the holder’s method of accounting. “Series 2014B OID” is the excess of (i) the “stated redemption price at maturity” over (ii) the “issue price”. For purposes of the foregoing: “issue price” means the first price at which a substantial amount of the Series 2014B Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers); “stated redemption price at maturity” means the sum of all payments, other than “qualified stated interest”, provided by such Series 2014B Bond; “qualified stated interest” is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate; and “*de minimis amount*” is an amount equal to 0.25 percent of the Series 2014B Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may irrevocably elect to include in gross income all interest that accrues on a Series 2014B Bond using the constant-yield method, subject to certain modifications.

Bond Premium

In general, if a Series 2014B Bond is originally issued for an issue price (excluding accrued interest) that reflects a premium over the sum of all amounts payable on the Series 2014B Bond other than “qualified stated interest” (a “Taxable Premium Bond”), that Taxable Premium Bond will be subject to Section 171 of the Code, relating to bond premium. In general, if the holder of a Taxable Premium Bond elects to amortize the premium as “amortizable bond premium” over the remaining term of the Taxable Premium Bond, determined based on constant yield principles (in certain cases involving a Taxable Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the highest yield on such bond), the amortizable premium is treated as an offset to interest income; the holder will make a corresponding adjustment to the holder’s basis in the Taxable Premium Bond. Any such election is generally irrevocable and applies to all debt instruments of the holder (other than tax-exempt bonds) held at the beginning of the first taxable year to which the election applies and to all such debt instruments thereafter acquired. Under certain circumstances, the holder of a Taxable Premium Bond may realize a taxable gain upon disposition of the Taxable Premium Bond even though it is sold or redeemed for an amount less than or equal to the holder’s original acquisition cost.

Disposition and Defeasance

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Series 2014B Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the Series 2014B Bond.

The Authority may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Series 2014B Bonds to be deemed to be no longer outstanding under the Indenture of the Series 2014B Bonds (a “defeasance”). See “THE INDENTURE” herein. For federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Series 2014B Bonds subsequent to any such defeasance could also be affected.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to non-corporate holders of the Series 2014B Bonds with respect to payments of principal, payments of interest, and the accrual of Series 2014B OID on a Series 2014B Bond and the proceeds of the sale of a Series 2014B Bond before maturity within the United States. Backup withholding may apply to holders of Series 2014B Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to an owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such owner’s United States federal income tax provided the required information is furnished to the Internal Revenue Service.

U.S. Holders

The term "U.S. Holder" means an owner of a Series 2014B Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2014B Bonds under state law and could affect the market price or marketability of the Series 2014B Bonds.

Prospective purchasers of the Series 2014B Bonds should consult their own tax advisors regarding the foregoing matters.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between employee benefit plans under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. In addition, each fiduciary of a Plan must give appropriate consideration to the facts and circumstances that are relevant to an investment in the Offered Bonds, including the role that such an investment in the Offered Bonds would play in the Plan's overall investment portfolio. Each fiduciary of a Plan, before deciding to invest in the Offered Bonds, must be satisfied that such investment in the Offered Bonds is a prudent investment for the Plan, that the investments of the Plan, including the investment in the Offered Bonds, are diversified so as to minimize the risk of large losses and that an investment in the Offered Bonds complies with the documents of the Plan and related trust, to the extent that such documents are consistent with ERISA. The fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Bond and consider whether the purchase and holding of the Offered Bonds might result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

UNDERWRITING

The Underwriters listed on the cover page of this Official Statement, for which Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as the lead book-running manager, have agreed, jointly and severally and subject to certain conditions, to purchase the Series 2014A Bonds from the Authority at an underwriters' discount of \$1,965,594.46. The Underwriters listed on the cover page of this Official Statement, for which Barclays Capital Inc. is acting as the lead book-running manager, have agreed, jointly and severally and subject to certain conditions, to purchase the Series 2014B Bonds from the Authority at an underwriters' discount of \$546,901.84.

The initial public offering prices of the Offered Bonds may be changed from time to time by the Underwriters.

The issuance of the Series 2014A Bonds or the Series 2014B Bonds is not contingent upon the issuance of the other Series.

The Offered Bonds may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Offered Bonds into investment trusts) at prices lower than such public offering prices.

The following paragraphs were provided by the Underwriters of the Offered Bonds.

Certain of the Underwriters have entered into distribution agreements with other broker-dealers for the distribution of the Offered Bonds at the initial public offering prices. Such agreements generally provide that the relevant Underwriter will share a portion of its underwriting compensation or selling concession with such broker-dealers.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management,

investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. The Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the Authority and to persons and entities with relationships with the Authority, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Authority (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Authority. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

CONTINUING DISCLOSURE UNDERTAKING

The Offered Bonds will be subject to the continuing secondary market disclosure requirements of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”) and will be made subject to the Continuing Disclosure Certificate a form of which is attached hereto as Appendix 3 to this Official Statement. Pursuant to the Continuing Disclosure Certificate, the Authority will provide for the benefit of the holders of the Offered Bonds certain financial information and operating data relating to the Authority by the dates specified in the Continuing Disclosure Certificate (the “Annual Report”), and provide notices of the occurrence of certain enumerated events with respect to the Offered Bonds. The Annual Report will be filed by or on behalf of the Authority with EMMA. The notices of such events would be filed by or on behalf of the Authority with EMMA and with the Trustee. The specific nature of the information to be contained in the Annual Report and the notices of events is set forth in the Form of the Continuing Disclosure Certificate which is included in its entirety in Appendix 3. The Offered Bonds being made subject to the Continuing Disclosure Certificate is a condition precedent to the obligation of the Underwriters to purchase the Offered Bonds. The Authority’s undertakings in the Continuing Disclosure Certificate are being made in order to assist the Underwriters in complying with the Rule. In certain cases, the Authority did not timely file notices of bond ratings changes resulting from changes in the ratings of bond insurers. In certain cases in which the Authority complied with its continuing disclosure undertakings by filing required documents, such documents may not have been filed with respect to all relevant CUSIP numbers. In addition, the Authority is not responsible for any failure by EMMA to timely post disclosure submitted to it by the Authority or any failure by any EMMA to associate such submitted disclosure to all related CUSIP numbers.

CREDIT RATINGS

The Offered Bonds have been assigned ratings of “A-” by Fitch, Inc. (“Fitch”), “Baa1” by Moody’s Investors Service (“Moody’s”) and “A-” by Standard & Poor’s Rating Services (“S&P”). The Insured Bonds are expected to be assigned ratings of “A2” by Moody’s and “AA” by S&P solely as a result of the issuance of the Policy by AGM. However, it is not a condition to the Underwriters obligation to purchase the Insured Bonds that, at the date of delivery thereof to the Underwriters, the Insured Bonds receive those ratings or ratings in any other specific category.

The respective ratings by Fitch, Moody’s and S&P of the Offered Bonds reflect only the views of such organizations and any desired explanation of the significance of such ratings and any outlooks or other statements given by the rating agencies with respect thereto should be obtained from the rating agency furnishing the same, at the following addresses: Fitch, Inc., 33 Whitehall Street, New York, New York 10004; Moody’s Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; and Standard & Poor’s Ratings Services, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating and outlook (if any) on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings for the Offered Bonds will continue for any given period of time or that any of such ratings will not be revised downward or withdrawn entirely by any of the rating agencies, if, in the judgment of such rating agency or agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Offered Bonds.

AGREEMENT OF NEW YORK STATE

In the Act, the State pledges to and agrees with the holders of any obligations issued under the Act and the parties to any contracts with the Authority that the State will not limit or alter the rights vested in the Authority until such obligations together with the interest thereon are fully met and discharged and/or such contracts are fully performed on the part of the Authority, provided that nothing therein contained shall preclude such limitation or alteration if and when adequate provision shall be made by law for the protection of the holders of such obligations of the Authority, or those entering into such contracts with the Authority. The Authority, as agent for the State, is authorized to include such pledge and agreement by the State in all agreements with the holders of such obligations and in all such contracts. The Authority has included such pledge in the Resolution.

LEGALITY FOR INVESTMENT

The Act provides that the Offered Bonds will be legal investments for public officers and bodies of the State and all municipalities, insurance companies and associations and other persons carrying on an insurance business, banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies, and other persons carrying on a banking business, all trusts, estates and guardianships, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or other obligations of the State, or may properly and legally invest funds, including capital in their control or belonging to them. Under the Act, the Offered Bonds are also securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

APPROVAL OF LEGAL PROCEEDINGS

Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority, will render its opinions with respect to the validity of the Offered Bonds in substantially the form set forth in Appendix 1 to this Part 1. Certain legal matters with respect to the Authority and LIPA will be passed upon by Bobbi O'Connor, Esquire, Acting General Counsel to the Authority and LIPA, and by Squire Patton Boggs (US) LLP, New York, New York, Disclosure Counsel to the Authority and LIPA. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, New York, New York, Counsel to the Underwriters.

MISCELLANEOUS

This Official Statement (which includes Part 1 and Part 2) includes, among other things, descriptions of (i) the Authority, LIPA, the System and NMP2 and (ii) the terms of the Offered Bonds, certain operating agreements, the Resolution, the Continuing Disclosure Certificate and certain provisions of the Act, some of which are included herein by specific-cross reference. Such descriptions are not complete and all such descriptions and references thereto are qualified by reference to each such document, copies of which may be obtained from the Authority.

The agreements with the holders of the Offered Bonds are fully set forth in the Bond Resolution, as supplemented by the Supplemental Resolution, which authorizes their issuance. This Official Statement is not to be construed as a contract with the purchasers of the Offered Bonds or of any other obligations of the Authority.

This Official Statement has been executed on behalf of the Authority by its Chief Executive Officer pursuant to the authority of the Trustees.

LONG ISLAND POWER AUTHORITY

By: /s/John D. McMahon
Chief Executive Officer

APPENDIX 1

Form of Opinion of Hawkins Delafield & Wood LLP Bond Counsel to the Authority

December __, 2014

Long Island Power Authority
333 Earle Ovington Blvd.
Uniondale, NY 11553

Ladies and Gentlemen:

We have examined a certified record of proceedings relating to the issuance of \$413,070,000,000 Electric System General Revenue Bonds, Series 2014A (the "Series 2014A Bonds") and \$164,950,000,000 Electric System General Revenue Bonds, Series 2014B (the "Series 2014B Bonds," and collectively with the Series 2014A Bonds, the "Series 2014A & B Bonds") of the Long Island Power Authority (the "Authority"), a corporate municipal instrumentality of the State of New York (the "State") constituting a body corporate and politic and a political subdivision of the State.

The Series 2014A & B Bonds are issued under and pursuant to the Constitution and statutes of the State, including the Long Island Power Authority Act, being Title 1-A of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York, as amended (herein called the "Act"), and under and pursuant to proceedings of the Authority duly taken, including a resolution adopted by the Trustees of the Authority on May 13, 1998 entitled "Electric System General Revenue Bond Resolution", as supplemented by the Twenty-Second Supplemental Electrical System General Revenue Bond Resolution of said Trustees adopted on August 6, 2014 (collectively, the "Resolution").

The Authority has heretofore issued bonds (the "Outstanding Bonds") and incurred Parity Obligations (as defined in the Resolution) under the Resolution. The Resolution provides that the Authority may issue additional Bonds (as defined in the Resolution), and incur additional Parity Obligations, thereunder from time to time on the terms and conditions and for the purposes stated therein. The Outstanding Bonds, the Series 2014A & B Bonds, the outstanding Parity Obligations and such additional Bonds, if issued, and such additional Parity Obligations, if incurred, will be equally and ratably secured under the Resolution, except as otherwise provided therein.

The Series 2014A & B Bonds are dated, mature, are payable, bear interest and are subject to redemption, all as provided in the Resolution.

We are of the opinion that:

1. The Authority is duly created and validly existing under the laws of the State, including the Constitution of the State and the Act. Under the laws of the State, including the Constitution of the State, and under the Constitution of the United States, the Act is valid with respect to all provisions thereof material to the subject matters of this opinion letter.

2. The Authority has the right and power under the Act to adopt the Resolution and to perform its obligations thereunder, including its rate covenant relating to the establishment and maintenance of System fees, rates, rents, charges and surcharges; provided, however, that the Act directs the Authority

to seek the review and recommendation of the New York State Public Service Commission as to certain rate proposals prior to implementation and to implement such recommendations unless the Authority determines, after complying with certain procedural requirements and subject to any applicable judicial review proceeding, that any particular recommendation is inconsistent with the Authority's sound fiscal operating practices, any existing contractual or operating obligations or the provision of safe and adequate service. Notwithstanding the direction to seek such review and recommendation, the Act permits the Authority to place rates and charges into effect on an interim basis subject to possible prospective rate adjustment. The Authority has received all approvals of any governmental agency, board or commission necessary for the adoption of the Resolution.

3. The Resolution has been duly and lawfully adopted by the Authority, is in full force and effect, is valid and binding upon the Authority, and is enforceable in accordance with its terms. The Resolution creates the valid pledge which it purports to create of the Trust Estate (as defined in the Resolution), subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

4. The Series 2014A & B Bonds have been duly and validly authorized and issued in accordance with the laws of the State, including the Constitution of the State and the Act, and in accordance with the Resolution, and are valid and binding special obligations of the Authority, enforceable in accordance with their terms and the terms of the Resolution, payable solely from the Trust Estate as provided in the Resolution. The Authority has no taxing power, the Series 2014A & B Bonds are not debts of the State or of any municipality thereof, and the Series 2014A & B Bonds will not constitute a pledge of the credit, revenues or taxing power of the State or of any municipality thereof. The Authority reserves the right to issue additional Bonds and to incur additional Parity Obligations on the terms and conditions, and for the purposes, provided in the Resolution, on a parity of security and payment with the Series 2014A & B Bonds and the Outstanding Bonds and outstanding Parity Obligations.

5. Any registration with, consent of, or authorization or approval by, any governmental agency, board, or commission that is necessary for the execution and delivery and the issuance of the Series 2014A & B Bonds has been obtained.

6. The adoption of the Resolution, compliance with all of the terms and conditions of the Resolution and the Series 2014A & B Bonds, and the execution and delivery of the Series 2014A & B Bonds, will not result in a violation of or be in conflict with any term or provision of any existing law, or of any approval by any governmental agency, board or commission necessary for the adoption of, or performance of the Authority's obligations under, the Resolution.

7. The Financing Agreement, dated as of May 1, 1998, between the Authority and Long Island Lighting Company d/b/a LIPA (as successor by merger to LIPA Acquisition Corp.) (the "Subsidiary") has been duly authorized, executed and delivered by the Authority and the Subsidiary and is a valid and binding obligation of the parties thereto, enforceable in accordance with its terms.

8. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the Series 2014A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2014A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph 8, we have relied upon and assumed the material accuracy of certain representations, certifications of fact, and statements of reasonable expectations made by the Authority and the Subsidiary in connection with the Series 2014A Bonds, and we have assumed compliance by the Authority and the Subsidiary with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2014A Bonds from gross income for federal income tax purposes under Section 103 of the Code. Under the Code, failure to comply with such procedures and covenants may cause the interest on the Series 2014A Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the Series 2014A Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

9. Under the Code, interest on the Series 2014B Bonds is included in gross income for Federal income tax purposes.

10. Under existing statutes, interest on the Series 2014A & B Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof, and the Series 2014A & B Bonds are

exempt from all taxation directly imposed thereon by or under the authority of the State, except estate or gift taxes and taxes on transfers.

The opinions expressed in paragraphs 2, 3, 4 and 7 above are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforcement is considered in a proceeding in equity or at law.

Except as stated in paragraphs 8, 9 and 10 above, we express no opinion regarding any other federal or state tax consequences with respect to the Series 2014A & B Bonds. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Series 2014A Bonds, or under state and local tax law.

We express no opinion herein as to the accuracy, adequacy, sufficiency or completeness of any financial or other information that has been or will be supplied to purchasers or prospective purchasers of the Series 2014A & B Bonds.

This letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material or matters of any kind not specifically opined on above. No other opinions are intended nor should they be inferred.

This letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this letter to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretations thereof, that may hereafter occur, or for any other reason whatsoever.

Very truly yours,

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APPENDIX 2

List of Refunded Bonds

The Authority expects to redeem the Series 2004A Bonds listed below (the “Refunded Bonds”) at par on the dates and in the amounts shown below and to apply a portion of the proceeds of the Series 2014A Bonds to provide for the payment of the principal amount and the interest payable on such bonds on the applicable redemption dates. The refunding is contingent upon the delivery of the Series 2014A Bonds.

Interest Rate	Maturity Date	Principal Amount Outstanding	Principal Amount Refunded	CUSIP Number*	Redemption Date
5.00%	September 1, 2034	\$22,270,000	\$22,270,000	5426902T8	December 22, 2014

* CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for convenience. The Authority is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to the correctness of the CUSIP numbers on the Refunded Bonds or as indicated above.

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APPENDIX 3

Form of Continuing Disclosure Certificate

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Long Island Power Authority (the “Authority”) in connection with the issuance of its Electric System General Revenue Bonds, Series 2014A and Series 2014B (the “Bonds”). The Bonds are being issued pursuant to the Electric System General Revenue Bond Resolution adopted by the Authority on May 13, 1998 as amended and supplemented (the “Resolution”). The Authority covenants and agrees as follows:

SECTION 1. *Purpose of the Disclosure Certificate.* This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. *Definitions.* In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent,” if any, shall mean the person or firm, or any successor Dissemination Agent designated in writing by the Authority pursuant to Section 7 of this Disclosure Certificate and which has filed with the Authority and the Trustee a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Authority’s final Official Statement relating to the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of New York.

“Trustee” shall mean The Bank of New York Mellon, New York, New York and its successors and assigns.

Capitalized terms not otherwise defined herein shall have the meanings set forth in the Official Statement.

SECTION 3. *Provision of Annual Reports.* For so long as shall be required by the Rule:

(a) The Authority shall, or shall cause the Dissemination Agent to, not later than 6 months after the end of the Authority’s fiscal year (presently December 31), commencing with the report for the 2014 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate with a copy to the Trustee. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Authority may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Authority’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5.

(b) Not later than fifteen (15) Business Days prior to said date, the Authority shall provide the Annual Report to the Dissemination Agent (if other than the Authority). If the Authority is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Authority shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) If a Dissemination Agent is appointed by the Authority, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the MSRB; and

(ii) file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

(d) All documents provided to the MSRB pursuant to this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 4. *Content of Annual Reports.* The Authority's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the Authority and its subsidiaries for the prior fiscal year, prepared in accordance with U.S. generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Authority's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Operating results for the prior fiscal year of the type set forth in the Financial Statements of the Authority included by specific cross-reference in the Official Statement.

3. Capital expenditures for the prior fiscal year of the type set forth in the Official Statement under the heading "The System—Capital Improvement Plan" in Part 2 of the Official Statement.

4. Service area loads for the prior fiscal year of the type set forth in the Official Statement under the heading "The System—Loads" in Part 2 of the Official Statement.

5. A discussion of the Authority's own rates and charges (but not regional comparisons) for the prior fiscal year of the type set forth in the Official Statement under the heading "Rates and Charges" in Part 2 of the Official Statement.

6. Billings and collections for the prior fiscal year of the type set forth in Part 2 of the Official Statement under the heading "Billing and Collections."

7. A discussion of operating results, cash flows, uses of cash and capital expenditures of the type set forth in the audited Financial Statements for the years ended December 31, 2013 and 2012 included by specific cross-reference in the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. The Authority shall clearly identify each such other document so included by reference.

SECTION 5. *Reporting of Listed Events.* For so long thereafter as shall be required by the Rule:

(a) Pursuant to the provisions of this Section 5, the Authority shall give, or cause to be given, to the MSRB (with a copy to the Trustee), in a timely manner not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Bonds:

1. principal and interest payment delinquencies.
2. non-payment related defaults, if material.
3. modifications to rights of Bondholders, if material.
4. optional, contingent or unscheduled bond calls, if material, and tender offers.
5. defeasances.
6. rating changes.
7. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

8. unscheduled draws on the debt service reserves reflecting financial difficulties.
9. unscheduled draws on the credit enhancements reflecting financial difficulties.
10. substitution of the credit or liquidity providers or their failure to perform.
11. release, substitution or sale of property securing repayment of the Bonds, if material.
12. bankruptcy, insolvency, receivership or similar event of the Authority;

Note to clause (12): For the purposes of the event identified in clause (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Authority in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority;

13. the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. appointment of a successor or additional trustee or the change of name of a trustee, if material.

SECTION 6. *Termination of Reporting Obligation.* The Authority's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. *Dissemination Agent.* The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Authority pursuant to this Disclosure Certificate. Initially, the Authority will serve as its own dissemination agent. Notwithstanding any other provisions hereof, the Authority or the Dissemination Agent may make the filings required by this Disclosure Certificate either directly with the MSRB or through a central information repository approved in accordance with the Rule.

SECTION 8. *Amendment; Waiver.* Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;
- (b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Authority shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Authority. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. *Additional Information.* Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Authority shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. *Default.* In the event of a failure of the Authority to comply with any provision of this Disclosure Certificate the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least 50% aggregate principal amount of Outstanding Bonds, shall), or any Holder or Beneficial Owner of the Bonds may (unless the Authority has so complied within 20 days after written notice from the Trustee of its failure to comply) take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed a default or an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. *Duties, Immunities and Liabilities of Dissemination Agent.* The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's default or negligence or willful misconduct. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. *Beneficiaries.* This Disclosure Certificate shall inure solely to the benefit of the Authority, the Trustee, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: December __, 2014

LONG ISLAND POWER AUTHORITY

By: _____

APPENDIX 4

Book-Entry-Only System

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Offered Bonds. The Offered Bonds will be issued as fully-registered bonds in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered note certificate will be issued for the Offered Bonds in the aggregate principal amount of the maturity of such Notes, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct DTC Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s Rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Offered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Offered Bonds on DTC’s records. The ownership interest of each actual purchaser of Offered Bonds (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Offered Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Offered Bonds, except in the event that use of the book-entry system for a Series of the Offered Bonds is discontinued.

To facilitate subsequent transfers, all Offered Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Offered Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Bonds; DTC’s records reflect only the identity of the Direct DTC Participants to whose accounts such Offered Bonds are credited, which may or may not be the Beneficial Owners. The Direct or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Offered Bonds within a maturity of a Series are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (or any other DTC nominee) will consent or vote with respect to Offered Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI procedures. Under its usual procedures, DTC mails an omnibus proxy (the “Omnibus Proxy”) to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Offered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Offered Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct DTC Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to a Series of the Offered Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the Offered Bonds are required to be printed and delivered.

The Authority and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Offered Bonds registered in its name for the purposes of payment of the redemption proceeds and principal and interest on the Offered Bonds, giving any notice permitted or required to be given to registered owners under the Subordinated Resolution, registering the transfer of the Offered Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Authority and the Trustee shall not have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Offered Bonds under or through DTC or any Participant, or any other person which is not shown on the registration books of the Authority (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Participant; the payment by DTC or any Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Offered Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Authority; or other action taken by DTC as a registered owner.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the Offered Bonds will be printed and delivered to DTC.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this Appendix has been extracted from information given by DTC. Neither the Authority, the Trustee nor the dealers make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR SUCH PARTICIPANTS, INDIRECT DTC PARTICIPANTS, OR THE BENEFICIAL OWNERS. PAYMENTS MADE TO DTC OR ITS NOMINEE SHALL SATISFY THE AUTHORITY'S OBLIGATION UNDER THE ACT AND THE BOND RESOLUTION TO THE EXTENT OF SUCH PAYMENTS.

APPENDIX 5

Glossary of Certain Defined Terms

The following terms, as generally used in offering documents of the Authority, have the respective meanings provided below. These summary definitions do not purport to be complete or definitive and are qualified in their entirety by reference to the Resolution, the Financing Agreement, the OSA and the PSA, copies of which have been filed with EMMA and are on file with the Trustee.

“Account” means one of the special accounts created and established pursuant to the Resolution.

“Administrative Services Agreement” means the Administrative Services Agreement, dated as of May 1, 1998, between the Authority and LIPA, as the same may be amended and supplemented.

“Authorized Representative” means in the case of the Authority and LIPA, their respective Chairman, Chief Executive Officer, Executive Director, Chief Financial Officer, Controller or Chief Operating Officer, or such other person or persons so designated by resolution of the Authority or LIPA, as the case may be.

“Beneficial Owner” shall have the meaning assigned thereto in the applicable appendix or exhibit to the appropriate offering document.

“Bondholder” “Owner” or “Holder” means, when used with reference to a Bond, the person in whose name the Bond is registered on the registry books kept by the Trustee pursuant to the Resolution.

“Business Day” means any day other than a Saturday, Sunday or Legal Holiday.

“Certificate” means (i) a signed document attesting to or acknowledging the matters therein stated or setting forth matters to be determined pursuant to the Resolution or otherwise, (ii) the report of an Accountant as to an audit or compliance called for by the Resolution, or (iii) any report of the Consulting Engineer or Rate Consultant as to any matter called for by the Resolution or the Financing Agreement.

“Change in Regulatory Law” has the meaning set forth in the OSA.

“Change of Control” has the meaning set forth in the OSA.

“Construction Fund” means the fund by that name established pursuant to the Resolution.

“Consulting Engineer” means, when such term is used in the Resolution and the Financing Agreement, any independent engineer or firm of engineers of recognized standing selected by the Authority and may include an independent engineer or firm of engineers of recognized standing selected by the Authority or LIPA in one or more other capacities.

“Costs” means costs of any System Improvements or any other purpose related to the System for which bonds, notes or other obligations of the Authority may be issued under the Act or under other applicable State statutory provisions (whether or not also classifiable as an Operating Expense), including but not limited to direct costs, incidental costs (including but not limited to legal, administrative, engineering, consulting and technical services, insurance and financing costs), working capital and reserves deemed necessary or desirable by LIPA and approved by the Authority, and other costs properly attributable thereto including but not limited to the payment of principal, interest, and redemption, tender or purchase price of any (i) obligations issued by the Authority for the payment of any of such costs, (ii) Outstanding LIPA Unsecured Debt, (iii) obligations issued to pay Capitalized Interest or (iv) obligations issued to refund any obligations referred to in clauses (i) or (iii) or Outstanding LIPA Unsecured Debt referred to in clause (ii); all items of expense directly or indirectly payable or reimbursable and related to the authorization, sale and issuance of Bonds, including but not limited to printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Bonds, costs and expenses of refunding, premiums for the insurance of the payment of the Bonds and any other cost, charge or fee in connection with the original issuance of Bonds; termination payments under the PSA or other agreement of the Authority or LIPA for power supply purposes; and termination payments under Financial Contracts.

“Credit Facility” means a letter of credit, revolving credit agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution which provides for payment of all or a portion of the Principal Installments or interest due on any Bonds including through a reserve or similar fund.

“Debt Service” for any Fiscal Year or part thereof means, as of any date of calculation, the sum of (i) with respect to any Outstanding Bonds, an amount equal to the sum of (a) interest payable during such Fiscal Year or part thereof on such Bonds, except to the extent that such interest is to be paid from amounts representing Capitalized Interest and (b) the Principal Installments of such Bonds payable during such Fiscal Year or part thereof and (ii) with respect to a Parity Reimbursement Obligation, an amount equal to the sum of (a) interest payable during such Fiscal Year or part thereof on such Parity Reimbursement Obligation and (b) the Principal Installments of such Parity Reimbursement Obligation payable during such Fiscal Year or part thereof. Such interest and Principal Installments shall be calculated on the assumption that (x) no such Bonds, or Parity Reimbursement Obligations Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment thereof upon stated maturity or upon mandatory redemption by application of Sinking Fund Installments and (y) variable rate Bonds will bear interest at the greater of (A) the rate or rates which were assumed by LIPA in the Authority Budget for such Fiscal Year to be borne by Variable Rate Bonds during such

Fiscal Year or (B) the average rate or rates borne on variable rate Bonds Outstanding during the twelve calendar months preceding the date of calculation, but at a rate not less than the rate or rates borne thereon as of such date of calculation; provided, however, that if LIPA has in connection with any variable rate Bonds entered into a Financial Contract which provides that the Authority is to pay to the Qualified Counterparty an amount determined based upon a fixed rate of interest on the Outstanding principal amount of such variable rate Bonds or that the Qualified Counterparty is to pay to the Authority an amount determined based upon the amount by which the rate at which such variable rate Bonds bear interest exceeds a stated rate of interest on all or any portion of such variable rate Bonds, it will be assumed that such variable rate Bond bears interest at the fixed rate of interest to be paid by the Authority or the rate in excess of which the Qualified Counterparty is to make payment to the Authority in accordance with such agreement.

“Debt Service Fund” means the fund by that name established pursuant to the Resolution.

“Depository” means any bank or trust company selected by LIPA or the Authority, as the case may be, as a depository of moneys to be held under the provisions of the Financing Agreement or the Resolution and may include the Trustee.

“Direct Participants” shall have the meaning assigned thereto in the applicable appendix or exhibit to the appropriate offering document.

“Event of Default” means, (i) when such term is used in the Resolution and the Financing Agreement, any event specified in the Resolution as an “Event of Default” (and as summarized in the summary thereof under the caption “Event of Default; Remedies Upon Default”) and (ii) when such term is used in the OSA or the PSA, such events as defined in the OSA or the PSA.

“FERC” means the Federal Energy Regulatory Commission.

“Fiduciary” means the Trustee, any Paying Agent, any Depository, or any Authenticating Agent.

“Financing Agreement” means the Financing Agreement, dated as of May 1, 1998, by and between the Authority and LIPA to provide for their respective duties and obligations relating to the financing and operation of the retail electric business in the Service Area, as the same may be amended or supplemented.

“Fiscal Year” means the twelve-month period commencing on January 1 of each year; provided, however, that the Authority and LIPA may, from time to time, mutually agree on a different twelve-month period as the Fiscal Year, in which case January 1, when with reference to Fiscal Year, shall be construed to mean the first day of the first calendar month of such different Fiscal Year.

“GASB” means the Governmental Accounting Standards Board.

“IRS” means the United States Internal Revenue Service.

“ISO-NE” means The New England Independent System Operator.

“LIPA Parties” means the Authority and LIPA.

“LIPA Budget” means the annual budget of LIPA, as amended or supplemented, adopted or in effect for a particular Fiscal Year as provided in the Financing Agreement.

“LIPA Unsecured Debt Fund” means the fund by that name established pursuant to the Resolution.

“Municipalization” has the meaning set forth in the OSA.

“National Grid Parties” means Keyspan Corporation and various National Grid subsidiaries.

“NYISO” means the New York Independent System Operator and any successor thereto.

“Operating Expense Fund” means the fund by that name established pursuant to the Resolution.

“Operating Expenses” means any and all current expenses of maintaining, repairing, operating and managing the System, including but not limited to the costs of supplies, fuel, fuel assemblies and components required for the operation of the System (including but not limited to any payments made under Supply Contracts other than the Debt Service Component thereof); payments relating to fuel or electricity hedging instruments; all payments under any System Agreements; all salaries, administrative, general, commercial, architectural, engineering, advertising, public notices, auditing, billing, collection and enforcement and legal expenses; insurance and surety bond premiums; consultants’ fees and charges; payments to pension, retirement, health and hospitalization funds; any taxes which may lawfully be imposed on the System or the income or operation thereof or of LIPA; costs of public hearings; ordinary and current rentals of equipment or other property; lease payments for real property or interests therein; expenses of maintenance and repair (including replacements); expenses, liabilities and compensation of the Trustee or any other Fiduciary or Depository; to the extent provided by by-law, agreement or other instrument of the Authority or LIPA, indemnification of Fiduciaries, Trustees, officers and employees of the Authority, directors, officers and employees of LIPA, and others and premiums for insurance related thereto; reasonable reserves for operation, maintenance and repair and for self-insurance; and all other expenses necessary, incidental or convenient for the efficient operation of the System; all costs and expenses associated with or arising out of the research, development (including feasibility and other studies, including but not limited to resource planning and studies and reports relating to demand side management) and/or implementation of any project, facility, system, task or measure related to the System including but not limited to demand side management programs, deemed desirable or necessary by the Authority or LIPA; all other costs and expenses arising out of or in connection with the conduct of LIPA’s business or necessary, incidental or convenient for the efficient operation of LIPA; and all expenses necessary, incidental or convenient for the efficient operation of the Authority and the performance of the obligations of

the Authority under the Administrative Services Agreement. Notwithstanding the foregoing, Operating Expenses shall not include (i) any costs and expenses attributable to a Separately Financed Project, (ii) any costs or expenses for new construction or for reconstruction other than restoration of any part of the System to the condition of serviceability thereof when new, (iii) the Debt Service Component of any Supply Contract, (iv) to the extent so specified by the Authority, any incentive payments payable by LIPA under any System Agreement, (v) any payments payable by LIPA under any other agreement the terms of which specify that the same shall not constitute an Operating Expense under the Resolution, (vi) any allowance for depreciation, (vii) payment under any Capital Leases, or (viii) any PILOTs.

“**OSA**” means the Amended and Restated Operations Services Agreement, dated as of December 31, 2013, by and between a wholly-owned subsidiary of Public Service Enterprise Group Incorporated (“PSEG”) dedicated to the operations of the T&D System (“PSEG Long Island”) and LIPA, as amended and supplemented.

“**Outstanding**” when used with reference to Parity Reimbursement Obligations, shall have the meaning given to such term in the agreement creating such Parity Reimbursement Obligations, and, when used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Resolution except: (a) any Bonds canceled by the Trustee at or prior to such date; (b) any Bonds the principal and Redemption Price, if any, of and interest on which have been paid in accordance with the terms thereof; (c) any Bonds in lieu of or in substitution for which other Bonds have been authenticated and delivered pursuant to the Resolution; and (d) any Bonds deemed to have been paid as provided in the Resolution.

“**Outstanding LIPA Unsecured Debt**” meant certain unsecured financial obligations of LIPA outstanding as of the acquisition of LILCO, all of which has been retired as of the date hereof.

“**Parity Contract Obligation**” means the obligation of the Authority or LIPA to pay the Debt Service Component of Supply Contracts and Capital Leases from Revenues and secured by a pledge of and lien on the Trust Estate on a parity with the Bonds.

“**Parity Contract Obligations Fund**” means the fund by that name established pursuant to the Resolution from which amounts shall be applied for the payment of Parity Contract Obligations in accordance with the Resolution.

“**Pass-Through Expenditures**” has the meaning set forth in the OSA.

“**Parity Obligations**” means, collectively, all Parity Contract Obligations and Parity Reimbursement Obligations.

“**Parity Reimbursement Obligation**” shall have the meaning assigned thereto under the heading “Special Provisions Relating to Option Securities, Financial Contracts, Subordinated Credit Facilities, Parity Obligations and Subordinated Indebtedness” in the summary of the Resolution.

“**Paying Agent**” means any paying agent for any Bonds, and its successor or successors and any other person which may at any time be substituted in its place pursuant to the Resolution.

“**PILOTs**” means any payment in lieu of taxes due and owing by the Authority or LIPA in accordance with the Act or other applicable law.

“**PILOTs Fund**” means the fund by that name established by the Resolution, and used to make payments to the State or any municipality or other political subdivision of the State, which shall be entitled to receive PILOTs under the Act, subject to the provisions of the Resolution.

“**PJM**” means the Pennsylvania-New Jersey-Maryland Regional Transmission Organization.

“**Power and Energy**” means the electrical energy and capacity available from the System Power Supply.

“**Principal Installment**” means, as of any date of calculation and with respect to any Outstanding Bonds, (i) the principal amount of such Bonds (including (x) any amount designated in, or determined pursuant to, the applicable Supplemental Resolution, as the “principal amount” with respect to any Bonds which do not pay full current interest for all or any part of their term and (y) the principal amount of any Parity Reimbursement Obligation) due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for such Bonds, or (iii) if such future dates coincide as to different Bonds, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date.

“**Privatization**” has the meaning set forth in the OSA.

“**Property Tax Settlement**” as used in the Resolution, means the Authority’s program of rebates and credits to System customers in respect of the amounts otherwise payable by the Suffolk Taxing Jurisdictions as refunds of taxes and payments in lieu of taxes relating to Shoreham.

“**PSA**” or “**Power Supply Agreement**” means the Amended and Restated Power Supply Agreement that commenced in May 2013, between GENCO and LIPA, as amended and supplemented.

“**Qualified Counterparty**” means an entity (i) whose senior long term debt obligations, other senior unsecured long term obligations, financial program rating, counterparty rating or claims paying ability are rated (at the time the subject Financial Contract is entered into) in any of the three highest Rating Categories from a nationally recognized statistical rating organization, (ii) whose payment obligations under a Financial Contract are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations, financial program rating, counterparty rating or claims paying ability, are rated (at the time the subject Financial

Contract is entered into) in any of the three highest Rating Categories from a nationally recognized statistical rating organization, or (iii) whose obligation, if any, to make payment to the Authority upon the termination of the subject Financial Contract is fully collateralized by Investment Securities of the type described in clause (ii) of the definition of Investment Securities; provided, however, that such obligation shall be deemed to be fully collateralized if the Investment Securities shall have a market value, determined periodically in accordance with the Financial Contract, that is not less than 102% of any termination payment.

“Rate Covenant” means the covenants by the Authority in the Resolution to establish and maintain System fees, rates, rents, charges and surcharges at a level sufficient to achieve Revenues sufficient to pay Debt Service, Operating Expenses and other expenses.

“Rate Stabilization Fund” means the fund by that name established by the Resolution, and used for any lawful purpose of the Authority or LIPA, including but not limited to making any deposits required by the Resolution to any Fund or Account, in accordance with the Resolution.

“Redemption Price” means, when used with respect to a Bond or portion thereof, the principal amount thereof plus the applicable premium, if any, payable upon either optional or mandatory redemption thereof pursuant to the Resolution.

“Refunding Bond” means any Bond authenticated and delivered on original issuance pursuant to the Resolution for the purpose of refunding any Outstanding Bonds, or thereafter authenticated and delivered pursuant to the Resolution in lieu of or substitution for such Bond.

“Reimbursement Obligation” shall have the meaning provided under the heading “Special Provisions Relating to Option Securities, Financial Contracts, Subordinated Credit Facilities, Parity Obligations and Subordinated Indebtedness” in the summary of the Resolution.

“Required Deposits” means the amount, if any, payable into the Operating Expense Fund, the Debt Service Fund, the Parity Contract Obligations Fund, the Subordinated Indebtedness Fund, LIPA Unsecured Debt Fund and the PILOTs Fund, but in each case only to the extent such payments are required to be made from Revenues.

“Retained Assets” means (i) certain regulatory assets of LILCO, including the Shoreham Regulatory Asset, (ii) the judgments, actions and claims of LILCO for refunds of property taxes, including the judgment resulting from the litigation contesting the assessment of certain Shoreham Nuclear Power Station property and (iii) other intangible assets of LILCO’s former retail electric business, including the right to provide electric service in the Service Area.

“Revenue Bonds” means any bonds, notes or other obligations issued or secured under the Resolution, the Subordinated Resolution or any other bond resolutions to be adopted by the Authority.

“Revenue Fund” means the fund into which Revenues are deposited by the Authority or by LIPA, unless required by the Resolution to be deposited to any other Fund or Account, in accordance with the Resolution or the Financing Agreement.

“Revenues” means all revenues, rates, fees, charges, surcharges, rents, proceeds from the sale of LIPA Assets, proceeds of insurance, and other income and receipts, as derived in cash, directly or indirectly from any of LIPA’s operations, by or for the account of the Authority or LIPA, including but not limited to (i) all payments received by the Authority or LIPA with respect to the Promissory Notes, (ii) any guaranty of performance under any System Agreement and (iii) all dividends received by the Authority as a result of ownership of any stock or other evidences of an equity interest in LIPA; provided, however, that Revenues shall not include (a) any Transition Charge, (b) any of the foregoing attributable directly or indirectly to the ownership or operation of any Separately Financed Project, or (c) any federal or State grant moneys the receipt of which is conditioned upon their expenditure for a particular purpose unless the Authority determines that such grant moneys shall constitute Revenues. Notwithstanding the foregoing, Revenues also shall not include any amounts, or amounts from any sources, as may be specified from time to time by a Supplemental Resolution; provided, however that at the time such Supplemental Resolution becomes effective the tests set forth in the Resolution under the heading “Conditions Precedent to Delivery of Bonds” in the Resolution shall be satisfied in accordance with the Resolution.

“Separately Financed Project” means any such project financed by revenues or other income derived solely from the ownership or operation of such project or from other funds withdrawn from the Revenue Fund in accordance with the Resolution.

“Service Area” or **“LIPA Service Area”** means the Counties of Suffolk and Nassau and that portion of the County of Queens known as the Rockaways constituting LILCO’s electric franchise area as of the effective date of the Act. “Service Area” does not include the Nassau County Villages of Freeport and Rockville Centre, and the Suffolk County Village of Greenport.

“Shoreham” means the Shoreham Nuclear Power Station located at Shoreham, Long Island.

“Shoreham Credits” means credits to the bills of System ratepayers arising from the settlement of the Shoreham Property Tax Litigation, in each of the five years of 1998-2003 in Nassau County and the Rockaways in the aggregate amount of \$50 million per year and in Suffolk County in the aggregate amount of \$30 million per year.

“Sinking Fund Installment” means, as of any particular date of calculation, the amount required, as of such date of calculation, to be paid by the Authority on a future date for the retirement of Outstanding Bonds which are stated to mature subsequent to such future date, but does not include any amount payable by the Authority by reason only of the maturity of a Bond.

“State” means the State of New York.

“Subordinated Indebtedness” means any bond, note or other evidence of indebtedness issued by LIPA in furtherance of its corporate purposes under the Act and secured by a pledge of the Trust Estate subordinate to the pledge thereof made by the Resolution in favor

of the Bonds and Parity Obligations and otherwise as provided by the Resolution. Subordinated Indebtedness shall include, but shall not be limited to, Option Securities, Reimbursement Obligations other than Parity Reimbursement Obligations, and Financial Contracts to the extent provided by the Resolution.

“Suffolk Taxing Jurisdictions” means, collectively, 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.

“Subordinated Indebtedness Fund” means the fund established in accordance with the Resolution for payment of the principal and redemption price of and interest on Subordinated Indebtedness, subject to the provisions of the Resolution.

“Supplemental Resolution” means, as the context requires, (a) the Twenty-Second Supplemental Resolution or (b) a resolution of the Authority authorizing the issuance of a Series of Bonds or otherwise amending or supplementing the Resolution, adopted in accordance with the Resolution.

“System” means the Retained Assets and any System Improvements, but shall not include any Separately Financed Projects.

“System Agreements” means any agreements relating to the operation or maintenance of the System, the supply of power and energy to the System, and the provision of transmission and distribution services and capacity for the System.

“System Budget” means the combined Authority Budget and LIPA Budget, as amended or supplemented, adopted or in effect for a particular Fiscal Year, as provided in the Resolution and in the Financing Agreement.

“System Improvement” means any project, facility, system, equipment, or material related to or necessary or desirable in connection with the generation, production, transportation, transmission, distribution, delivery, storage, conservation, purchase or use of energy or fuel, whether owned jointly or singly by LIPA, including any capacity or output in which LIPA has an interest, heretofore or hereafter authorized by the Act or by other applicable State statutory provisions, including but not limited to demand side management programs; provided, however, that the term “System Improvement” shall not include any Separately Financed Project.

“T&D System” means the electricity transmission and distribution system owned by LIPA from time to time and all other assets, facilities, equipment or contractual arrangements of LIPA used to provide the transmission and distribution of Power and Energy within or to the Service Area.

“Transition Charge” means any rates, fees, charges or surcharges relating to the System or the customers thereof established by irrevocable rate order or other action or instrument, and applicable to or by the Authority or LIPA, in conjunction with the issuance of debt or other securities under a separate resolution, indenture or similar instrument (other than the Resolution) to the extent such rates, fees, charges or surcharges are pledged or otherwise encumbered or conveyed as security for such debt or other securities.

“Trust Estate” means collectively: (i) all payments received by the Authority from LIPA under the Financing Agreement, and all rights to collect and receive the same; (ii) all Revenues and all right, title and interest of the Authority in and to the Revenues, including all rights of the Authority to collect and receive the same, including but not limited to (a) all payments received by the Authority with respect to the Promissory Notes and all right, title and interest of the Authority in and to the Promissory Notes, including all rights of the Authority to collect and receive amounts payable thereunder and (b) any dividends received by the Authority as a result of ownership of any common or preferred stock or other evidences or an equity interest of the Authority in LIPA, and all rights to receive the same; (iii) the proceeds of sale of Bonds until expended for the purposes authorized by the Resolution; (iv) all Funds, Accounts and subaccounts established by the Resolution, including securities credited thereto and investment earnings thereon; and (v) all funds, moneys and securities and any and all other rights and interests in property, whether tangible or intangible, from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Resolution for the Bonds by the Authority, or by anyone on its behalf, or with its written consent, to the Trustee, which is authorized by the Resolution to receive any and all such property at any and all times, and to hold and apply the same subject to the terms of the Resolution.

“Trustee” means, (i) when such term is used in the Resolution and the Financing Agreement, The Bank of New York Mellon as successor to United States Trust Company of New York, New York, New York, as Trustee, and its successor or successors and any other person which may at any time be substituted in its place pursuant to the Resolution and (ii) when such term is used in the OSA or the PSA, the trustee acting under the Resolution, the Subordinated Resolution or any other bond resolutions to be adopted by the Authority for the benefit of the holders of the Revenue Bonds.

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APPENDIX 6

Specimen Municipal Bond Insurance Policy

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No: -N

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
31 West 52nd Street, New York, N.Y. 10019
(212) 974-0100

Form 500NY (5/90)

PART 2
of the
OFFICIAL STATEMENT
of the
LONG ISLAND POWER AUTHORITY

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PART 2

INTRODUCTION TO THE AUTHORITY AND LIPA

The purpose of this Part 2 is to describe, among other things, the Long Island Power Authority (the “Authority”) and its wholly-owned subsidiary, the Long Island Lighting Company (“LILCO”) which does business as the retail electric supplier on Long Island, New York (“Long Island”) under the name LIPA (“LIPA”). The Authority, acting through LIPA, provides electric service in its service area (the “Service Area”) which includes two counties on Long Island — Nassau County (“Nassau County”) and Suffolk County (“Suffolk County”) (except for the Nassau County villages of Freeport and Rockville Centre and the Suffolk County village of Greenport, each of which has its individually-owned municipal electric system) — and a portion of the Borough of Queens of The City of New York known as the Rockaways. Capitalized terms used but not defined in this Part 2 have the meanings given those terms in “Appendix 5 – Glossary of Defined Terms” to Part 1 of this Official Statement.

The Authority is a corporate municipal instrumentality and a political subdivision of the State of New York (the “State”), exercising essential governmental and public powers. The Authority was created by the State Legislature under and pursuant to the Long Island Power Authority Act, being Title 1-A of Article 5 (§ 1020 et seq.) of the Public Authorities Law of the State of New York, as amended, including as amended by certain provisions of the LIPA Reform Act (defined below), (the “Act”). LIPA is a stock corporation formed and existing under the Business Corporation Law of the State of New York.

The Authority took over as the retail supplier of electric service in the Service Area on May 28, 1998 by acquiring LILCO as a wholly-owned subsidiary of the Authority through a merger. Since such acquisition, LILCO has done business under the name LIPA. For the period prior to its acquisition by the Authority, LILCO is referred to herein as “LILCO” and, for the subsequent period, is referred to herein as “LIPA.”

Following its acquisition by the Authority, LIPA retained the electric transmission and distribution systems (the “T&D System”), certain agreements and contracts for power supply and transmission, an 18% ownership interest in Unit 2 of the Nine Mile Point nuclear electric generating station located in Oswego, New York (“NMP2”) and certain other assets and liabilities (for a discussion of these other assets and liabilities, see “CERTAIN OTHER MATTERS – LIPA Assets and Liabilities” in this Part 2). The term “System” means all of the assets of the Authority and LIPA that are used in the furnishing of electric service.

The remainder of LILCO’s electric service assets (including all of its then-existing fossil-fueled generating units), and its entire gas supply system, were transferred to certain wholly-owned subsidiaries of Keyspan Corporation. In August 2007, Keyspan Corporation was acquired by National Grid plc, a company organized under the laws of England and Wales (“National Grid plc”). Each of the subsidiaries of Keyspan Corporation which acquired the electric service assets of LILCO now does business under the name “National Grid” (each such subsidiary is referred to herein as a “National Grid Sub” and collectively the “National Grid Subs”).

Relationship of the Authority and LIPA

LIPA is a New York corporation and a wholly-owned subsidiary of the Authority. Pursuant to LIPA’s organizational documents, the Authority conducts and manages LIPA’s business and affairs. Accordingly, LIPA is controlled by the Authority. The Authority is governed by a Board of Trustees (the “Trustees”) as described herein.

The Authority and LIPA are parties to a Financing Agreement (the “Financing Agreement”) providing for their respective duties and obligations relating to the financing and operation of the retail electric business in the Service Area, which is included herein by specific cross-reference.

Pursuant to the terms of the Financing Agreement, the Authority is to issue all debt necessary for the Authority and LIPA. This debt includes all Bonds and Subordinated Indebtedness issued and to be issued. The proceeds of all such debt are to be treated as being loaned from the Authority to LIPA, which will repay such loans from the revenues it receives from its electric business. To secure the loans, LIPA has pledged all of its revenues to the Authority, which has, in turn, pledged such revenues as security for such debt.

Pursuant to the terms of the Financing Agreement, LIPA conducts the electric business in the Service Area and is responsible for providing service to customers in the Service Area. The Authority and LIPA are also parties to an Administrative Services Agreement pursuant to which the Authority provides personnel, personnel-related services and other services necessary for LIPA to provide electric service in the Service Area.

System Operation by the Authority

In order to assist the Authority (acting through LIPA) in providing electric service in the Service Area, the Authority and LIPA have generally entered into operating agreements, the purpose of which is to provide the Authority and LIPA with the

operating personnel and a significant portion of the power supply resources necessary for LIPA to continue to provide electric service in the Service Area. Since 1998, the service providers had generally been National Grid Subs with some exceptions. As described below under “RECENT DEVELOPMENTS” and “TRANSITION TO A NEW BUSINESS MODEL,” the Authority has transitioned to a new business model first adopted by the Board in late 2011 and modified in 2013 in response to the requirements of the LIPA Reform Act.

Below is a brief summary of certain of LIPA’s basic operating agreements, including certain expired, current and future arrangements.

T&D System management including, among other functions, the day-to-day operation and maintenance, customer service, billing and collection and meter reading:

- Since the acquisition of LILCO in 1998 through the end of 2013, a National Grid Sub was the T&D System manager pursuant to a Management Services Agreement (the “MSA”). Beginning on January 1, 2014, a wholly-owned subsidiary of Public Service Enterprise Group Incorporated (“PSEG”) dedicated to the operations of the T&D System (“PSEG Long Island”) became the service provider pursuant to a twelve-year Amended and Restated Operations Services Agreement (the “OSA”) executed in accordance with the LIPA Reform Act, as well as the retail brand for electric service on Long Island.

Power Supply (including capacity and related energy) from the oil and gas-fired generating plants on Long Island currently owned by a National Grid Sub (“National Grid Generation LLC” or “GENCO”) (“GENCO Generating Facilities”):

- Since the acquisition of LILCO in 1998, GENCO has been the power supplier with respect to the GENCO Generating Facilities. The initial power supply agreement between LIPA and GENCO (the “Original PSA”) expired on May 28, 2013. LIPA and GENCO are now parties to a new Amended and Restated Power Supply Agreement (the “PSA”) that commenced in May 2013 for a term of 15 years, which provides for the purchase of capacity and related energy from those facilities.

Power Supply and Fuel Management:

- The Authority executed an agreement effective May 2013 with Con Edison Energy, Inc. (“CEE”) to provide fuel management services for both the GENCO Generating Facilities and for other generating facilities with which LIPA has power purchase agreements (the “CEE Agreement”). That agreement expires at the end of 2014. Such services were previously provided by a National Grid Sub.
- Effective January 1, 2010 for a term of five years, the Authority entered into agreements with CEE and Pace Global Energy Risk Management, LLC (“Pace”), to provide certain mid-office services and services relating to capacity and energy transactions in regional markets (that were formerly provided by a National Grid Sub) (the “CEE/PACE Agreements”).

Pursuant to the OSA, beginning on January 1, 2015, a PSEG Long Island affiliate, PSEG Energy Resources & Trade LLC (“PSEG ERT”), is expected to provide the power supply and fuel management services.

RECENT DEVELOPMENTS

The LIPA Reform Act

In October 2012, Superstorm Sandy impacted all of the Service Area, which was declared a federal major disaster area. Following Superstorm Sandy, Governor Cuomo established a Moreland Act Commission on Utility Preparedness and Storm Response (the “Moreland Commission”) to review and make recommendations with respect to all New York utilities, including LIPA, and their responses to recent emergency weather events.

In response to the Moreland Commission’s findings and recommendations, the Governor introduced legislation (L2013, Chapter 173), which was enacted on July 29, 2013 (the “LIPA Reform Act”). The LIPA Reform Act was intended to bring accountability and transparency to the delivery of electricity in the Service Area by: (i) authorizing the reformulation of the relationship between LIPA and PSEG Long Island such that PSEG Long Island assumes more responsibility related to operations in the Service Area and the Authority’s oversight role is maintained consistent with its fiduciary, financial and related obligations; (ii) creating a new Long-Island-based office in the Department of Public Service (“DPS”), which is the staff arm of the New York Public Service Commission (“PSC”), to assist with oversight of core utility operations of PSEG Long Island; and (iii) authorizing the retirement of a portion of the Authority’s outstanding debt from the proceeds of the securitization bonds issued by the Utility

Debt Securitization Authority (“UDSA”) described below and capping or eliminating certain categories of payments in lieu of taxes (“PILOTS”), with savings passed onto ratepayers.

The LIPA Reform Act was divided into two parts. Part A addressed a variety of matters relating to the restructuring of the Authority and LIPA. Part B created the UDSA and authorized an issuance of the UDSA bonds to retire a portion of the Authority’s existing debt.

Restructuring of the Authority and LIPA and Relationship to PSEG Long Island

Part A of the LIPA Reform Act established a new office within DPS to review and make recommendations to the Authority and/or PSEG Long Island related to core utility functions including capital expenditures, the methods employed by PSEG Long Island for safe and adequate service and the emergency response plan of PSEG Long Island and the Authority, with the initial storm plan being subject to a public review process. Part A gives DPS the responsibility to investigate and mediate customer complaints. Upon notification to the Authority, DPS may undertake a comprehensive and regular management and operations audit.

For the State’s fiscal year beginning on April 1, 2014 and each fiscal year thereafter, the Authority will bear the costs and expenses relating to DPS’s oversight role; it is anticipated that all such costs and expenses of DPS would offset funds to be provided as a temporary state energy and utility conservation assessment under Public Service Law Section 18-a(6) until such assessment expires by operation of law.

Part A also requires the Authority to keep future staffing at minimum levels, consistent with meeting its contractual, fiduciary and statutory obligations including oversight of the service provider. Part A also reduced the size of the Authority’s Board as described below. In addition, Part A established a rate review process that requires that on or before February 1, 2015, the Authority and PSEG Long Island submit for review to DPS a three-year rate proposal for rates and charges to take effect on or after January 1, 2016. See below under “RATES AND CHARGES – Authority to Set Electric Rates.”

The Securitization Authority and Securitization Transaction

Part B of the LIPA Reform Act created UDSA and authorized an issuance of UDSA bonds to retire a portion of the Authority’s existing debt. It established a process through which the Authority’s Board adopted a Financing Order that authorized, among other things, the creation of a Restructuring Charge (a non-bypassable consumption-based charge on the Authority’s customers) and certain related rights and interests (collectively, the “Restructuring Property”) and the issuance of the UDSA bonds to provide funds for the purchase of the Restructuring Property from the Authority. As required by the LIPA Reform Act and the Financing Order, the Restructuring Charge will be adjusted at least annually and if determined to be necessary, semiannually or more frequently, to ensure that the expected collection of the Restructuring Charge is adequate to timely pay all scheduled payments of principal and interest on the UDSA bonds and all ongoing financing costs when due.

The LIPA Reform Act mandates that the Restructuring Charges are irrevocable, non-bypassable consumption-based charges. “Non-bypassable” means that the Restructuring Charges will be collected from customers, as long as such customer is connected to the T&D System and is taking electric delivery service in the Service Area, even if such customer also produces some of its own electricity or purchases electric generation services from a provider of electric generation services who is not the owner of the T&D System Assets and even if the T&D System Assets are no longer owned by LIPA. Certain customers that self-generate eligible renewable power will only be responsible for paying Restructuring Charges based upon their “net-billed” consumption. The obligation of customers to pay the Restructuring Charges is not subject to any right of set-off in connection with the bankruptcy of LIPA or any other entity. If any customer does not pay the full amount of any bill, the amount paid by the customer will be applied pro rata between the Restructuring Charges and the other charges unless the customer specifies that a greater proportion of such payment is to be allocated to the Restructuring Charges, except that other charges are to be reduced by the amount of any set-off, counterclaim, surcharge or defense. The Restructuring Charge is a Transition Charge for purposes of the Resolution and amounts collected in respect thereof are thus not Revenues subject to the lien of the Resolution or the Subordinated General Resolution and can only be used to pay debt service on UDSA bonds and related costs; however, collections of the Restructuring Charge which began in first quarter 2014 will be reflected as “operating revenues - electric sales” in the Authority’s consolidated financial statements beginning in 2014 notwithstanding that they are dedicated to the UDSA bonds. In addition, the UDSA bonds are not secured by the Trust Estate described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Payment of Revenues Pursuant to Financing Agreement.”

The Restructuring Charges are collected by (or on behalf of) LIPA, as the initial Servicer, pursuant to the terms of a Servicing Agreement between LIPA and UDSA. As Servicer, LIPA is responsible for monitoring the collateral securing the UDSA bonds, taking all necessary action in connection with adjustments to the Restructuring Charge and certain reporting requirements. However, in its role as T&D System manager under the OSA, PSEG Long Island is responsible for performing a

number of functions that would otherwise be provided by LIPA including, among other things, billing and collecting the Restructuring Charges from customers, meter reading and forecasting. UDSA and LIPA also entered into an Administration Agreement pursuant to which LIPA, acting as Administrator, performs certain administrative and other duties on behalf of UDSA.

On December 18, 2013, UDSA issued approximately \$2 billion of Restructuring Bonds Series 2013T and Series 2013TE. UDSA purchased the Restructuring Property from the Authority with the proceeds of the UDSA bonds. The Authority used the sale proceeds of the Restructuring Property to purchase, redeem, repay and retire approximately \$2 billion of its debt. The UDSA bonds are not obligations of the Authority, LIPA, PSEG Long Island or any of their affiliates and bonds and other obligations issued or incurred by the Authority and LIPA are not obligations of UDSA.

TRANSITION TO A NEW BUSINESS MODEL

Introduction

In anticipation of the expiration of the MSA, the Authority determined that it was desirable to solicit proposals that would provide for, at a minimum, a different delivery structure under which the T&D System would be operated and maintained by a separate subsidiary of the selected service provider dedicated to the Authority's electric business, and thus better aligned to the Authority's goals. Following a competitive procurement and evaluation process, on December 15, 2011, the Authority's Trustees authorized the execution of the ten-year operations services agreement between LIPA and PSEG Long Island to provide operations, maintenance and related services for the T&D System beginning on January 1, 2014 upon the expiration of the MSA. The parties also entered into a two-year Transition Services Agreement ("TSA"). The TSA required PSEG Long Island to perform a variety of specified activities pursuant to a plan in order to position itself to assume responsibility to provide operations services on January 1, 2014.

The LIPA Reform Act and the OSA

As described above, the LIPA Reform Act was enacted in response to a number of concerns related to the contractual and organizational relationship between the Authority and its then current service provider under the MSA, including difficulties during storm preparation, response and restoration of customer service; overlapping responsibilities with respect to service, operations and management; limited accountability of its service provider (under the MSA) and lack of oversight and transparency in the Authority's ratemaking process.

The LIPA Reform Act imposed new substantive obligations on any service provider and effectively shifted major operational and policy-making responsibilities for the T&D System, including significant responsibilities relating to capital expenditures, budgets and emergency response, from LIPA to PSEG Long Island. Consistent with this approach, the LIPA Reform Act requires that staffing at the Authority be kept at levels only necessary to ensure that the Authority is able to meet obligations with respect to its bonds and notes and all applicable statutes and contracts, and to oversee the activities of PSEG Long Island.

The LIPA Reform Act imposed a number of new obligations on PSEG Long Island, including requiring PSEG Long Island to prepare and maintain an emergency response plan to assure the reasonably prompt restoration of service in the case of an emergency event and establish separate responsibilities of the Authority and the service provider; submit for review to DPS a report detailing PSEG Long Island's planned capital expenditures; consider, consistent with maintaining system reliability, renewable generation and energy efficiency program results and options in establishing capital plans; and submit to DPS for review, data, information and reports on PSEG Long Island's actual performance related to the metrics in the OSA, including the Authority's evaluation thereof, prior to the Authority's determination of PSEG Long Island's annual incentive compensation.

Implementation of the LIPA Reform Act required the transfer of substantial operational duties and obligations to PSEG Long Island and greater operational flexibility for PSEG Long Island to carry out its related duties. In response to the LIPA Reform Act, LIPA negotiated the OSA with PSEG Long Island to address the changed relationship between the parties in connection with the provision of electric service in LIPA's Service Area. The OSA has a term of 12 years, expiring December 31, 2025 and provides that if the PSEG Long Island achieves certain levels of performance based on criteria specified in the OSA during the first 10 years, the parties will negotiate in good faith an eight year extension of the OSA on substantially similar terms and conditions. The LIPA Reform Act required that the DPS review the OSA and provide a recommendation to the Authority's Board of Trustees prior to the Board's vote to approve the agreement. Accordingly, by letter dated September 27, 2013, the Chair of the DPS notified the Trustees that DPS had conducted a comprehensive review of the LIPA Reform Act, the proposed OSA and the management and operations audit of LIPA conducted by an independent consultant on behalf of the DPS, and based upon such review, recommended that the Trustees approve the OSA.

The following is a brief summary of certain provisions of the OSA. This summary does not purport to be complete and reference is made to the OSA for full and complete statements of such agreement and all provisions. The OSA has been filed with

EMMA and is included by specific cross-reference herein. For convenience, a copy of the OSA can also be found on the Authority's website (www.lipower.org) under the caption "Reports and Contracts."

Compensation. The OSA provides for an annual fixed component of the management services fee of \$36.3 million in 2014 and 2015, which increases to \$58 million in 2016 and thereafter (prorated as appropriate and indexed in accordance with the OSA). In addition, the OSA provides for an annual incentive compensation pool of \$5.44 million in 2014 and 2015, which increases to \$8.7 million in 2016 and thereafter (in each case expressed in 2011 dollars, prorated as appropriate and indexed in accordance with the OSA). The incentive compensation pool is earned based on favorable performance relative to the Performance Metrics contained in the OSA. Generally, costs and expenses (without any mark-up or profit) incurred by PSEG Long Island in the course of providing operations services are treated as "Pass-Through Expenditures" under the OSA.

Performance Metrics. The Performance Metrics in the OSA are designed to achieve LIPA's desired performance levels, which is generally first quartile performance as determined by agreed industry peer benchmarks. The Performance Metrics are structured both to maintain good performance and improve poor performance, through two distinct types of Performance Metrics, "Maintenance Metrics" and "Improvement Metrics." Maintenance Metrics are those Performance Metrics for which satisfactory performance levels are currently being achieved. The goal of Maintenance Metrics is to incent continued satisfactory performance (generally, first quartile). Improvement Metrics are those Performance Metrics for which current performance is unsatisfactory. The goal of Improvement Metrics (generally, first quartile) is to incent improved performance over time (generally 5 years with 2013 serving as the baseline performance). Under certain circumstances, the parties may agree to amend the Performance Metrics.

Operations Services. PSEG Long Island is required to provide operations services for the T&D System on behalf of LIPA at all times in accordance with the standards set forth in the OSA. Under the OSA, except for certain rights and responsibilities reserved to LIPA, PSEG Long Island assumes and undertakes the rights and responsibilities for management, operation and maintenance of the T&D System and the establishment of policies, programs and procedures with respect thereto, including: all electric transmission, distribution and load servicing activities for the safe and reliable operation and maintenance of the T&D System; day-to-day operation of the T&D System; engineering activities; preparation of recommended capital plan and monitoring of approved annual capital budget; preparation of long- and short-range planning analyses and forecasts; customer services; finance, accounting, budgeting, longer-term financial forecasting and treasury operations related to the T&D System; and other general activities such as information technology, human resources, procurement, implementation of emergency response and reporting. Under the OSA, LIPA retains continuing oversight responsibilities and obligations with respect to the operation and maintenance of the T&D System consistent with the LIPA Reform Act. LIPA's specific rights and responsibilities with respect to the T&D System include, among other things: the right to determine all T&D System rates and charges; the right to review and approve the consolidated budget pursuant to the procedures outlined in the OSA, related manual and the LIPA Reform Act; responsibility for financing the business and operations of the Authority and LIPA, compliance with any financing documents and administration of debt service for all debt of the Authority and LIPA; and overall responsibility for the Authority's and LIPA's legal matters, including reporting and related legal compliance.

In addition to the expansion of operational duties and obligations of PSEG Long Island under the OSA as compared with the prior service provider, PSEG Long Island is now the retail brand for electric service on Long Island.

Additional Services. Effective no later than January 1, 2015, a PSEG Long Island affiliate is also expected to assume certain power supply management, fuel procurement and related services that are currently provided pursuant to the CEE Agreement and the CEE/PACE Agreement (and were formerly provided under contracts with National Grid Subs).

Termination of OSA. The OSA contains customary events of default, including bankruptcy, payment failures and failure to perform material obligations under the agreement, as well as cure rights. The OSA may be terminated upon an event of default that has not been timely cured. In the event of a bankruptcy-related event of default under the OSA, the OSA terminates immediately without further action by the non-defaulting party. For payment defaults or, in the case of PSEG Long Island and certain of its affiliates only, credit support-related defaults, the non-defaulting party may terminate upon not less than fifteen Business Days' written notice to the other party. For other events of default, the non-defaulting party must generally provide not less than ninety Business Days' written notice prior to termination. Immediately upon the expiration or any earlier termination of the OSA, the PSEG Long Island service company will transfer all of the membership interests in the PSEG Long Island service company and all corporate books and records to LIPA or, at LIPA's direction, its designee at no cost to LIPA or its designee. LIPA and PSEG Long Island will mutually agree upon such instruments, agreements and other documents as may be reasonably necessary to effect such transfer.

Additional Service Provider Termination Rights. Under the OSA, PSEG Long Island may terminate the agreement in the event of either a (i) LIPA Privatization, (ii) LIPA Municipalization or (iii) Change in Regulatory Law (all as defined in the OSA) (each, a "PSEG Long Island Termination Event"). If a PSEG Long Island Termination Event occurs and PSEG Long Island

exercises its right to terminate the OSA, the termination notice period would generally extend for 12 or 14 months (depending on the nature of the PSEG Long Island Termination Event). Under the OSA, LIPA has the option to extend the effective date of any such termination for up to 6 months. In addition, if LIPA is unable to procure and contract with a successor service provider prior to the termination date of the OSA, LIPA could seek to commence an arbitration proceeding under the OSA on the grounds, among others, that termination of the OSA under such circumstances would be contrary to the public interest and should, therefore, be deferred.

Additional LIPA Termination Rights. LIPA may also terminate the OSA at any time if LIPA is privatized or operation of LIPA's T&D System is "fully municipalized" upon not less than six months' notice. In addition, in the event of a "Change of Control" of PSEG Long Island or certain affiliated entities, LIPA has the right to terminate the OSA upon not less than thirty days' notice. Beginning in the third contract year, LIPA also has the additional right to terminate the OSA if PSEG Long Island fails to satisfy either the new major storm or minimum Performance Metric in the then-current contract year and any one of the preceding two (2) contract years upon not less than six months' prior written notice. If LIPA exercises the right to terminate the OSA as set forth in this paragraph, it must set forth in its written termination notice a termination date which cannot exceed 12 months following the date of such notice.

Service Provider as LIPA's Agent. The OSA designates PSEG Long Island as LIPA's agent to enter into purchase, rental and other contracts on behalf of and for the account of LIPA to properly operate and maintain the T&D System and to maintain the records of LIPA, and to make such additions and extensions to the T&D System and to enter into certain customer-related contracts under LIPA's tariff, as appropriate. The designation as agent is intended to enhance the financial benefits and relationship between the parties under the agreement, including the ability to achieve certain sales and use tax savings.

DPS Long Island. In accordance with the LIPA Reform Act and as described herein, the OSA established a process for proceedings, including the statutorily mandated three-year rate plan for the 2016-2018 period (the "Three Year Rate Plan"), and rate proposals that seek to increase rates in excess of 2.5% of aggregate revenues on an annual basis, for review by the DPS and recommendation to the Authority's Trustees. The OSA specifically acknowledges the Authority Board's sole right to set final and interim rates.

Three Year Rate Plan. As provided in the LIPA Reform Act, the OSA provides that PSEG Long Island will prepare a preliminary Three Year Rate Plan including information supplied by LIPA, designed to ensure that LIPA and PSEG Long Island are able to provide safe and adequate transmission and distribution service in the service territory at rates which are (i) at the lowest level consistent with sound fiscal operating practices and (ii) sufficient to generate revenues necessary to satisfy LIPA's obligations to its bondholders, lenders and other creditors and contract counterparties including PSEG Long Island. Each party will prepare its own portion of the related underlying budgets, which PSEG Long Island will consolidate for presentation to DPS.

DPS Rate Proceeding and Budgeting. The OSA provides that in any DPS rate proceeding (i.e., related to the Three Year Rate Plan or for increases in excess of 2.5% of annual revenues or otherwise as described above), LIPA will be responsible for providing evidentiary and other support and submitting its views with respect to the LIPA portion of the rate plan, and PSEG Long Island will be responsible for the rest of the rate plan, and may submit its own views as well. If DPS proposes a draft recommendation to either party, the parties are required to work together to determine if the proposed recommendation is consistent with the OSA and LIPA's statutory obligations. If the parties are unable to agree on such a conclusion, but the recommendation is nonetheless presented to the Trustees for approval, PSEG Long Island may present its views about the recommendation to the Trustees at any Board meeting prior to a vote. Upon receipt of a final recommendation from DPS, the parties have 21 days to negotiate and finalize an updated budget, during which time the Authority Board would not take final action on the DPS recommendation except if necessary to comply with bond covenants or applicable law. If agreement on the budget is not reached within 21 days, then the parties would submit the matter for resolution through expedited binding arbitration.

Customer Rate Changes. The OSA allows either party to propose to the other, a rate change deemed to be necessary, upon the same basis as stated above. Following negotiations, PSEG Long Island will prepare a proposal within 30 days for LIPA's review and within 30 days thereafter, the parties will engage in good faith discussions to reach agreement on the rate change proposal. Following this process, the Authority can implement a change in rates or charges provided it is consistent with the OSA and the LIPA Reform Act.

Voluntary DPS Rate Filing. For any rate filing that is permitted, but not required under the LIPA Reform Act, the OSA sets forth that the process described above will be followed for a DPS proceeding.

General Status of Transition

The transition from National Grid to PSEG Long Island began with the execution of the TSA, has occurred without interruption and is largely complete. The PSEG Long Island management company consists of approximately 20 employees at the

director level and higher. The PSEG Long Island service company consists of approximately 2,250 PSEG Long Island employees, which includes a substantial majority of incumbents from the National Grid workforce, as well as individuals from LIPA, PSEG and Lockheed Martin, and external hires from the manager level and lower. Further information about PSEG and PSEG Long Island can be found at <http://www.psegliny.com>. No information on that website is included herein by specific cross-reference. Pursuant to the LIPA Reform Act, responsibility and accountability for operations and customer satisfaction is now with PSEG Long Island management. The power supply and fuel procurement transition to PSEG Long Island in January 2015 is ongoing in accordance with expectations. To date, PSEG Long Island has made measurable progress toward achieving or maintaining the Performance Metrics described above, made progress in the JD Power Residential and Business customer satisfaction surveys, initiated over 40 business process change initiatives and completed a new Emergency Response Plan. In addition, in accordance with the Act and the OSA, PSEG Long Island prepared its first Utility 2.0 Long Range Plan. The plan proposes a number of investments in direct load control demand response, energy efficiency, distributed generation, advanced metering infrastructure, and other initiatives related to the customer experience, clean energy goals, and power supply resources. PSEG Long Island will revisit the plan annually.

Authority's Contractual Liability for PSEG Long Island Pension and OPEB Benefits. As a result of transition, the Authority reviewed its rights and responsibilities under its various contracts related to both transitioning to a new management contract and new service provider. See Note 15 of Notes to Basic Financial Statements for information relating to the Authority's contractual liability under the OSA pertaining to unfunded PSEG Long Island pension and other postretirement health and life insurance benefit plans ("OPEB"). In general, pension and OPEB liabilities for the PSEG Long Island service company workforce remain legal obligations of PSEG Long Island; however, under the OSA, these costs are "Pass-Through Expenditures," and therefore a contractual liability of the Authority. Based upon information provided by PSEG Long Island, the Authority estimated this contractual liability at approximately \$126 million for pension benefits and \$300 million for OPEB benefits as of January 1, 2014 and expects to update that estimate as of January 1, 2015. The Authority has made payments against the pension portion of this liability of \$66.9 million in 2014 and estimates additional payments of approximately \$30 million in 2015. The Authority is currently reviewing funding alternatives for the OPEB portion of the contractual liability, which are expected to be incorporated into its Three Year Rate Plan filing in February 2015.

The Power Supply Agreement

In 2012, the Authority and National Grid entered into the new PSA providing for the purchase of generation (including capacity and related energy) from the fossil-fired GENCO Generating Facilities for a maximum term of 15 years commencing in May 2013. The PSA provides penalties if GENCO does not maintain the output capability of the GENCO Generating Facilities, as measured by annual industry-standard tests of operating capability, and to maintain and/or make capital improvements which benefit plant availability. The PSA provides approximately 3,700 MW of on-Island capacity for the term of the agreement and also provides LIPA with the option to ramp down (i.e., cease purchasing capacity from) and/or potentially re-power all or any portion of the PSA units. However, LIPA has no obligation to purchase energy from the GENCO Generating Facilities and is able to purchase energy on a least-cost basis from all available on-Island sources, as well as off-Island sources, consistent with existing transmission interconnection and T&D System limitations. In 2013, the GENCO Generating Facilities provided approximately 61 percent of LIPA's capacity requirements and 23% of its energy requirements. See "THE SYSTEM – Power Supply" below. *This brief summary of the PSA does not purport to be complete and reference is made to the PSA for full and complete statements of such agreement and all provisions. The PSA has been filed with EMMA and is included by specific cross-reference herein. For convenience, a copy of the PSA can also be found on the Authority's website (www.lipower.org) under the caption "Reports and Contracts."*

SUPERSTORM SANDY

In October 2012, Superstorm Sandy caused damage to all of the Authority's Service Area, which was declared a federal major disaster area. At the peak of storm impact, over 90% of LIPA's approximately 1.1 million customers lost power. On November 7, 2012, ten days into the restoration efforts, Long Island was impacted by a Nor'easter which caused an additional 123,000 power outages and set the Superstorm Sandy restoration effort back several days. LIPA's response and restoration efforts included approximately 14,000 workers from across the country and Canada comprised of: approximately 6,400 line workers; approximately 3,700 tree trimmers; and nearly 4,000 workers providing support, logistics and call center staffing. The storm resulted in: 137 transmission line lock-outs; damage to 51 substations (12 were flooded); 455 distribution lock-outs; and the replacement of over 4,400 distribution poles, over 7,600 cross arms and nearly 2,500 transformers.

Grants and Insurance Proceeds Related to Storm Restoration and Utility Hardening on Long Island

In the aftermath of Superstorm Sandy, the Authority and its service providers (National Grid prior to December 31, 2013 and PSEG Long Island beginning January 1, 2014) have taken steps to implement the recommendations of the Moreland

Commission to improve communications and storm response protocols. In addition, LIPA signed a Letter of Undertaking (“LOU”) with the Federal Emergency Management Agency (“FEMA”) and the State in February 2014 for a grant totaling \$1.43 billion under the pilot Section 428 program created by the Sandy Recovery Improvement Act of 2013. The grant consists of \$704 million for Sandy storm restoration (less a 10% match and any insurance proceeds as described below) and \$730 million for storm hardening work (less a 10% match), including programs designed for elevating and protecting key substation components, pole replacement, the deployment of additional automatic switching units on priority electric circuits, select undergrounding of mainline circuits, and other investments in the T&D System, the objective of which is to improve reliability and performance in connection with major weather events. As of November 20, 2014, LIPA has received all \$579 million FEMA reimbursement (90% of damage less insurance proceeds) for Sandy storm restoration. PSEG Long Island has advised LIPA that it expects the storm hardening grant to be sufficient to improve the reliability of between 300 and 400 of the T&D System’s most susceptible circuits. Those FEMA amounts are expected to be received over the next three to four years as projects are undertaken. Storm hardening work has begun on 10 substations flooded during Superstorm Sandy. LIPA also continues to pursue insurance recoveries related to property damage that occurred during Superstorm Sandy at certain of its substations, with settlement not expected before 2016. LIPA has received a \$26 million partial payment with additional payments expected prior to claim settlement.

Additionally, the Authority executed a Community Development Block Grant Agreement with the Housing Trust Fund Corporation in September 2014, which is currently pending review by the Office of the State Comptroller, to secure \$143 million of additional funds related to Superstorm Sandy, Hurricane Irene, and other recent declared weather events. This grant provides funding for the non-Federal share of costs reimbursed to the Authority for such events, including the FEMA LOU, and funds additional storm mitigation protective measures. LIPA currently expects approval of the grant agreement by year-end 2014 and to receive the majority of the grant proceeds shortly thereafter.

LIQUIDITY

The Authority had approximately \$512 million of funds on-hand as of September 30, 2014 and an additional \$247 million of unused revolving credit and commercial paper capacity. The Authority believes it has adequate sources of liquidity to meet its planned operating, maintenance, capital programs and to fund storm costs incurred. In August 2014, the Authority’s Board of Trustees approved an expansion of the Authority’s senior lien note and commercial paper capacity, which together with the planned bond sale, will further enhance available sources of liquidity when implemented. See “PLAN OF FINANCE” in Part 1 to this Official Statement.

THE 2015 BUDGET

The Authority released a proposed operating budget for calendar year 2015 on November 17, 2014, which is expected to be adopted, as it may be modified by the Authority’s Board of Trustees, at a meeting scheduled for December 17, 2014. The proposed operating budget maintains delivery (i.e. non-fuel) related rates at their 2014 levels but incorporates a revenue-neutral rate shift as part of an overall rate freeze on delivery rates, which transfers recovery of certain components of the Efficiency and Renewables Charge and the New York State Assessment Charge to base rates for delivery service. The budget also proposes a revenue decoupling mechanism to mitigate potential revenue losses arising from investment in demand-side management and end-use energy efficiency as well as the sales-related variability in revenues from weather and general economic factors.

Revenues are budgeted at \$3.59 billion, an increase of \$74 million or 2.1% from the 2014 approved budget, primarily reflecting an increase in projected fuel and purchased power costs of \$80.4 million. Electric sales are forecast at 20.07 million MWhs, which is 2.36% higher than the current projected 2014 sales, of which 1.42% reflects weather normalization and 0.94% is projected growth in energy sales, net of efficiency and renewable energy reductions. Operating expenses, net of fuel and purchased power costs, are budgeted at \$2.02 billion, a decrease of \$127.4 million from the 2014 budgeted levels, while grant income is budgeted at \$76.02 million, a decline of \$114.7 million from the 2014 budgeted level. The budget provides projected net income of \$75 million in 2015.

DERIVATIVES AND HEDGE ACTIVITIES

The Authority uses financial derivative instruments and physical hedges to manage the impact of changes in energy prices and fuel costs (collectively power supply commodities) and interest rates on its cost of service and cash flows.

The Authority is exposed to volatile energy commodity prices in the normal conduct of its operations. These costs are recovered from the Authority’s customers through the Power Supply Charge (referenced in the Tariff as the FPPCA) on customer bills, which may change on a monthly basis in response to actual and projected fuel and purchased power costs. While costs vary with supply and demand for energy related resources (which include seasonal, weather, transportation, natural disaster, and other influences), the Authority’s customers have an interest in greater stability of power prices on a month-to-month basis. The

hedging of certain components of power supply costs reduces the volatility of energy supply prices over what the Authority's customers would experience in the absence of hedging.

The Authority manages its risk exposure and the use of hedges for power supply commodities through a defined program overseen by an executive risk management committee comprised of the Chief Financial Officer and other senior management. The power supply commodity hedging program identifies exposures to potential movements in fuel and purchased power prices, quantify the impacts of these exposures on the Authority's Power Supply Charge, and mitigate the exposures in line with the Authority's identified level of risk tolerance. As of September 30, 2014, the Authority had no collateral posted to its counterparties in connection with its power supply commodity hedge positions and did not hold any collateral posted by its counterparties (mark-to-market value at September 30, 2014 for the Authority's power supply commodity hedge positions was positive \$25.4 million).

As of September 30, 2014, the Authority had outstanding \$1.7 billion notional interest rate exchange agreements relating to its outstanding indebtedness. The Authority monitors its interest rate derivative exposure on an ongoing basis. To date, the Authority has not been required to post any collateral with respect to its interest rate derivatives. If the Authority's ratings fall below Baa2/BBB/BBB by Moody's, S&P and Fitch, respectively, on certain of its swaps (mark-to-market at September 30, 2014, negative \$11 million), the Authority may be required to post collateral. If the Authority's ratings fall below Baa2/BBB by Moody's and S&P, respectively the Authority may be required to post collateral on a different swap (mark-to-market as of September 30, 2014 negative \$9 million). The Authority maintains two swaps insured by Assured Guaranty (formerly "FSA") ("Assured") (mark-to-market at September 30, 2014, negative \$226 million), under which it may be required to post collateral under such swap if all of Assured's ratings fall below A2/A by Moody's and S&P, respectively, and the Authority's rating falls below A3/A- by Moody's and S&P, respectively. In the case of the insured swaps mentioned above, the Authority may provide alternative credit support in lieu of being required to post collateral.

In accordance with GASB 53, *Accounting and Reporting for Derivative Instruments*, the Authority records its derivatives at fair value. For a further discussion of these matters, and for a summary of certain interest rate exchange agreements, see Note 4 of Notes to Basic Financial Statements.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank") 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 Dodd-Frank in an expansive manner, and although the Authority has implemented many required compliance measures, the Authority will still need to evaluate future CFTC rules and regulations. To date, the Authority does not anticipate that Dodd-Frank and its related compliance measures will impact the Authority's risk management strategies and practices.

RATES AND CHARGES

The Act and the Rate Covenant

The 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; the principal of and interest on any obligations issued pursuant to such resolution as the same become due and payable; and to establish or maintain any reserves or other funds or accounts required or established by or pursuant to the terms of such resolution. For a description of the Rate Covenant that is contained in the Resolution and which was adopted by the Authority pursuant to the Act, see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant" in this Part 2.

Authority to Set Electric Rates

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

Part A of the LIPA Reform Act established a rate review process that requires that on or before February 1, 2015, the Authority and PSEG Long Island submit for review to DPS a three-year rate proposal for rates and charges to take effect on or after January 1, 2016. DPS will review and make recommendations on the Three Year Rate Plan and assuming the Authority's Board accepts such recommendations, the rates will become final. In the event the Authority's Board disagrees with any DPS recommendation, it must notify DPS within 30 days providing the basis for such disagreement, which must be that the

recommendation is, in the Board's view, inconsistent with the Authority's sound fiscal operating practices, any existing contractual or operating obligations, or the provision of safe and adequate service. After providing notice to DPS and posting notice to its website and the website of PSEG Long Island, the Authority must hold a public hearing within 30 days where DPS and the Authority will, and PSEG Long Island may, present their positions. Within 30 days of this hearing, the Authority's Board will announce its final rate plan.

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

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

In anticipation of the submission to DPS of the three-year rate proposal on February 1, 2015, the Authority requested that its financial advisor, Public Financial Management Inc. ("PFM"), review the Authority's financial policies and the financial policies of other similar public power utilities and make recommendations designed to ensure that the Authority and its service provider will be able to continue to provide safe and adequate transmission and distribution service at rates set at the lowest level consistent with sound fiscal operating practices, in accordance with the LIPA Reform Act. PFM presented a preliminary set of recommendations to the Finance and Audit Committee of the Authority's Board of Trustees on November 17, 2014. In general, PFM recommended that the Authority adopt a rate setting approach that considers the cash flow and debt service coverage metrics that are commonly considered by other large public power utilities as they establish customer rates. PFM has recommended that the Authority adopt targets for financial metrics that are generally consistent with those of public power utilities that are in the "A" rating category. The Authority's existing rate setting methodology utilizes an accounting net income target that is not designed specifically to produce financial results and metrics that relate to traditional public power credit evaluation. PFM's preliminary recommendations will be subject to further Authority review. PFM is expected to provide final recommendations in a written report in early 2015. The Authority can provide no assurance that the Authority will adopt either the preliminary or final recommendations.

Rate Tariffs and Adjustments

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

Over the past few years, LIPA has regularly modified the FPPCA in response to changes in fuel and purchased power prices. Prior to 2011, those changes were limited to a few times per year. In 2011 and 2012, the need to change the FPPCA was evaluated quarterly. In October 2012, the FPPCA tariff was modified to allow for 100% recovery of LIPA's power supply costs and to transition from a quarterly update process to a monthly basis. Prior to this modification, should LIPA's fuel and purchased power expense change such that the Authority would exceed or fail to meet a Board approved financial target, the FPPCA would

be reduced or increased accordingly. In no event, however, did the Authority recover an amount that exceeded its fuel and purchased power costs incurred. With that modification, fuel and purchased power cost recovery will no longer be limited to achieving a targeted reserve in net income of \$75 million and purchased power expenses are expected to be fully recovered from customers within approximately two months of the costs being recognized by LIPA.

The Act also requires the Authority to make payments in lieu of taxes, i.e., PILOTs, related to revenues and to property taxes. The Authority makes payments in lieu of taxes to municipalities and school districts equal to the property taxes that would have been received by each such jurisdiction from LILCO if the acquisition by the Authority had not occurred. Such PILOTs are recovered in the Authority’s base rates or through the FPPCA for certain PILOTs related to power generation stations under power supply agreements. Part A of the LIPA Reform Act limits the increase in PILOTs assessed by municipalities to no more than 2% per year, beginning in 2015, which is significantly less than the recent rate of growth of property based PILOTs which has been approximately 6% over the past 10 years and approximately 9.5% over the past four years. The Authority also makes PILOTs for certain State taxes (including gross receipts taxes) and local taxes (including transit station maintenance surcharges charged by the Metropolitan Transportation Authority of New York) which would otherwise have been imposed on LILCO. The PILOT payments recovery rider allows the Authority to recover PILOTs representing these gross receipts taxes and surcharges. Part A of the LIPA Reform Act eliminated the payments in lieu of the state franchise tax paid by LIPA annually in the amount of \$26 million (in 2012).

The table below sets forth LIPA’s 2013 average residential and commercial rates as compared with certain nearby electric utilities.

Comparative Rates		
<u>Utility Name</u>	<u>2013 Average Residential Price (cents/kWh)</u>	<u>2013 Average Commercial Price (cents/kWh)</u>
Connecticut Light & Power	16.05	14.15
Consolidated Edison Co-NY Inc	26.99	20.61
Long Island Power Authority	20.70	18.69
Public Service Elec & Gas Co.	16.46	13.05
The Narragansett Electric Co.	15.47	13.62
United Illuminating Co.	20.86	15.84

Source:
Form EIA-826: <http://www.eia.gov/electricity/data/eia826/>

BILLING AND COLLECTIONS

At December 31, 2013, the Authority served approximately 1.1 million customers in its service area. For the 12-month periods ended December 31, 2009, December 31, 2010, December 31, 2011, December 31, 2012 and December 31, 2013, the 12-month write-off rates for uncollectible accounts were 0.77%, 0.71 %, 0.68%, 0.57% and 0.55%, respectively.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Under the OSA, the service provider is required to bill and collect such fees, rates, rents and charges for the use and services of the T&D System as are established by the Authority in accordance with the Resolution and the Act.

Since LIPA owns the System, the Financing Agreement contains covenants as to the operation and maintenance of the System, and the Resolution contains covenants of the Authority to enforce the Financing Agreement and assigns to the Trustee certain of the Authority’s rights and interests under the Financing Agreement, including the right to bring actions and proceedings for the enforcement of the Financing Agreement.

Pledge of Trust Estate

The Resolution pledges the Trust Estate for the payment of the Bonds and all Parity Obligations, subject to the provisions of the Resolution, the Act and the Financing Agreement permitting certain applications of the Trust Estate and subject to the prior payment of Operating Expenses.

The Resolution authorizes the application of Revenues to certain purposes free and clear of the lien of the pledge. These applications include payment of Operating Expenses from the Operating Expense Fund prior to the deposit of Revenues in the Debt Service Fund. In addition, the Resolution provides that amounts on deposit in the Rate Stabilization Fund may be used for

any lawful purpose of the Authority or LIPA, and amounts retained in the Revenue Fund may be used for any lawful purpose of the Authority or LIPA, as determined by the Authority.

The principal items in the Trust Estate pledged by the Resolution include:

(i) all payments received by the Authority from LIPA under the Financing Agreement, and all rights to receive the same;

(ii) all Revenues and all right, title and interest of the Authority in and to Revenues, and all rights of the Authority to receive the same;

(iii) the proceeds of sale of Bonds until expended for the purposes authorized by the Supplemental Resolution authorizing such Bonds; and

(iv) all funds, accounts and subaccounts established by the Resolution, including securities credited thereto and investment earnings thereon.

The Authority covenants in the Resolution that it will not, and will not permit LIPA to, issue any bonds, notes or other evidences or indebtedness or otherwise incur any indebtedness, other than Bonds or Parity Obligations, secured by a pledge of or other lien or charge on the Trust Estate which is prior to or of equal rank or priority with the pledge made by the Resolution, and that it will not create or cause to be created any lien or charge on the Trust Estate which is prior to or of equal rank or priority with the pledge made by the Resolution.

Payment of Revenues Pursuant to Financing Agreement

Under the Financing Agreement, LIPA transfers to the Authority all of its right, title and interest in and to the Revenues, including all right to collect and receive the same, subject to the provisions of the Financing Agreement and the Resolution providing for the application of Revenues, and consents to the assignment by the Authority to the Trustee of its interest therein.

Revenues are defined in the Resolution to mean all revenues, rates, fees, charges, surcharges, rents, proceeds from the sale of LIPA assets, proceeds of insurance, and other income and receipts, as derived in cash, directly or indirectly from any of LIPA's operations, by or for the account of the Authority or LIPA including but not limited to all payments received by the Authority or LIPA with respect any guaranty of performance under any System Agreement and all dividends received by the Authority as a result of ownership of any stock or other evidence of an equity interest in LIPA; provided, however, that Revenues shall not include (i) any Transition Charge (as defined below), (ii) any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project, or (iii) any federal or State grant moneys the receipt of which is conditioned upon their expenditure for a particular purpose unless the Authority determines that such moneys constitute Revenues. Revenues also do not include any amounts, or amounts from any sources, as may be specified from time to time by Supplemental Resolution; provided, however, that at such time the applicable additional Bonds tests of the Resolution will be satisfied (whether or not the tests are then required to be met for other purposes) without regard to such amounts. Transition Charge means any rates, fees, charges or surcharges relating to the T&D System or the customers thereof established by irrevocable rate order or other action or instrument, and applicable to or by the Authority or LIPA, in conjunction with the issuance of debt or other securities under a separate resolution, indenture or similar instrument (other than the Resolution) to the extent such rates, fees, charges or surcharges are pledged or otherwise encumbered or conveyed as security for such debt or other securities. The Financing Order relating to the UDSA bonds contained a finding that the Restructuring Charge is a Transition Charge for purposes of the Resolution. See "RECENT DEVELOPMENTS – The LIPA Reform Act."

Funds

The Resolution establishes the following Funds: the Construction Fund; the Revenue Fund; the Operating Expense Fund; the Debt Service Fund; the Parity Contract Obligations Fund; the Subordinated Indebtedness Fund; the LIPA Unsecured Debt Fund; the PILOTs Fund; and the Rate Stabilization Fund, all to be held by or on behalf of the Authority with the exception of the Debt Service Fund, which is to be held by the Trustee.

Flow of Funds

The Authority is required by the Resolution, as promptly as practicable after receipt thereof by LIPA, to deposit all Revenues in the Revenue Fund. Amounts on deposit from time to time in the Revenue Fund shall be withdrawn and deposited in the following order of priority:

FIRST: to the Operating Expense Fund, the amount determined by the Authority from time to time to be deposited to pay, or to be set aside therein as a reserve for the payment of, Operating Expenses;

SECOND: (A) to the Debt Service Fund, the amounts required to pay or provide for the payment of the Principal Installments and Redemption Price of and interest on Bonds and Parity Reimbursement Obligations; and

(B) to the Parity Contract Obligations Fund, the amount determined by the Authority to be required to be deposited therein to pay or provide for the payment of Parity Contract Obligations;

THIRD: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST and SECOND, to the Subordinated Indebtedness Fund, the amount determined by the Authority to be required to be deposited therein to pay or provide for the payment of Subordinated Indebtedness;

FOURTH: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST, SECOND or THIRD above, to the LIPA Unsecured Debt Fund, the amount determined by the Authority to be required to be deposited therein to pay or provide for the payment of Outstanding LIPA Unsecured Debt;

FIFTH: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST, SECOND, THIRD or FOURTH, to the PILOTs Fund, the amount determined by the Authority to be required to be deposited in such Fund to pay or provide for the payment of PILOTs; and

SIXTH: if such amounts are not expected by the Authority to be required thereafter for purposes of paragraphs FIRST, SECOND, THIRD, FOURTH or FIFTH, to the Rate Stabilization Fund, the amount determined by the Authority to be deposited therein to provide for any payments or deposits from Revenues thereafter.

Any moneys remaining in the Revenue Fund may be used for any lawful purpose of the Authority or LIPA, as determined by the Authority, including, but not limited to, the purchase or redemption of any bonds, notes or other obligations of the Authority or LIPA.

The Trustees have stated a goal of maintaining cash balances, including the Rate Stabilization Fund, of \$250 million. Such balances have fluctuated in the past and are expected to fluctuate from time to time in the future. The Authority has requested that PFM review the Authority's historical liquidity and make recommendations to Authority management in anticipation of its Three Year Rate Plan filing in February 2015.

Rate Covenant

The Authority covenants in the Resolution to establish and maintain System fees, rates, rents, charges and surcharges sufficient in each Fiscal Year so that Revenues reasonably expected to be produced in such Fiscal Year will be at least equal to the sum of:

(i) 100% of Debt Service, and amounts under all Parity Contract Obligations, payable by the Authority in such Fiscal Year;

(ii) 100% of the Operating Expenses payable in such Fiscal Year;

(iii) 100% of the amount necessary to pay all PILOTs payable in such Fiscal Year; and

(iv) 100% of the amount necessary to pay other Required Deposits, all other payments required pursuant to the Resolution and the Financing Agreement, and all other payments required for the System, for such Fiscal Year.

If at any time such fees, rates, rents, charges and surcharges are or will be insufficient to meet the Rate Covenant, it will not constitute an Event of Default if and to the extent the Authority promptly takes action reasonably expected by the Authority to cure or avoid any such deficiency or to cause the same to be cured or avoided. In addition, the failure in any Fiscal Year to comply with the covenant in clauses (iii) and (iv) above (the "non-debt service and operating expense rate covenant"), will not constitute an Event of Default if the Authority retains a Rate Consultant and a Consulting Engineer for the purpose of reviewing System fees, rates, rents, charges and surcharges and reviewing the System Budget and complies with the following sentence. If the Rate Consultant (relying upon a Certificate of the Consulting Engineer) is of the opinion that a schedule of fees, rates, rents, charges and surcharges for the T&D System which would provide funds to meet the requirements specified in the non-debt service and operating expense rate covenant is impracticable at that time and the Authority therefore cannot comply with the non-debt service and operating expense rate covenant, then the Authority will fix and establish such schedule of System fees, rates, rents, charges and surcharges as is recommended in such Certificate by the Rate Consultant to comply as nearly as practicable with the non-debt service and operating expense rate covenant, and in such event the failure of the Authority to comply with the non-debt service and operating expense rate will not constitute an Event of Default.

For purposes of the Rate Covenant, at any time, (i) Revenues include any amounts withdrawn or expected to be withdrawn thereafter in any Fiscal Year from the Rate Stabilization Fund which were either (a) on deposit therein prior to such

Fiscal Year or (b) proceeds of Bonds or Subordinated Indebtedness issued to fund the Shoreham Credits, (ii) Revenues do not include any proceeds from the sale of LIPA assets or proceeds of insurance, and (iii) Debt Service, Parity Contract Obligations, PILOTs and other Required Deposits will not include any amounts expected by the Authority to be paid from any funds, other than Revenues, reasonably expected by the Authority to be available therefore (including without limitation the anticipated receipt of proceeds of sale of Bonds or Subordinated Indebtedness, or moneys not a part of the Trust Estate, expected by the Authority to be used to pay the principal of Bonds, Parity Contract Obligations, Outstanding LIPA Unsecured Debt or Subordinated Indebtedness, other than proceeds of Bonds or Subordinated Indebtedness issued to fund the Shoreham Credits), which expectations, if included in a resolution of the Authority or Certificate of an Authorized Representative, will be conclusive.

In addition, the Authority covenants in the Resolution to review, or cause LIPA to review, the adequacy of System fees, rates, rents, charges and surcharges at least annually. Except to the extent required by law, the Authority covenants not to permit LIPA to furnish or supply or cause to be furnished or supplied any product, use or service of the System free of charge (or at a nominal charge) to any person, firm or corporation, public or private, unless the Authority determines that other adequate consideration has been, or is expected to be, received in connection therewith, and to cause LIPA to enforce or cause to be enforced the payment of any and all amounts owing to LIPA for use of the System in accordance with the Financing Agreement.

Additional Bonds Test

There is no limit or test for the issuance of additional Bonds under the Resolution.

Subordinated Indebtedness; Acceleration of Subordinated Indebtedness

There is no limit or test for the issuance of Subordinated Indebtedness under the Resolution.

Subordinated Indebtedness is subject to acceleration prior to maturity upon the occurrence of certain events.

Such accelerations would not cause an acceleration of the Bonds or affect the priority of the application of Revenues to the payment of the Bonds. In such an event any amounts then available under the Resolution after the payment of Operating Expenses and Debt Service on any Bonds and Parity Contract Obligations could be required to be applied to the payment of the Subordinated Indebtedness.

LONG ISLAND POWER AUTHORITY

The Authority is a corporate municipal instrumentality and a political subdivision of the State of New York created by the Act. LIPA is a wholly-owned subsidiary of the Authority, which was formed and exists under the Business Corporation Law of the State of New York.

The Act

Pursuant to the Act, the Authority has all of the powers necessary or convenient to carry out the purposes and provisions of the Act including, without limitation, to (i) acquire real or personal property; (ii) enter into agreements or contracts consistent with the exercise of its powers; (iii) borrow money, issue notes, bonds or other obligations and secure its obligations by mortgage or pledge of its property; (iv) create or acquire one or more wholly-owned subsidiaries; (v) set its rates and charges; and (vi) make inquiries, investigations and studies necessary to carry out its objectives.

The Authority may enter into agreements to purchase power from the Power Authority of the State of New York ("NYPA"), the State, any State agency, any municipality, any private entity or any other available source (excluding Canada unless negotiated through NYPA) at such price as may be negotiated. The Authority is specifically authorized to provide and maintain generating and transmission facilities and enter into management agreements for the operation of all or any of the property or facilities owned by it. Finally, the Authority may transfer any of its assets to one or more private utilities or municipal gas or electric agencies for such consideration and upon such terms as the Authority may determine to be in the best interest of the gas and electric ratepayers in the Service Area. The Act permits the Authority to file a petition under Chapter 9 of Title 11 of the United States Bankruptcy Code or take other similar action for the adjustment of its debts. LIPA as a business corporation may file a petition under Chapter 7 or Chapter 11 of Title 11 of the United States Bankruptcy Code.

The Act requires that any resolution authorizing the issuance of bonds contain a covenant by the Authority that it will at all times maintain rates, fees or charges sufficient to pay, and that any contracts entered into by the Authority for the sale, transmission or distribution of electricity shall contain rates, fees or charges sufficient to pay, the costs of operation and maintenance of the facilities owned or operated by the Authority, PILOTs, renewals, replacements and capital additions, the principal of and interest on any obligations issued pursuant to such resolution as they become due and payable, and to establish or maintain any reserves or other funds or accounts required or established by or pursuant to the terms of such resolution.

Trustees

Pursuant to the LIPA Reform Act, on January 1, 2014 the membership of the Board of Trustees was reduced from fifteen to nine, five of whom are appointed by the Governor, two by the Majority Leader of the New York State Senate and two by the Speaker of the New York State Assembly. The chair is appointed by the Governor. In addition, the LIPA Reform Act requires that all such members have relevant utilities, corporate board or financial experience.

Pursuant to the Act, the Trustees and the officers of the Authority are not subject to any personal or civil liability resulting from the exercise, carrying out or advocacy of any of the Authority's purposes or powers. Trustees are entitled to reimbursement for reasonable expenses in the performance of their duties. The By-laws and other instruments of the Authority and LIPA provide for the indemnification of the Trustees, officers and employees of the Authority and the directors, officers and employees of LIPA. Pursuant to the Public Authorities Law and as set forth in the Authority's By-laws, five (5) Trustees of the Authority constitute a quorum for the transaction of any business or the exercise of any power of the Authority and the Authority only has the power to act by a vote of five (5) Trustees.

Management and Operation of the System

Administrative Services Agreement. The Authority and LIPA are parties to an Administrative Services Agreement (the "Administrative Services Agreement"), which sets forth the terms and conditions under which the Authority will provide personnel, personnel-related services and other services (including management, supervisory, payroll and other services) necessary for LIPA to provide electric service in the Service Area. Except for services of the type and nature provided to LIPA by outside independent agents, attorneys and consultants and for any other services provided under agreements approved by the Authority, LIPA will meet its personnel and personnel-related needs exclusively through the Administrative Services Agreement. The Administrative Services Agreement may be amended from time to time to reflect the changing needs of the Authority and LIPA.

Under the Administrative Services Agreement, the services provided by the Authority include, but are not limited to: (i) performance of LIPA's duties and obligations and enforcing its rights under any existing and future contracts between LIPA and any other person; (ii) coordination of services for which LIPA contracts; (iii) coordination of negotiations and studies authorized by LIPA for any project for the supply of power and energy or the provision of transmission capacity to LIPA; (iv) reviewing invoices; (v) disbursement of all funds of LIPA; (vi) preparation of construction and operating budgets on behalf of LIPA; (vii) provision or coordination of all other accounting matters and preparation of billings to, and collection from, LIPA's customers; (viii) coordination of all other matters arising under any agreements relating to any project that LIPA might undertake; (ix) securing information from any persons required to fulfill LIPA's obligations under any agreements arising from the Administrative Services Agreement, the agreements referred to in clauses (i) and (viii), and any project LIPA might undertake; (x) provision or coordination of rate matters; and (xi) provision or coordination of such other services as LIPA determines are required to carry out its business in an economical and efficient manner.

Board Leadership and Senior Management. As described above, the LIPA Reform Act authorized the reformulation of the relationship between the Authority and PSEG Long Island so that PSEG Long Island assumes more responsibility related to operations in the Service Area and LIPA's oversight role is maintained consistent with its fiduciary, financial and related obligations. Consistent with this approach, the LIPA Reform Act requires that staffing at the Authority be kept at levels only necessary to ensure that the Authority is able to meet obligations with respect to its bonds and notes and all applicable statutes and contracts, and to oversee the activities of PSEG Long Island. The Authority's staff has been reduced from approximately 90 positions to approximately 50 positions as of November 1, 2014. The Authority expects to further reduce staff to approximately 40 positions in 2015 as power supply and fuel management services are transitioned to a PSEG Long Island affiliate pursuant to the OSA.

The present Board leadership, officers, and senior management of the Authority, with information covering their background and experience, are listed below.

Ralph V. Suozzi is the Chairman of the Authority. A former business executive with more than 30 years' experience in corporate leadership, including CBS Television and American Express, Mr. Suozzi most recently served as Mayor of the City of Glen Cove, from 2006-2013 and is currently the Village Administrator for the Incorporated Village of Garden City. As mayor, Mr. Suozzi managed 20 boards and more than 500 employees and volunteers. During this period, Mr. Suozzi spearheaded and sustained a financial turnaround at the City during a global recession, reducing an inherited deficit by 79% and cutting debt 21%. Mr. Suozzi was honored by the Nassau County AHRC Foundation for his humanitarian efforts, the Nassau County Chapter of the NYS Society of Professional Engineers and the Long Island Contractors Association for his focus on infrastructure improvements, and The North Shore Wildlife Sanctuary for environmental achievements relating to the rehabilitation of Dosoris Pond. Other achievements include Vision Long Island & NYCOM Award Winner, expert panelist for Sustainable Long Island, selected advisor to the New York State Conference of Mayors, and recognition by the Long Island Planning Council, the Long Island Index, and

the New York League of Conservation Voters. Mr. Suozzi is a graduate of the Energeia Partnership, a think-tank organization focused on challenges facing Long Island leaders from a variety of businesses and disciplines. Mr. Suozzi is also a graduate of Long Island University - CW Post Center.

John D. McMahon, Chief Executive Officer, joined LIPA in April 2013 and has 38 years of utility experience. Mr. McMahon spent the bulk of his career at Consolidated Edison, Inc. (“Con Ed”), where he served in various management positions including Senior Vice President and General Counsel; Executive Vice President; and President, Chief Executive Officer, and member of board of directors of Con Ed’s wholly owned subsidiary, Orange & Rockland Utilities, Inc., an electric and gas utility based in Pearl River, New York. Mr. McMahon has served on various corporate boards, including Puget Sound Energy, Inc., Duquesne Light Co., and Chairman of the Board of Presidential Life Corp, and as a senior advisor at Macquarie Infrastructure and Real Assets. Mr. McMahon also serves on the boards of New York Law School and the Fresh Air Fund. Mr. McMahon received degrees from Manhattan College and New York Law School.

Thomas Falcone, Chief Financial Officer, joined LIPA in January 2014. Mr. Falcone oversees the financial activities of the Authority, including accounting, budgeting, debt issuance, financial reporting, investor relations, rates, risk management, strategic and financial planning, and treasury. Prior to joining LIPA, Mr. Falcone spent 13 years as an investment banker and advisor engaged in municipal and utility finance. Mr. Falcone received a Bachelor of Science in Economics from the Wharton School of the University of Pennsylvania.

Bobbi O’Connor, Acting General Counsel and Secretary, joined the Authority in November 2013 in the position of Assistant General Counsel. In June 2014, the Board promoted her to Deputy General Counsel and appointed her Acting General Counsel and Secretary. Prior to joining the Authority, Ms. O’Connor spent 14 years as a corporate lawyer at several national law firms in New York City. Ms. O’Connor’s practice focused primarily on corporate finance and securities law matters, with a particular emphasis on utility clients and underwriters in capital markets transactions. Ms. O’Connor received a Bachelor’s degree in Psychology from Loyola University of Maryland and a law degree from Hofstra University.

Rick Shansky, Managing Director of Contract Oversight, directs the Authority’s oversight of its primary contractor PSEG Long Island, as well as its contractors engaged in power and fuel procurement. Mr. Shansky also manages the Authority’s participation in wholesale power markets. Mr. Shansky has over 30 years of electric utility experience and has held a number of management positions at LIPA since joining the Authority in 2008. Previously, Mr. Shansky held positions at Con Ed and LILCO in the areas of energy management, resource planning, fuel and purchased power, and generation planning. Mr. Shansky has a Bachelor of Science in Electrical Engineering from Rensselaer Polytechnic Institute and a Master of Science in Energy Management from the New York Institute of Technology. Mr. Shansky is also a licensed Professional Engineer in the State of New York.

Jim Parmelee, Managing Director of Power Supply Long Island, manages the entity responsible for electric resource planning, fuel and power purchases, and power project development. Mr. Parmelee has 36 years of electric utility experience and has held a number of management positions at LIPA since joining the Authority in 2000. Prior to joining the Authority, he was a Director with an electric utility management consulting firm, where he worked extensively on the 1998 LILCO acquisition. Previously, Mr. Parmelee was Chief Electric Planner for the New York State Energy Office. Mr. Parmelee has a Bachelor of Science and a Master of Science in Nuclear Engineering from Rensselaer Polytechnic Institute.

Kenneth Kane, Managing Director of Finance and Budgeting, joined the Authority in 1999 as Director of Financial Reporting and served as Controller for 12 years prior to being appointed Managing Director of Finance and Budgeting in 2013. In his current position, Mr. Kane is responsible for the finance and budgeting operations of the Authority as well as efforts to obtain grants for storm recovery and hardening. Mr. Kane has 30 years of experience in the electric utility industry beginning with LILCO in 1984. Prior to joining LILCO, Mr. Kane held positions at Mitchell Hutchins Institutional Investors and Ernst & Young LLP. Mr Kane is a Certified Public Accountant in the State of New York, a member of the American Institution of Certified Public Accountants, and holds a B.A. from Pace University and an M.B.A in Finance from Hofstra University.

Donna Mongiardo, Controller, joined the Authority as Accounting Manager in 2001 and has also served in the positions of Director of Accounting and Assistant Controller prior to taking her current position as Controller in 2013. Before joining the Authority, Ms. Mongiardo was with PriceWaterhouseCoopers, where she worked on the LILCO acquisition in 1998. Ms. Mongiardo is a Certified Public Accountant in the State of New York and holds a Bachelor’s degree from Hofstra University.

THE SYSTEM

Service Area

The Service Area consists of Nassau and Suffolk Counties in Long Island (with certain limited exceptions) and a small portion of Queens in New York City known as the Rockaways. According to Bureau of Labor Statistics data, the population of the

Service Area (excluding the Rockaways portion) was approximately 2.9 million as of December 31, 2013, which represents very modest growth since December 31, 2008. As of December 31, 2013, the Authority had approximately 1.1 million customers in the Service Area, which was relatively stable as compared to December 31, 2008.

Long Island is a significant regional economy that benefits from its proximity to Manhattan, but also generates its own income, employment, and regional output. Long Island’s assets include a highly skilled labor force, close proximity to New York City, 19 colleges and universities and core research institutions, such as Brookhaven National Laboratory, Cold Spring Harbor Laboratory, and the technology and science developmental centers at Stony Brook and Farmingdale Universities that specialize in the areas of biotechnology, computer sciences, wireless and internet technologies, and energy. Long Island also has a highly desirable suburban life style that attracts many individuals to live, work and vacation within the area.

The Long Island economy benefits from high average personal income and a service-based economy. According to recent data published by the U.S. Bureau of the Census and Bureau of Labor Statistics, the Long Island median household income is substantially above the national average.

The table below shows Long Island’s unemployment rate as compared with the national and State unemployment rates for the periods shown:

Service Area Unemployment			
<u>September</u>	<u>US</u>	<u>NY</u>	<u>Nassau-Suffolk</u>
2009	9.5%	8.6%	7.5%
2010	9.2%	8.3%	7.2%
2011	8.8%	8.3%	7.1%
2012	7.6%	8.1%	7.0%
2013	7.0%	7.4%	5.9%
2014	5.7%	5.6%	4.8%

Source:

Bureau of Labor Statistics: <http://www.bls.gov/data/> (not seasonally adjusted data)

In the year ending December 31, 2013, approximately 52% of LIPA’s annual retail revenues were received from residential customers, 45% from commercial and industrial customers and 3% from street lighting, public authorities and certain others. The largest customer in the Service Area (the Long Island Rail Road) accounted for less than two percent of total sales and less than two percent of revenue. In addition, the ten largest customers in the Service Area accounted for approximately seven percent of total sales and less than seven percent of revenue.

The Transmission and Distribution System

The T&D System is an integrated electric system consisting of overhead and underground facilities, equipment, land parcels, easements, contractual arrangements and other assets used to provide the transmission and distribution of electric capacity and energy to and within the Service Area. The T&D System includes seven transmission interconnections that are owned in part or under contract that link the T&D System to utilities outside the Service Area.

Transmission Facilities

LIPA’s transmission facilities provide for the delivery of capacity and energy from the transmission interconnections and on-Island generating stations to LIPA’s electric distribution system. As of December 31, 2013, the transmission system consists of approximately 1,350 miles of overhead and underground lines with voltage levels ranging from 23 kilovolts (“kV”) to 345 kV.

The on-Island transmission system has been constructed following standards similar to those employed by other major electric utilities in the Northeast and includes wood poles, steel poles, and lattice steel towers. Many of the existing transmission structures support distribution circuits and/or connections for telephone, cable television, or fiber optics.

Thirty-nine transmission substations are in service and utilized on the T&D System. The combined capability of these substations is approximately 8,798 million volt-amperes (“MVA”). The transmission system includes transformation equipment at 13 generating sites that is used to step up the generation voltage to transmission voltage levels. With the exception of certain facilities at various generating facilities (e.g., auxiliary and starting transformers), transformation equipment is owned by LIPA.

Distribution Facilities

The distribution system is comprised of 13 kV and 4 kV facilities and is comprised of a combination of overhead and underground equipment. There are currently 151 substations throughout the Service Area that step the voltage down from

transmission to distribution levels. These distribution substations have a combined transformation capability of approximately 8,518 MVA. As of December 31, 2013, the distribution system also includes approximately 14,000 circuit miles of overhead and underground line (9,000 overhead and 5,000 underground), and approximately 185,000 line transformers with a total capacity of approximately 12,275 MVA. Approximately 43.5 percent of the poles on which LIPA’s distribution facilities have been installed are owned by Verizon Communications and used by LIPA pursuant to a joint-use agreement.

Reliability

LIPA and PSEG Long Island undertake programs intended to maintain and/or improve the reliability and quality of electric service within the Service Area. For the distribution system, this program is focused on several major areas: (i) circuit reconfiguration and reinforcement; (ii) pole replacement; (iii) system automation; (iv) tree trimming; (v) targeted system enhancements; and (vi) circuit conversion and reinforcement projects to serve new customer loads. For the transmission system, the improvement program is focused on: (i) transmission system reliability; (ii) substation reliability improvements; (iii) transmission breaker replacements; and (iv) structure inspection program. These program elements are a key part of efforts to achieve and maintain good results in limiting both the frequency and duration of customer outages. Also see “SUPERSTORM SANDY – Grants and Insurance Proceeds Related to Storm Restoration and Utility Hardening on Long Island.”

Statistics for the 1999 through December 2013 period that exclude outages due to major storms as defined by PSC indicate that LIPA’s system-wide frequency and duration of outages were better than average for similar overhead New York State utilities. Those statistics are consistent with PSC standards.

The average period between interruptions for a customer served by LIPA during 2013 was approximately 16.9 months. For those LIPA customers affected by an interruption during 2013, the average length of interruption was approximately 68 minutes. These statistics compare to an average time between interruption of 17.7 months and an average interruption of approximately 74.7 minutes for a LIPA customer during 2012.

Over the five-year period 2009 through 2013, LIPA’s customers experienced an average of 16.7 months between interruptions and average interruption times of 69.6 minutes. Based on data provided by the State for all State utilities (other than Consolidated Edison Company of New York, Inc. (“Con Edison”)), the average time between interruptions during this five-year period was 12.4 months and the average duration of an interruption was 117.2 minutes.

Long Island experiences seasonal conditions typical of the northeast United States. Summers are usually hot with high temperatures in excess of 90°F. Winters include snow and icing conditions that can be damaging to overhead power lines. In addition, the Service Area experiences severe storms, including hurricanes, which can be particularly damaging due to Long Island’s coastal location. For the year ended December 31, 2013, LIPA’s Storm CAIDI (Customer Average Interruption Duration Index during storms) metric was approximately 155 minutes.

Transmission Interconnection Facilities

The geographic location of the Service Area restricts the number of transmission interconnections between LIPA’s T&D System and other systems in the region. Currently, seven major transmission lines connect the T&D System with the Con Edison system to the west and with Connecticut Light and Power (“CL&P”) and United Illuminating Company to the north and Jersey Central Power & Light (“JCP&L”) to the southwest. These interconnections are summarized in the table below.

Service Area Transmission Interconnections

Name	Off System Terminal Locations	Interconnecting Utility	Voltage Level²
Dunwoodie to Shore Road (“Y-50”).....	Westchester County, NY	Con Edison ¹	345 kV
East Garden City to Sprain Brook (“Y-49”).....	Westchester County, NY	NYPA ¹	345 kV
Northport to Norwalk Harbor Cable (“NNC”).....	Norwalk, CT	CL&P ^{1,3}	138 kV
Jamaica to Lake Success.....	Queens, NY	Con Edison ¹	138 kV
Jamaica to Valley Stream.....	Queens, NY	Con Edison ¹	138 kV
Shoreham to East Shore (“Cross Sound Cable”).....	New Haven, CT	United Illuminating Company	138 kV ⁴
Sayreville to Levittown (“Neptune Cable”)	Sayreville, NJ	JCP&L ⁵	345 kV ⁶

1 These utilities own the portion of the interconnections not owned by LIPA.
2 Kilovolt or “kV.”
3 CL&P = Connecticut Light and Power. CL&P is the wholly-owned operating subsidiary of Northeast Utilities.
4 This cable carries high voltage direct current, which is converted and delivered to the LIPA system at 138 kV.
5 JCP&L = Jersey Central Power & Light. JCP&L is a wholly-owned operating subsidiary of First Energy.
6 This cable carries high voltage direct current, which is converted and delivered to the LIPA system at 345 kV.

The Con Edison cable extending approximately 18 miles from Dunwoodie to Shore Road (the “Y-50 Cable”) was placed in operation in August 1978 and is jointly owned by LIPA and Con Edison. The cable is currently operating at full capacity. Power is wheeled by Con Edison across its share of the Y-50 Cable and delivered to Con Edison via the two 138 kV cables to Jamaica.

The East Garden City to Sprain Brook interconnection (the “Y-49 Cable”), installed in 1991, is another major transmission interconnection. The Y-49 Cable is comprised of submarine and land-based portions totaling approximately 23 miles. This line is owned entirely by NYPA; however, most of the capacity of the Y-49 Cable is used by LIPA under the terms of a contract with NYPA. The Y-49 Cable has generally performed well with only a few instances of outages due to terminal equipment failures and one interruption due to an anchor dragging across the submerged cable.

The cable from Northport to Norwalk Harbor (the “NNC”), which was installed in 2008 to replace the original cable installed in 1969, extends approximately twelve miles under the Long Island Sound from the Northport generating station in Suffolk County, New York to Norwalk Harbor, Connecticut. LIPA owns that portion of the line from Northport to the New York-Connecticut state boundary. The replacement NNC began full commercial operation in December 2008. One of the three new cable bundles failed on May 20, 2009. Since the installation was designed with a backup cable, power between Northport and Norwalk Harbor continued to flow over the remaining two cables until the repairs were completed on April 26, 2011. The cost of the repairs was covered by the warranty on the installation.

The cable from Shoreham to New Haven (the “Cross Sound Cable” or “CSC”) was constructed pursuant to a firm transmission capacity purchase agreement (the “CSC Agreement”) entered into between LIPA and Cross Sound Cable Company, LLC (“CSC LLC”) in 2000 pursuant to which LIPA agreed to purchase up to 330 megawatts of transmission capacity. The CSC is owned by CSC LLC. The CSC Agreement, as amended, expires in 2032. The CSC became operational in June 2004.

In September 2005, LIPA entered into a 20-year firm transmission capacity purchase agreement with Neptune Regional Transmission System LLC (“Neptune”) to permit LIPA to import power from New Jersey over an undersea high-voltage transmission cable capable of carrying 660 megawatts of electricity which was constructed by Neptune. The cable is owned by Neptune, runs from Sayreville, New Jersey under the Atlantic Ocean and connects with LIPA at its Newbridge Road substation in Levittown. The cable became operational in July 2007.

Capital Improvement Plan

Capital expenditures for 2013 were approximately \$360 million, and averaged approximately \$285 million over the past five years. Such expenditures included reliability enhancements, capability expansion, new customer connections, facility replacements and public works. Capital expenditures for 2014 approved budget are approximately \$438 million. LIPA experienced a substantial increase in 2013 over prior year’s average spending primarily due to expenditures related to the transition to the new operating services business model effective January 1, 2014. The continued increase in 2014 over years prior to 2013 results primarily from information technology projects related to the transition to the new operating services business model, as well as additional reliability project expenditures, particularly substation equipment improvements. In addition, the 2014 capital expenditure program provides for a continuation of the historical programs to maintain reliability and quality of electric service, as well as expenditures for capability expansion, new customer connections, facility replacements, reliability enhancements and public work projects that were comparable to historical levels. LIPA’s 18 percent share of capital expenditures for NMP2 during the period 2009 through 2013 averaged approximately \$30 million annually for plant modifications including the power uprate and nuclear fuel purchases, and were \$32.4 million for 2013.

The Authority released a proposed capital budget for calendar year 2015 on November 17, 2014, which is expected to be adopted, as modified by the Authority’s Board of Trustees, at a meeting scheduled for December 17, 2014. The proposed capital budget totals \$677.8 million, which is an increase of \$239.9 million over the approved capital budget for 2014. The increase is primarily from \$176 million to fund a storm hardening program paid for by a \$730 million grant secured during 2014 from FEMA. The FEMA grant is expected to be sufficient to harden between 300 and 400 of the worst performing mainline circuits on the Authority’s electric grid over the next several years. The budget continues at an elevated level of spending on information technology projects related to the transition to the new operating services business model and also includes \$63 million in additional funding for transmission and distribution projects over the 2014 approved budget.

Loads

The Service Area is characterized by customer usage patterns and weather conditions that result in peak usage during the summer and relatively low annual load factors. The peak usage for 2011 reached approximately 5,915 megawatts (“MW”) for the Long Island Control Area (the Service Area together with three municipalities within the Service Area served by their own

utilities) on July 22, 2011, of which LIPA accounted for 5,771 MW. This was a new all-time record peak for the Long Island Control Area.

The table below shows LIPA’s peak demand as experienced and after adjustments for weather-normalization, customer outages and emergency demand relief for the period 2010 through 2014.

<u>Year</u>	<u>Peak Demand (MW)</u>	<u>Weather Normalized (MW)</u>
2010	5,719	5,303
2011	5,771	5,285
2012	5,333	5,332
2013	5,602	5,334
2014	4,902	5,386

The service provider prepares load growth forecasts annually. PSEG Long Island’s estimate of annual peak demand within the Service Area shows annual compound growth of approximately 1.6 percent over the five year period 2015 to 2019. This growth rate would increase LIPA’s summer peak demand, prior to the effects of cogeneration, NYPA supplied load and demand side management, to approximately 6,131 MW in 2019 on a weather-normalized basis. The service provider updates its estimates for summer peak demand in the fourth quarter of each year.

Power Supply

LIPA currently expects to rely on existing power supply resources, additional purchases, energy efficiency and demand side management programs to meet its capacity and energy requirements during the 2014 through 2018 period. During 2013, LIPA’s 18% interest in NMP2 and its rights to the capacity of the GENCO Generating Facilities provided approximately 3,903 MW of generating capacity. Purchases, including on-Island independent power producers (“IPPs”) and off-Island purchases from NYPA and other suppliers, provided approximately 2,111 MW of additional capacity. In aggregate, these resources provided approximately 6,014 MW in 2013.

Current reliability rules applied by the NYISO require LIPA to supply at least 107 percent of its projected summer 2014 peak load in satisfaction of its Locational Capacity Requirement (“LCR”) from on-Island installed capacity (“ICAP”) resources (the “On-Island Requirement”).

In February 2010, LIPA’s Board of Trustees approved its Electric Resource Plan for the period 2010-2020. The Electric Resource Plan was intended to provide a blueprint for Long Island’s electric energy future and factors in changes in the energy market and technology since the last plan was prepared. The Electric Resource Plan looked at various resource alternatives including, among others, energy efficiency, renewable energy resources, and repowering alternatives. In addition, in 2009 LIPA initiated its \$924 million, 10-year energy efficiency program, Efficiency Long Island (“ELI”), which is designed to reduce demand by 500 MW. Through December 31, 2013, the ELI program is slightly behind its original goal for the first five years (196 MW compared to a goal of 212 MW; or 92.4% of goal).

As part of its overall evaluation of its power supply resources, including the scheduled expiration of the Original PSA in May 2013, the Authority issued a request for proposals in August 2010 to provide the Authority with electric capacity, energy, and ancillary services of up to 2,500 MW from new generation and/or transmission resources both on-Island and off-Island. The Authority received 45 proposals for potential projects from 16 different entities. Following a review process, in October 2012, the Authority’s Board approved the selection of two finalists for negotiation of a 20-year power purchase agreement: Caithness proposed to develop, operate, and own a new 706 MW natural gas power plant in Yaphank (“Caithness II”); and J-Power USA Development Co. Ltd. proposed to develop, operate, and own a new 377 MW natural gas power plant in Shoreham, NY. In July 2013, following concurrent negotiations, management announced the selection of the Caithness II project for several reasons, including cost, size, and generally acceptable contract terms and conditions.

However, with the pending transition of power supply planning responsibilities to PSEG Long Island in January 2015, the Authority asked PSEG Long Island to review the need for Caithness II. In August 2014, PSEG Long Island recommended delaying the decision on whether to proceed with a power purchase agreement for the Caithness II facility until the completion of a new Integrated Resource Plan (“IRP”) in 2015. The IRP will update LIPA’s 2010 plan and examine LIPA’s resource options in light of ongoing industry developments, including increased interest in distributed energy resources.

The PSA for the GENCO power plants required LIPA and National Grid to jointly study the potential repowering of the E.F. Barrett and Port Jefferson steam units starting in 2013 and provided the opportunity for LIPA to request study of other GENCO units. LIPA and National Grid initiated the study of the steam units and the E.F. Barrett combustion turbines in 2013. In

2014, in accordance with the terms of the PSA, LIPA received a proposal for the repowering of E.F. Barrett steam units and combustion turbines with a target installation date of 2019. The Port Jefferson steam unit study is targeted for completion in 2016. Both the E.F. Barrett and Port Jefferson repowering options will be studied in the 2015 IRP.

In October 2013, the Authority issued two requests for proposals: (i) one for New Generation, Energy Storage, and Demand Response Resources seeking to replace old and inefficient peaking resources, procure resources to defer costly transmission upgrades on the East End of Long Island, and install up to 150 MW of Energy Storage resources that would assist black start operations and complement planned increases in renewable resources; and (ii) a second for up to 280 MW of New, On-Island, Renewable Capacity and Energy. The Authority received about 40 responses to each of these proposals, which have been narrowed to a list of semi-finalists. In the Renewable RFP, the Authority has sent letters requesting a best-and-final offer to the remaining participants in an effort to better define price, terms and conditions. An evaluation and recommendation regarding the Renewable RFP will be presented to the Board on December 17, 2014. After evaluation of the responses to the Generation, Energy Storage and Demand Response RFP by the Authority and PSEG Long Island, on December 2, 2014 it was determined that none of the proposals submitted will be selected. It is currently expected that PSEG Long Island will evaluate and address any such resource needs in coordination with the above-described IRP process.

In June 2012 the Board of Trustees adopted a solar Feed-In Tariff (“Solar FIT I”) for up to 50 MW of solar projects that would be connected to the Authority’s electric grid. In October 2013 the Board of Trustees adopted a second Solar Feed-In Tariff (“Solar FIT II”) for up to 100 MW and a non-solar Feed-In Tariff (“Other FIT”) for up to 20 MW. Solar FIT I awarded approximately 50 MW of projects. The PPAs have been signed and the projects are in various stages of commercial operation or development. Solar FIT II evaluation has been completed, approximately 100 MW of projects have been selected, and PPAs are in the process of being finalized. Evaluation of Other FIT proposals is nearing completion and selection is expected to occur in the near future.

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Existing Capacity and Energy Resources

The table below sets forth historical annual peak demands and energy requirements for the period 2009 through 2013.

Historical Loads and Resources					
	2009	2010	2011	2012	2013
Annual Peak Demand (Summer) (MW) ¹	5,034	5,719	5,771	5,333	5,602
Capacity (MW) ²					
Nuclear ³	206	206	225	224	224
Purchased Capacity:					
GENCO					
Steam ⁴	2,707	2,707	2,699	2,354	2,366
Other ⁴	1,371	1,367	1,311	1,313	1,313
Other Purchased Capacity ⁵	1,618	2,055	2,092	2,104	2,111
Total Purchased Capacity	5,696	6,128	6,102	5,771	5,790
Total Capacity	5,902	6,334	6,327	5,995	6,014
Annual Reserve Margin:					
MW ⁶	868	615	556	662	412
Percent	17.2%	10.8%	9.6%	12.4%	7.4%
Energy (MWh)					
Total Retail Energy Requirements ⁷	20,727,286	21,806,828	21,583,426	21,312,015	21,345,713
Generating Resources:					
Nuclear ³	1,785,593	1,590,821	1,707,140	1,470,928	1,954,492
Purchased Energy:					
GENCO					
Steam	4,900,602	5,883,018	5,472,453	5,002,617	4,564,959
Other	193,397	235,331	189,461	257,264	258,540
Other Purchased Energy ⁵	13,848,694	14,098,658	14,214,372	14,582,206	14,567,722
Total Purchased Energy	18,942,693	20,217,007	19,876,286	19,842,087	19,391,221
Total Energy	20,728,286	21,807,828	21,583,426	21,313,015	21,345,713

1 Includes LIPA retail sales and Long Island Choice. BNL Hydro excluded.

2 Summer Rating.

3 LIPA's 18 percent share of NMP2.

4 Values from National Grid.

5 Includes on- and off-Island resources under contract at time of peak.

6 Equal to Capacity less Demand.

7 Amounts shown for 2009 through 2013 include sales for resale, Power for Jobs (program ended June 2012), Long Island Choice and Grumman Campus; BNL Hydro included beginning 2011.

Power Supply Agreement

Pursuant to the PSA, GENCO supplies LIPA with all of the capacity of the GENCO Generating Facilities. These steam, combustion turbine, and internal combustion generating units operate using oil, natural gas, or both. The tables below provide a summary description of the GENCO Generating Facilities and historical generation levels for these facilities for the 2009 through 2013 period. The decline in generation from the GENCO Generating Facilities reflects the displacement by more economic sources of generation, including off-Island purchases over the newer submarine transmission cables. The PSA provides for approximately 3,700 MW on-Island capacity for the term of the agreement and also provides LIPA with the option to ramp down, retire and/or potentially re-power all or any portion of the PSA units.

Under the PSA, LIPA pays GENCO certain fixed and variable rates for the generating capacity supplied by GENCO. LIPA and GENCO have agreed to a formula for the adjustment of these charges through the term of the PSA. These rates are subject to the jurisdiction of FERC. The current rates were accepted for filing by FERC in May 2013. GENCO has the right to request a rate reset under the PSA upon the occurrence of certain conditions, but no sooner than 2018.

GENCO's annual capital expenditures are subject to approval by LIPA. LIPA pays for approved GENCO capital expenditures through the depreciation accruals and return on investments included in the rates for capacity charged under the PSA. The PSA also provides for certain penalties related to guaranteed performance levels by GENCO, including unforced capacity (i.e., capacity adjusted for forced outages) and efficiency levels (heat rate) of the generating facilities.

GENCO Generating Facilities Summary Description

Generating Facility	Nameplate Rating (MW) ¹	Summer DMNC Rating (MW) ²	Fuel	Year of Commercial Operation	County
Steam Turbine:					
E.F. Barrett 1,2	350	392	Gas, Oil	1956, 1963	Nassau
Far Rockaway 4 ³	0	0	Gas, Oil	Retired	Queens
Glenwood 4,5 ³	0	0	Gas	Retired	Nassau
Northport 1,2 4	1,125	1,182	Gas, Oil	1967, 1968, 1977	Suffolk
Northport 3	375	399	Oil	1972	Suffolk
Port Jefferson 3,4	350	393	Gas, Oil	1958, 1960	Suffolk
Total Steam Turbine	2,200	2,366			
Combustion Turbine:					
E.F. Barrett 1-6, & 8-12	311	279	Gas, Oil	1970-1971	Nassau
Wading River ⁴	242	234	Oil	1989	Suffolk
East Hampton 1	21	18	Oil	1970	Suffolk
Glenwood 1-3 ⁴	126	113	Oil	1967-1972	Nassau
Holtsville 1-10 ⁴	567	510	Oil	1974-1975	Suffolk
Northport GT	16	13	Oil	1967	Suffolk
Port Jefferson GT	16	12	Oil	1966	Suffolk
Shoreham 1-2	72	63	Oil	1966, 1971	Suffolk
Southampton 1	12	9	Oil	1963	Suffolk
Southhold 1	14	7	Oil	1964	Suffolk
West Babylon 4	52	49	Oil	1971	Suffolk
Total Combustion Turbine	1,449	1,307			
Internal Combustion:					
East Hampton 2-4	6	6	Oil	1962	Suffolk
Montauk 2-4 ⁵	0	0	Oil	Retired	Suffolk
Total Internal Combustion	6	6			
Total	3,655	3,679			

1 Source: LILCO's 1996 Annual Report to the New York Public Service Commission.
2 DMNC Values applicable for the 2013 Summer Capability Season. Values based upon 2013 Capacity Filing with the New York Independent System Operator.
3 Retired 7/1/2012.
4 Includes increase in DMNC values associated with Power Recovery Equipment.
5 Retired 5/1/2013.

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**Historical GENCO Generation
(GWH)**

Calendar Year

Generating Facility¹	2009	2010	2011	2012	2013
Steam Turbine:					
E.F. Barrett 1,2	916	1,081	971	1,011	1,025
Far Rockaway 4.....	101	190	344	151	(0)
Glenwood 4,5	65	152	270	151	(0)
Northport 1-4.....	3,263	4,030	3,470	3,301	3,194
Port Jefferson 3,4.....	556	430	418	389	346
Total Steam Turbine.....	4,901	5,883	5,472	5,003	4,565
Combustion Turbine:					
E.F. Barrett 1-12.....	78	68	93	136	129
Wading River	45	65	35	53	43
East Hampton 1	13	13	8	7	7
Glenwood 1-3.....	1	2	1	4	3
Holtsville 1-10.....	46	75	42	51	66
Northport GT.....	0	0	0	0	0
Port Jefferson GT	0	-	0	0	0
Shoreham 1-2	1	3	1	1	3
Southampton 1	2	3	2	0	2
Southold 1	2	2	1	1	2
West Babylon 4.....	0	1	4	2	2
Total Combustion Turbine ² ...	188	231	187	255	257
Internal Combustion:					
East Hampton 2-4.....	2	2	1	1	2
Montauk 2-4.....	3	2	1	1	0
Total Internal Combustion.....	5	4	2	2	2
Total.....	5,094	6,117	5,662	5,260	4,823

¹Source: National Grid.

²The Output of some units is too small to show, but is included in the Totals.

Nine Mile Point Two Nuclear Station

LIPA owns an 18 percent interest (approximately 233 MW) in NMP2. NMP2 is one of two boiling-water reactor nuclear units at the Nine Mile Point nuclear power station located in Oswego, New York. NMP2 began commercial operation in April 1988 under a Nuclear Regulatory Commission (“NRC”) license that expires in 2046. See “CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Nuclear Plant Matters” in this Part 2.

The other 82 percent interest in NMP2 is owned by Constellation Energy Nuclear Group, LLC (“Constellation”), a company jointly owned by Exelon Corporation and EDF. Constellation is responsible for operating NMP2 under the terms of an operating agreement with LIPA. Constellation has contracted with Exelon Nuclear to operate the Constellation fleet.

The operating agreement between LIPA and Constellation provides for a management committee comprised of one representative from each co-tenant. Additionally, PSEG Long Island employs three on-site representatives to provide additional support to protect LIPA’s interests. The annual NMP2 business plan and the operating and capital budgets are developed by Constellation and submitted to LIPA for review and approval. LIPA receives output from NMP2 and is responsible for operating and capital costs in proportion to its ownership interest.

The following table sets forth for each calendar year 2009 through 2013 the actual generation attributable to LIPA's 18% ownership interest in NMP2.

NMP2 Energy Generation

	2009	2010	2011	2012	2013
Energy (GWh)	1,786	1,591	1,707	1,471	1,954

Other Power Supply Agreements

In addition to the generation subject to the Original PSA and PSA with GENCO described above, LIPA currently purchases approximately 2,100 MW of capacity from generation facilities on Long Island and elsewhere under various power supply agreements.

The two tables below: (i) contain a summary of existing power supply agreements (excluding the Power Supply Agreement with GENCO) and (ii) show for each calendar year 2009 through 2013 the energy output from such agreements.

Summary of Power Supply Agreements (Excluding GENCO)

Unit Name	Summer Capacity (MW) ⁽¹⁾	Contract Expiration	Unit Type ⁽²⁾	Primary Fuel Type
NYPA Flynn.....	134.4	2014	CC	Natural Gas ⁽³⁾
Trigen NDEC Combined Cycle.....	45.6	2016	CC	Natural Gas ⁽³⁾
Huntington Resource Recovery.....	24.3	2017	ST	Refuse
Babylon Resource Recovery.....	14.1	2017	ST	Refuse
Hempstead Resource Recovery.....	72.3	2017	ST	Refuse
Islip Resource Recovery.....	8.9	2017	ST	Refuse
J-Power Shoreham.....	86.8	2017	SC	Oil ⁽⁴⁾
KeySpan Glenwood Landing.....	79.9	2027	SC	Natural Gas ^(3,4)
KeySpan Port Jefferson.....	79.9	2027	SC	Natural Gas ^(3,4)
NextEra Bayswater.....	79.9	2020	SC	Natural Gas ⁽⁴⁾
NextEra Jamaica Bay.....	54.3	2018	SC	Oil ⁽⁴⁾
J-Power Edgewood.....	91.5	2018	SC	Natural Gas ⁽⁴⁾
Bear Swamp.....	100.0 ⁽⁵⁾	2021	PS/Hydro	Water
Marcus Hook.....	685.0 ⁽⁶⁾	2030	CC	Natural Gas
Calpine Bethpage 3.....	77.1	2025	CC	Natural Gas ⁽⁴⁾
Hawkeye Greenport.....	52.5	2018	SC	Oil ⁽⁴⁾
J-Power Equus.....	48.9	2017	SC	Natural Gas ^(3,4)
J-Power Pinelawn.....	77.6	2025	CC	Natural Gas ^(3,4)
Caithness.....	309.6 ⁽⁷⁾	2029	CC	Natural Gas ^(3,4)
Village of Freeport.....	10.0	2034	SC	Natural Gas
Gilboa.....	50.0	2015	PS	Water
NYPA Hydro Sale for Resale (BNL).....	15.0	2020	HY	Water
Long Island Solar Farm (LISF).....	31.5 ^(1a)	2031	SL	Solar
Eastern Long Island Solar Project (ELISP).....	11.2 ^{(1a)(8)}	2032	SL	Solar
Entergy Fitzpatrick.....	N/A ⁽⁹⁾	2014	ST	Nuclear
SUNY Stony Brook.....	N/A ⁽⁹⁾	2015	SC	Natural Gas
Brookfield.....	N/A ⁽⁹⁾	2019	HY	Water
PPL Energy Plus.....	N/A ⁽⁹⁾	2019	IC	Landfill/Methane

⁽¹⁾ Summer capacity based upon summer 2013 DMNC test results

(a) LISF and ELISP are nominal capacity values.

⁽²⁾ CC = Combined Cycle; ST = Steam; Cogen = Cogeneration; IC = Internal Combustion; SC = Simple Cycle; PS = Pumped Storage; HY = Hydro; PV = Photovoltaic; SL = Solar.

⁽³⁾ Also capable of burning oil.

⁽⁴⁾ LIPA is responsible for fuel procurement.

⁽⁵⁾ Reflects Unforced capacity (UCAP) stated in contract beginning June 2010.

⁽⁶⁾ Capacity only contract. No energy purchase.

⁽⁷⁾ LIPA agreement to purchase 286 MW of the total capacity.

⁽⁸⁾ Projected Capacity. ELISP reached commercial operation on January 1, 2013.

⁽⁹⁾ Energy only contract.

**Energy Output of Power Supply Agreements⁽¹⁾
(GWH)**

Type of Resource	Calendar Year				
	2009	2010	2011	2012	2013
Independent Power Producers					
NYPA Flynn.....	1,228	958	1,061	1,223	1,208
Other Power Supply Agreements	1,725	3,069	3,176	3,565	3,758
Other ⁽²⁾	1,544	1,772	1,616	1,794	1,889
Subtotal IPPs	4,497	5,800	5,853	6,582	6,854
Energy Fitzpatrick (off-Island).....	1,237	1,068	1,225	1,219	1,223
Other off-Island Purchases ⁽³⁾	6,424	5,634	5,627	5,291	5,059
Other Purchases ⁽⁴⁾	1,690	1,597	1,509	1,490	1,432
Total Purchases	13,849	14,099	14,214	14,582	14,568

1 Source: National Grid

2 Includes energy produced by all other on-Island plants.

3 Energy purchases made on the spot market, net of sales on the spot market, plus bi-lateral purchases.

4 Reflects Power for Jobs and Long Island Choice programs.

Certain Additions to Power Supply Resources

LIPA entered into an agreement with Long Island Solar Farm LLC to purchase approximately 31.5 MW of power from an array of 164,312 photovoltaic solar panels located at Brookhaven National Laboratory, which began full commercial operation in November 2011. In addition, LIPA has entered into an agreement with Eastern Long Island Solar Project, LLC to purchase up to approximately 11 MW of power from solar generating facilities on Long Island that became commercially operational January 1, 2013.

Short-Term Capacity Purchases

In addition to the resources described above, LIPA relies on short-term, firm capacity purchases from the NYISO “Rest of State” market to meet a portion of its total statewide capacity requirements. LIPA currently anticipates the need to continue to make additional capacity purchases through 2019. Such purchases are accomplished through solicitations, auctions and/or bilateral arrangements. Currently, CEE, with input from PSEG Long Island, under LIPA’s supervision, determines the requirement and timing of these capacity purchases. PSEG ER&T, a PSEG Long Island affiliate, is expected to provide those services beginning no later than January 1, 2015 pursuant to the OSA.

Market Energy Purchases

In addition to energy purchased under the terms of the agreements described above, LIPA routinely purchases energy in the day-ahead and real-time markets operated by the NYISO, ISO-NE and PJM-ISO (described below). These purchases are generally made when the price of energy from these sources is below the incremental cost of generation from LIPA’s contracted resources. During 2013, approximately 45% of the Service Area’s energy requirements were obtained through such energy purchases.

The tables below provide a summary of estimated demand and energy requirements for the period shown. During this period, annual peak demands and energy requirements, after adjustment for various demand side programs, are estimated to increase at annual compound rates of growth of approximately 0.3 percent. The estimated demand and energy requirements shown in the tables below take into account the effects of LIPA’s Long Island Choice program, as described below, and reflect the results of resource planning assessments conducted by PSEG Long Island for planning purposes. Such information is not intended to represent resource specific power supply expansion plans adopted by the Authority. The information contained in the table below is presented on an unforced capacity (“UCAP”) basis in order to conform to the requirements of NYISO. Historical data throughout this Part 2 has been presented on an ICAP basis in order to be consistent with prior years. It is anticipated that the Authority will migrate to the UCAP basis as such information becomes available. ICAP is a measurement of a generating unit’s maximum output under certain defined test conditions without considering the impact of forced outages. UCAP is a related

measure that takes a generating unit's ICAP and reduces it based on the proportion of a generating unit's historic output that was not available due to forced outages.

**Estimated Capacity Requirements and Resources (UCAP)
(MW)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
System Demand					
Net LIPA Load ¹	5,402	5,422	5,436	5,495	5,545
plus: Transmission Loss Adjustment ² ...	68	68	68	68	68
net: LIPA Load with Losses	5,470	5,490	5,504	5,563	5,613
Required Reserve Margin ³	349	350	351	355	358
Total Capacity Requirement	<u>5,819</u>	<u>5,840</u>	<u>5,856</u>	<u>5,918</u>	<u>5,971</u>
Resources (UCAP)					
Nine Mile Point 2	220	220	220	220	220
GENCO ⁴	3,382	3,382	3,382	3,382	3,382
Contracted PPAs ⁵	645	645	645	565	413
Non-Dispatchable IPP's	171	171	126	126	126
NYPA (Gilboa) ⁶	50	-	-	-	-
Future Resource Additions ⁷	321	321	321	321	321
UCAP Net Purchases/(Sales) ⁸	1,032	1,102	1,162	1,305	1,509
Total Capability	<u>5,819</u>	<u>5,840</u>	<u>5,856</u>	<u>5,918</u>	<u>5,971</u>
Reserve Margin	<u>106.38%</u>	<u>106.38%</u>	<u>106.38%</u>	<u>106.38%</u>	<u>106.38%</u>

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- 1 Zone K Net Peak Load:
 - a) 2010 - 2013 adjusted actual peak loads from NYISO ICAP Schedules.
 - b) 2014 - 2018 forecast after reductions for: Energy Efficiency, Renewables & Load Modifiers.
 - 2 NYISO Off-Island Transmission Loss Adjustment factor for LIPA.
 - 3 NYISO Required Reserves estimated 106.38% UCAP (117% ICAP equivalent) for May 2014.
 - 4 National Grid covered under the PSA.
 - 5 Power purchase agreements under contract.
 - 6 Gilboa Contract expired 5/1/2014
 - 7 Does not include capacity that may be added as a result of LIPA's RFP for 280 MW of Renewables or resources which may be added as a result of or in coordination with PSEG Long Island's 2015 Integrated Resource Plan.
 - 8 Short term UCAP purchases net of short term UCAP sales. Values include net purchases/(sales) on CSC & Neptune Cable.

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Estimated Energy Requirements and Resources¹
(GWH)

	2015	2016	2017	2018	2019
Energy Requirements					
Total Energy Requirements ²	21,087	21,357	21,345	21,318	21,390
Resources³					
NMP2.....	1,923	1,754	1,924	1,749	1,923
GENCO ⁴	3,202	3,079	2,954	3,084	3,153
Contracted PPAs ⁵	6,621	6,723	6,556	6,338	6,417
Non-Dispatchable IPP Resources.....	1,298	1,325	1,323	1,324	1,322
NYPA (BNL).....	302	303	328	354	381
Future Resource Additions ⁶	49	49	48	48	48
Net Economy ⁷	7,692	8,124	8,212	8,421	8,146
Total Resources.....	21,087	21,357	21,345	21,318	21,390

¹ Based on preliminary 2015 LIPA Budget.

² LIPA's estimated Total Energy Requirements including Long Island Choice customers. Source: LIPA Forecast of Electric Requirements, Sales and Peak Loads: 2015 – 2034 as of August 28, 2014 for 2015-2018.

³ Includes the estimated GWH output of both the existing and future resources expected to be under contract to LIPA during each year of the projected period and spot market energy purchases. Values based upon preliminary 2015-2019 LIPA Operating Budget.

⁴ Generating units covered under the PSA.

⁵ Power purchase agreements under contract. When contracts expire, it is assumed that the energy is available in the Net Economy market.

⁶ Reflects the estimated energy output from the Resource Additions expected to be placed into service during the projected period: future solar Feed In Tariffs. Does not include energy from capacity that may be added as a result of LIPA's RFP for 280 MW of Renewables or resources which may be added as a result of or in coordination with PSEG Long Island's 2015 Integrated Resource Plan.

⁷ Short term purchases net of short term sales (includes Bear Swamp and Marcus Hook Resources).

Fuel Supply

LIPA directly pays for fuel used at the GENCO Generating Facilities and certain non-GENCO facilities in accordance with the terms of its then-current agreement(s). The Authority has contracted with CEE to provide fuel management services for both the GENCO generating facilities and certain non-GENCO units for which the Authority is responsible for providing fuel pursuant to the CEE Agreement. As described above, PSEG ER&T is expected to provide such services beginning in 2015.

The particular fuel used for generation will depend on generation plant fuel capability, fuel supply and transportation availability, and fuel and fuel transportation cost, subject to environmental constraints. All of the GENCO steam units can burn either natural gas or low sulfur residual oil. Natural gas or distillate fuel is burned in the gas turbines.

The natural gas distribution system on Long Island shares natural gas delivery interconnections with neighboring gas utilities and interstate gas pipelines. Con Edison and two National Grid Subs have entered into an agreement that provides for use of their joint systems to allow the parties to receive gas from interstate pipelines connected to their systems.

Oil is stored on site or at locations accessible by each generation facility with the capacity to burn oil. Existing oil storage capacity plus an active oil management program is employed by the applicable service provider to help LIPA assure continuous fuel oil supply to the GENCO Generating Facilities and certain other non-GENCO generating units.

Constellation is responsible for the fuel requirements of NMP2.

Overview of Regulatory Framework as it Applies to LIPA

LIPA's Provision of Transmission Service to Third Parties

As a corporate municipal instrumentality and political subdivision of the State, the Authority, and, indirectly, LIPA, are not considered “public utilities” under the Federal Power Act (“FPA”) and therefore are largely exempt from FERC regulation under Part II of the FPA. Notwithstanding this exemption, the Authority and LIPA are subject to the authority of FERC to order interconnection of its facilities pursuant to Section 210 of the FPA, and the authority of FERC to order “transmitting utilities” to provide transmission services in accordance with sections 211 and 212 of the FPA as amended by the Energy Policy Act. Further, FERC applies its “open access” principles set forth in Order No. 888 and its progeny to non-jurisdictional utilities, through a reciprocity requirement (described below).

On April 24, 1996, FERC issued Order No. 888. As that order was modified on rehearing, it (i) requires all public utilities to have a tariff on file with FERC that provides open access transmission services to other entities under comparable terms and conditions of transmission service that the public utility provides to itself and its affiliates and (ii) contains a reciprocity provision that requires non-jurisdictional utilities (including municipal and consumer-owned utilities such as LIPA and the Authority) that purchase transmission services under FERC filed open access tariffs and that own or control transmission facilities to, in turn, provide open access service to the transmitting utility on rates, terms and conditions that are comparable to the service that the non-jurisdictional utility provides itself. In 1998, FERC reviewed LIPA’s Open Access Transmission Tariff (“OATT”), including its rates for transmission service, and found that the OATT represents an acceptable reciprocity tariff subject to the condition that LIPA adopt a code of conduct and maintain an Open Access Same-time Information System (“OASIS”). While LIPA has retained a reciprocity OATT, transmission service over LIPA’s system occurs primarily through its participation in the NYISO, including offering of transmission service under terms set forth in the NYISO OATT and engagement in the NYISO regional transmission planning process.

The rates that LIPA charges for wholesale transmission service, including the calculation of any stranded cost charge, are not subject to direct regulation by FERC under Sections 205 or 206 of the FPA. LIPA’s rates for wholesale transmission service are set by the Authority and incorporated for informational purposes into the NYISO OATT. LIPA remains the entity that charges and collects the transmission service charges from customers using its bulk transmission system.

On July 21, 2011, FERC issued Order No. 1000 to expand upon certain regional planning principles of Order No. 890. Order No. 1000 establishes a framework for developing large regional transmission planning groups, requires the sharing of information between such regional transmission planning groups to enable the development of needed “interregional” transmission facilities and requires the regional transmission planning groups to develop methodologies for allocating the costs of new transmission facilities identified through such regional and interregional transmission planning efforts. Public utilities, including the NYISO, were required to develop changes to their planning processes to integrate the Order 1000 reforms (described below).

As part of the Energy Policy Act of 2005 (the “2005 Energy Policy Act”), Congress amended the FPA to include a new Section 211A which grants FERC limited discretionary authority (but does not mandate the exercise of such authority) over certain non-jurisdictional utilities referred to as “unregulated transmitting utilities.” The term “unregulated transmitting utility” is defined as an entity that owns or operates facilities used for wholesale transmission service in interstate commerce and is an otherwise exempt entity under Section 201(f) of the FPA. LIPA meets this definition and will be considered an unregulated transmitting utility should FERC decide to implement the provisions of Section 211A.

While FERC may apply the terms of Section 211A to LIPA and other unregulated transmitting utilities on a case-by-case basis, it is unclear whether such application will fundamentally change LIPA’s provision of wholesale transmission service. LIPA already provides open access transmission service to third parties on a comparability basis through its participation in the NYISO as described below. Further, LIPA maintains its own reciprocity OATT, voluntarily complies with FERC’s Standards of Conduct and OASIS requirements and ensures comparability in interconnection service to generators.

New York Independent System Operator

General

The investor-owned utilities in the State, together with NYPA and LIPA (collectively, the “Transmission Owners”), are members of an independent transmission system operator called NYISO. NYISO is a not-for-profit corporation formed to provide for non-discriminatory open-access transmission over electric transmission systems belonging to the Transmission Owners, to maintain the reliability of the combined systems and to operate electric power markets within the State. Customers of NYISO pay non-transmission related charges to NYISO and pay the Transmission Service Charge (“TSC”) to the Transmission Owners under the NYISO OATT. LIPA participates in the NYISO under provisions designed to protect the Authority’s tax-exempt status and recognize that the Authority, not FERC, is the entity with jurisdiction to set LIPA’s rates. LIPA remains the entity responsible for

billing and collecting its TSC for use of its transmission facilities pursuant to rates set by the Authority under State law. Further, LIPA retains ownership and operational control over its transmission facilities while coordinating the scheduling, maintenance and use of LIPA's transmission system with the NYISO.

In addition to its transmission-related responsibilities, the NYISO provides power pooling and power coordination functions. Operational features of the NYISO include: (i) the establishment of a day-ahead and real-time bid-based spot energy market; (ii) the implementation of congestion pricing for transmission services; (iii) the creation and administration of transmission congestion contracts; (iv) the administration of a capacity market; (v) markets for certain ancillary services; and (vi) long-term planning for reliability, economic and public policy matters. A significant feature of the NYISO's tariffs is its operation of an electric power market that uses a locational based marginal pricing structure.

LIPA receives payments for use of its transmission system by third parties through the billing and collection of its TSC as well as contractual payments pursuant to certain grandfathered transmission agreements between LIPA and third parties. For non-grandfathered contracts, LIPA directly bills the TSC, a per kilowatt-hour charge, to transmission customers withdrawing energy from the LIPA System, and collects the TSC revenue directly from the customers. LIPA's TSC is developed based upon a formula rate, which was approved by the Authority in October 2003.

As a condition of LIPA's participation in the NYISO and to recognize LIPA's non-jurisdictional status, the NYISO OATT includes provisions that allow the NYISO to file, on LIPA's behalf, LIPA's TSC for inclusion in the OATT on an informational basis only. FERC limits its review of LIPA's TSC to a comparability review by which it only determines that the rates LIPA is charging are applied to all transmission customers, including LIPA itself, on a comparable basis.

NYISO Compliance with Orders 890 and 1000

Order 890, as modified on rehearing, required the NYISO to adopt a transparent, regional transmission planning process that includes all stakeholders in New York State as well as neighboring, interconnected regions. LIPA voluntarily participated in the development of the NYISO's compliance filings covering implementation of most elements of Order 890. Over the course of 2007 and 2009, FERC approved a series of NYISO proposals covering the development, cost-recovery and cost-allocation of reliability and economic transmission upgrade projects. These proposals included provisions recognizing the Authority's role in transmission planning for the Service Area and its jurisdiction over LIPA's rates. Most of the other changes to the OATT included in Order No. 890 do not substantially affect the provision of transmission service by the NYISO because of its "financial transmission rights" rather than "physical transmission rights" structure.

As part of the Order 890 process, FERC also approved changes to the New York Independent System Operator/Transmission Owner Reliability Agreement (the "NYISO/TO Reliability Agreement") which permits the NYISO to require transmission owners to make transmission reliability upgrades subject to certain transmission owner rights and conditions. In particular, the NYISO/TO Reliability Agreement provides cost-allocation and cost-recovery assurance to the transmission owners with respect to the construction of reliability projects identified as part of the NYISO's planning process.

As part of the development of this NYISO/TO Reliability Agreement, LIPA sought and gained inclusion of several key terms intended to protect LIPA's status as a non-jurisdictional utility and its ability to maintain and issue tax-exempt debt. These conditions include: (i) a provision that LIPA is not obligated to build a project if the construction or use of such project would violate the tax-exempt status of its bonds; (ii) clarification that LIPA's execution of the NYISO/TO Reliability Agreement is not considered a waiver of LIPA's non-jurisdictional status under the FPA; and (iii) procedures by which LIPA may withdraw from the NYISO/TO Reliability Agreement upon 90-days' notice subject to any specific obligation it may have already incurred prior to the date of withdrawal. On January 25, 2010, the Authority's Board of Trustees approved a resolution authorizing the execution and implementation of the terms of the NYISO/TO Reliability Agreement by LIPA.

Order 1000 (described above) required modifications to the NYISO regional transmission planning process, including the adoption of new cost allocation procedures for projects addressing transmission needs caused by public policy projects as well as measures for allocation of costs for inter-regional (i.e., inter-ISO) projects. The NYISO is in the process of implementing changes to its transmission planning processes required under Order 1000 and approved by FERC, subject to a pending compliance filing. With the exception of one element, LIPA voluntarily joined the NYISO/New York Transmission Owners' proposal for compliance with Order 1000. Specifically, LIPA took exception with respect to transmission planning procedures related to public policy projects. The basis of LIPA's exception was that the proposed tariff revisions did not recognize the Authority's statutory responsibility for transmission planning within the Service Area. In September, 2014, LIPA and the NYISO TOs joined in a third compliance filing with FERC that includes language addressing and recognizing the process by which the Authority would exercise its statutory responsibility for transmission planning within the Service Area in a manner consistent with the NYISO's implementation of Order 1000.

Order 1000 also includes requirements for interregional planning between regions. In June 2013, the NYISO, together with PJM and ISO-NE made a joint interregional planning group filing. That filing is still pending before the FERC.

Generator Interconnection Rule

FERC has issued final rules requiring all public utilities that own, operate or control transmission facilities to file standard procedures and standard agreements governing interconnection services for “large” generators producing more than 20 MW (Order No. 2003 & Order No. 2003-A—Large Generator Interconnections) and for “small” generators producing less than 20 MW (Order No. 2006, Order No. 2006-A & Order No. 2006-B—Small Generator Interconnections). The NYISO OATT includes Large Generation Interconnection Procedures and a Large Generation Interconnection Agreement consistent with Order Nos. 2003 and 2003-A as well as Small Generation Interconnection Procedures and a Small Generation Interconnection Agreement consistent with Order Nos. 2006, 2006-A and 2006-B. As LIPA is not a “public utility” under the FPA, it does not have a direct obligation to comply with the Commission’s interconnections procedures. However, as part of its participation in the NYISO, LIPA voluntarily complies with the NYISO’s generator interconnection procedures for interconnections at the transmission system level. LIPA continues to administer the interconnection process for all generators connecting to its distribution facilities under its own tariff and procedures. LIPA also has adopted revisions to its own generator interconnection procedures in order to be complementary to the NYISO process.

PJM Independent System Operator and Allocation of PJM Regional Transmission Expansion Project Costs

LIPA has entered into a contract with Neptune to purchase 660MW of transmission capacity over an undersea extra high voltage cable installed between Sayreville, New Jersey and Levittown, New York. Beginning in June 2010, LIPA also has a contract with Marcus Hook LLP to purchase 91% of the capacity of the Marcus Hook generating facility located in Pennsylvania.

PJM, a regional transmission organization operating a transmission grid running from Illinois to New Jersey and south to Virginia allocates the costs of “Regional Transmission Expansion Plan” projects (“RTEP”) based on a series of cost allocation protocols. These costs are allocated to merchant transmission facilities, such as Neptune, which have obtained firm transmission withdrawal rights under the PJM Tariff. Neptune passes through to LIPA any RTEP charges assessed to the firm transmission withdrawal rights for capacity over the Neptune Line.

New York State Reliability Council

The New York State Reliability Council, LLC (“NYSRC”) determines the reliability rules that the NYISO and all market participants must operate under and monitors the NYISO’s compliance with the reliability rules. The NYSRC provides reliability guidance consistent with the reliability regulation adopted by Congress in 2005 in Section 215 of the FPA, discussed above under “THE SYSTEM—Overview of Regulatory Framework as it Applies to LIPA—*LIPA’s Provision of Transmission Service to Third Parties.*”

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

General

The electric utility industry has been, and in the future will be, affected by a number of factors which will have an impact on the business, operations and financial condition of both public and private electric utilities, including the Authority and LIPA. Such factors include, among others, (i) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (ii) changes resulting from “self-generation,” energy efficiency, conservation and demand-side management programs on the timing and use of electric energy, (iii) changes in national energy policy, (iv) new requirements to obtain increasing portions of overall electric energy supply from renewable generating resources, (v) potential imposition of requirements to reduce emissions of greenhouse gases, (vi) issues relating to the ability to issue tax-exempt obligations, (vii) service restrictions on the ability to sell to non-governmental entities electricity from generation projects financed with outstanding tax-exempt obligations, (viii) changes from projected future load requirements, and (ix) increases in costs. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The Authority cannot predict what effects these factors will have on the business, operations and financial condition of the Authority or LIPA, but the effects could be significant. The following sections of this caption provide brief discussions of certain of these factors. However, these discussions do not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Part 2. Extensive information on the electric utility industry is, and is expected to be, available from legislative and regulatory bodies and other sources in the public domain.

FERC Enforcement and Penalty Authority Under the 2005 Energy Policy Act

On August 8, 2005, President Bush signed into law the 2005 Energy Policy Act. The 2005 Energy Policy Act specifically modified certain long-standing exemptions from FERC jurisdiction for municipalities under FPA Section 201(f) (such as the Authority and LIPA) by making it clear that such entities are subject to FERC's jurisdiction for enforcement of reliability rules (FPA § 215), market manipulation rules (FPA § 222) and open access "Lite" (FPA § 211A). On March 18, 2010, as revised on September 17, 2010, FERC issued civil penalty guidelines, which purport to apply to "the penalties to be imposed on all organizations for violations of the statutes, rules, regulations, restrictions, conditions, or orders overseen by [FERC]." The Commission's use of the Penalty Guidelines is discretionary, not mandatory. The new Penalty Guidelines are likely to result in significantly higher penalties in cases where a violation causes a significant pecuniary gain for the violator or loss caused by the violation. The revised Penalty Guidelines provide substantial discretion to take into account, among other things, mitigating factors such as the measures taken by the violator to put measures in place to comply with all requirements.

While municipalities are now subject to compliance obligations and potential FERC enforcement actions, including sanctions for violations of reliability standards, there remains an unresolved legal question as to whether FERC has sufficient statutory authority under those sections of the FPA to impose monetary civil penalties on municipalities for such violations. Sections 316 and 316A of the FPA limit the Commission's authority to apply civil penalties for statutory and rules violations only to "persons," which is a term defined under the FPA to exclude municipalities. LIPA expects that in future cases before FERC the statutory limits of FERC's authority to impose monetary civil penalties on municipalities will be challenged and the extent of FERC's authority to impose monetary penalties on municipalities may be clarified by courts of appeal.

The foregoing discussion of certain provisions of the 2005 Energy Policy Act does not purport to be a comprehensive discussion of the 2005 Energy Policy Act. Information on the 2005 Energy Policy Act is available from many sources in the public domain, and investors should obtain and review such information.

Competition

In New York and many other states, there have been legislative and regulatory actions to promote competition in the supply of power by requiring, among other things, the separation of power supply services and costs from electric transmission and distribution services and costs.

The Authority has taken several actions to promote an orderly transition to greater competition in power supply and retail customer choice in the power supply markets in the Service Area. The Authority fosters wholesale competition by offering Open Access Transmission Service to generators that wish to provide power to the NYISO or to other wholesale customers. This service is offered on a comparable basis to the regulated transmission utilities in the State that are also members of the NYISO. Retail choice (sometimes called customer choice, retail wheeling, or retail open access) refers to a process by which retail customers choose among competitive suppliers for electric capacity, energy, and ancillary services. The delivery of capacity and energy is provided by the owner and operator of the local transmission and distribution system. Key issues that have surfaced in the movement to retail choice include the level of rate reductions accompanying the restructuring of individual utilities, recovery of stranded investments, and the timetable and methods for implementation of customer choice.

The Authority adopted a retail choice program (called "Long Island Choice") which is intended to offer electric customers the opportunity to choose an electric energy supplier other than LIPA. The program is available to all customers in LIPA's service territory. As of September 30, 2014, other suppliers were selling electricity to 3,740 commercial and industrial customers in the Service Area representing a total coincident peak load of 274.8 MW.

The Authority can make no prediction as to what effect, if any, new or revised State or federal laws addressing retail and commercial competition will have on ongoing implementation of retail competition.

New York State Electric Utility Industry Regulation

General. Legislation is regularly introduced in the New York Legislature, which could affect the operations of the Authority. The Authority is not able to predict which, if any, of such legislation might be enacted into law, what form any of such legislation, if enacted, might take or what impact any of such legislation if enacted might have on the Authority's operations.

NYISO. For a description of the NYISO and its present activities, see "THE SYSTEM – New York Independent System Operator" in this Part 2.

Reforming the Energy Vision. As described in more detail below under "REGULATION – New York State – *Reforming the Energy Vision*," PSC recently commenced its Reforming the Energy Vision ("REV") initiative to reform New York State's energy industry and regulatory practices. According to PSC, this initiative will lead to regulatory changes that promote more efficient use of energy, deeper penetration of renewable energy resources such as wind and solar, wider deployment of

“distributed” energy resources, such as micro grids, on-site power supplies, and storage. It will also promote greater use of advanced energy management products to enhance demand elasticity and efficiencies. While the Authority is not a regulated utility subject to PSC, it expects to monitor the REV initiative closely and evaluate any regulatory reforms that are ultimately implemented and their suitability for adoption by the Authority

Environmental

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures, which regulate the environmental impact of electric utilities, are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that the facilities owned or under contract to LIPA will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures to comply, reduced operating levels or the complete shutdown of individual electric generating units, including NMP2 and other units under contract to LIPA under the PSA, not in compliance.

The United States Environmental Protection Agency (“EPA”), the states and local jurisdictions may issue new regulations governing emissions from many types of power plants. State regulation of electric utility emissions may change significantly. The changes could affect the cost of purchased power from combustion turbines and other types of plants. If enacted, new regulations may change existing cost assumptions for electric utilities. While it is too early to determine if any new provisions will be enacted, in what form, or what their effect will be, any changes may have a material impact on the cost of power generated at affected electric generating units. See also “ENVIRONMENTAL MATTERS” in this Part 2.

Clean Air Interstate Rule

On March 10, 2005, the EPA issued the final Clean Air Interstate Rule (“CAIR”). CAIR caps SO₂ emissions from power plants in 28 states and the District of Columbia at 3.6 million tons in 2010 and 2.5 million tons in 2015. NO_x emissions are capped at 1.5 million tons in 2009 and 1.3 million tons in 2015.

Based on federal court decisions that remanded CAIR back to the EPA the EPA published a final replacement rule for CAIR referred to as the “Cross-State Air Pollution Rule” (“CSAPR”) on August 8, 2011. Under the CSAPR, 28 states would have been required to reduce their power plant emissions of SO₂ and NO_x that cross over state boundaries under a two-phase program starting in 2012. The D.C. Circuit vacated CSAPR on August 21, 2012 in *EME Homer City Generation LP v. EPA* and directed EPA to continue to enforce CAIR in the interim until the EPA developed another replacement transport rule. The U.S. Supreme Court reversed the D.C. Circuit on April 29, 2014 and remanded the matter back to the D.C. Circuit. Proceedings in the D.C. Circuit are ongoing and, while the D. C. Circuit lifted the stay of EPA’s implementation of CSAPR, it is not yet known when EPA will begin implementation of CSAPR.

Climate Change

In recent years, there has been growing concern in the scientific community and among the public about climate change and the potential contributions to climate change made by fossil-fueled electric generating plants. Any legislation or regulation that addresses global warming is likely to have an adverse impact on fossil fuel-fired generation, particularly operation of older, less efficient units.

The regulation of CO₂ and other greenhouse gases (“GHGs”) from power plants has received increasing focus from the federal government and state governments in recent years. EPA’s authority to regulate GHG emissions stems from a 2007 decision in which the United States Supreme Court held GHG emissions are “air pollutants” under the federal Clean Air Act. EPA has begun regulating the energy sector by: (i) mandating GHG reporting as of 2011; (ii) proposing to set a nationwide New Source Performance Standard (“NSPS”) for CO₂ emissions from new fossil-fueled fired electric generating units; and (iii) proposing a plan to reduce GHGs from existing electric generating units under the proposed Clean Power Plan pursuant to Clean Air Act § 111(d).

The New York State Department of Environmental Conservation (“DEC”) adopted more stringent GHG standards for new power plants in June 2012 as compared to the NSPS proposed by EPA. In addition, DEC has revised its regulations under the Regional Greenhouse Gas Initiative (“RGGI”) program, a CO₂ cap and trade program that applies to electric generating units within nine RGGI states in the Northeast, based on the decision of the RGGI states to lower the overall emissions cap to 91 million tons effective in 2014. The previous cap for the first five years of the RGGI program had been set at a level of 165 million tons, a level that provided too many allowances into the market such that the allowances were sold at auction at the minimum reserve price. It is expected that power companies will comply with the 2014 to 2020 cap by purchasing new allowances at auction at slightly higher prices and using allowances already banked. Compliance with the new, proposed or modified climate change

programs adopted by EPA and DEC is not expected to have a material effect on LIPA although future climate change programs not now known could have an impact.

Cooling Water Intake Structure Regulation

DEC has adopted a more stringent policy position as compared to EPA's regulation under Clean Water Act § 316(b) when renewing State Pollutant Discharge Elimination System permits for power plants with cooling water intake structures that could result in more expensive upgrades (i.e., closed-cycle cooling) on older power plants, including the GENCO Generating Facilities. As this review is ongoing, it is not now known if DEC's implementation of 316(b) will have a material effect on LIPA's purchase of electricity from one or more of the GENCO Generating Facilities.

Nuclear Plant Matters

The 1992 Energy Policy Act provides, among other things, that utilities with nuclear reactors will contribute an aggregate total of \$150 million annually, based upon an assessment, for a period of 15 years, up to a total of \$2.25 billion (in 1992 dollars), for the costs of the decommissioning and decontamination of the United States Department of Energy ("DOE") nuclear fuel enrichment facilities.

In accordance with the Nuclear Waste Policy Act of 1982, Niagara Mohawk, as the then-operator of Nine Mile Point, in August 1995, entered into a contract with DOE, under which DOE, commencing not later than January 31, 1998, would accept and dispose of spent nuclear fuel. However, it appears unlikely that DOE will accept any spent nuclear fuel from Nine Mile Point or others in the near term. The contract provides that DOE will be paid a fee quarterly based on nuclear generation and sales of electricity from Nine Mile Point at a specified rate. LIPA's share of such fees which relate to NMP2 is 18%.

In light of DOE's ongoing failure to provide for long-term storage of spent nuclear fuel, the National Association of Regulatory Utility Commissioners ("NARUC") and the Nuclear Energy Institute ("NEI") have challenged DOE's continuing collection of the waste fee, and have petitioned the Court of Appeals for the D.C. Circuit to suspend collection of the fee. In June of 2012, the D.C. Circuit agreed with the petitioners that DOE's assessment of the adequacy of the waste fee was flawed and directed DOE to submit a revised assessment. *See NARUC v. U.S. Dep't of Energy*, No. 11-1066 (D.C. Cir. June 1, 2012). In January of 2013, DOE submitted a revised fee adequacy assessment, which attempted to justify its existing estimates of the cost of a future waste disposal program and the continued collection of the fee. NARUC and NEI then requested that the court reopen the case. The DC Circuit held that once again DOE failed to conduct a sufficient analysis to permit it to conclude that the annual fee imposed on power plant operators is adequate. On November 19, 2013, the U.S. Court of Appeals issued a decision that orders the Secretary of Energy to submit to Congress a proposal to change the waste fee (currently one-tenth of one cent for each kilowatt hour generated and sold from nuclear power plants) paid by nuclear plant operators to zero "until such a time as either the Secretary chooses to comply with the Act as it is currently written, or until Congress enacts an alternative waste management plan."

The NRC has adopted decommissioning rules which require reactor operators to certify that sufficient funds will be available for decommissioning the contaminated portion of nuclear plants in the form of prepayments or external sinking funds, either of which must be segregated from the licensee's assets and outside its administrative control, or by the surety of insurance payable to a trust established for decommissioning costs. The Authority expects that by the expiration of NMP2's operating license in 2046, there will be funds in LIPA's decommissioning trust fund sufficient to meet the current estimated costs for its 18% share of the decommissioning costs of NMP2.

In November 2002, the President signed into law the Terrorism Risk Insurance Act ("TRIA") of 2002, which was extended by the Terrorism Risk Insurance Extension Act of 2005 and the Terrorism Risk Insurance Program Reauthorization Act of 2007. Under the TRIA, property and casualty insurance companies are required to offer insurance for losses resulting from certified acts of terrorism. The nuclear property and accidental outage insurance programs, as discussed below, provide coverage for certified acts of terrorism.

Losses resulting from non-certified acts of terrorism are covered as a common occurrence, meaning that if non-certified 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 Amendments Act 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. LIPA'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.

Following the March 11, 2011 earthquake and resulting tsunami that affected the Fukushima Daiichi Plants in Japan, the nuclear industry has been working to comprehend the events that damaged the reactors and associated fuel storage pools and then determine whether any changes might be necessary at United States nuclear plants. The performance of the General Electric boiling water reactor with Mark I containment systems in Japan as well as associated on-site spent fuel storage facilities are of particular interest. NMP2 is a General Electric boiling water reactor with Mark II containment system, which is a similar system. The NRC formed a task force to perform a systematic and methodical review of its regulatory requirements, programs, processes and implementation in light of information from the Fukushima Daiichi Plants to determine if there are any near-term or long-term changes that should be made to further ensure protection of public health and safety. On March 12, 2012, the NRC issued three orders to the U.S. nuclear industry as a result of the Fukushima Daiichi event in Japan. The first order requires all domestic nuclear plants to better protect supplemental safety equipment and obtain additional equipment as necessary to protect the reactor in the event of beyond design basis external events. The second order requires nuclear plant operators of boiling water reactors to modify reactor licenses with regard to reliable hardened containment wetwell vents. The third order requires nuclear plant operators to add reliable used fuel pool water level instrumentation. Based on preliminary cost estimates, LIPA does not expect its portion of the plant modification costs associated with the orders to have a material impact on its operations or finances.

After the events at Fukushima Daiichi, several individuals and antinuclear groups petitioned the NRC's Office of Reactor Regulation pursuant to 10 CFR 2.206 to take various actions in relation to General Electric boiling water reactors with Mark 1 and Mark 2 containment systems. The petitions range from requests for information to suspension of the operating licenses for all Mark 1 and Mark 2 reactors. Petitions were also filed regarding concerns relating to the consequences of nuclear plants being located near earthquake fault lines or flood zones. According to the most recent petition status report found on the NRC website dated October 2014, the NRC Office of Reactor Regulation is conducting an integrated review of Fukushima-related 10 CFR 2.206 petitions and, depending on the particular petition, expects to issue decisions in 2015.

LIPA, together with Constellation, continues to monitor the NRC's task force and its recommendations, the above-described petitions, any proposed legislation related to NRC safety regulations and any potential impact on the operation and costs of NMP2.

ENVIRONMENTAL MATTERS

As discussed in "CERTAIN OTHER MATTERS —Guarantees and Indemnities" in this Part 2, National Grid Parties and LIPA Parties have entered into Liabilities Undertaking and Indemnification Agreements which, taken together, provide, generally, that environmental liabilities are to be divided between National Grid Parties and LIPA Parties on the basis of whether they relate to Transferred Assets (defined below) or LIPA Assets (defined below). In addition, to clarify and supplement these agreements, National Grid Parties and LIPA Parties have also entered into an agreement to allocate between them certain liabilities, including environmental liabilities, arising from events occurring prior to the 1998 acquisition of LILCO and relating to the business and operations to be conducted by LIPA Parties after the 1998 acquisition (the "Retained Business") and to the business and operations to be conducted by National Grid Parties after the 1998 acquisition (the "Transferred Business"). For a more complete description of specific actual and potential environmental liabilities of the LIPA Parties and the National Grid Parties, see "Legal Proceedings" in Note 14 to the Authority's Basic Financial Statements for the years ended December 31, 2013 and 2012, which are included herein by specific cross-reference.

The Authority and LIPA are subject to a number of federal, State and local environmental laws and regulations governing the installation, operation and maintenance of electric transmission and distribution systems.

REGULATION

The operations of the Authority and LIPA are subject to regulation by various State and federal agencies, discussions of which appear in other parts of this Part 2. The principal agencies having a regulatory impact on the Authority and LIPA and the conduct of their activities are as follows:

New York State

DPS. See "LIPA REFORM ACT" above for a description of DPS's role and relationship with LIPA and PSEG Long Island.

PACB. The Authority is required by the Act to obtain certain approvals of the PACB. The PACB consists of five members appointed by the Governor of the State. One of the members is appointed upon the recommendation of the Majority

Leader of the State Senate, one upon the recommendation of the Speaker of the State Assembly, one upon the recommendation of the Minority Leader of the State Senate and one upon the recommendation of the Minority Leader of the State Assembly. The two members of the PACB appointed by the Governor upon the recommendations of the Minority Leaders of the Senate and the Assembly do not vote. The unanimous vote of the voting members of the PACB is required to authorize action by the PACB.

Pursuant to the Act, the Authority may not undertake any “project” without PACB approval. A “project” of the Authority is defined by the Act to mean an action undertaken by the Authority that: (i) causes the Authority to issue bonds, notes or other obligations, or shares in any subsidiary corporation; (ii) significantly modifies the use of an asset valued at more than one million dollars owned by the Authority or involves the sale, lease or other disposition of such an asset; or (iii) commits the Authority to a contract or agreement with a total consideration of greater than one million dollars and does not involve the day-to-day operations of the Authority. The Act provides that the PACB shall only approve a proposed project of the Authority upon the PACB’s determination that: (i) the project is financially feasible; (ii) the project does not materially adversely affect overall real property taxes in the Service Area; (iii) the project is anticipated to result generally in lower utility rates; and (iv) the project will not materially adversely affect overall real property taxes or utility rates in other areas of the State.

New York State Comptroller. Pursuant to the Act, the Authority must obtain the written approval of the Comptroller of any private sale of bonds or notes of the Authority and the terms of such sale. By letter dated July 22, 1999, the Comptroller set forth his determination that pursuant to Section 1020 -cc of the Act (which subjects all Authority contracts to “the provisions of the State Finance Law relating to contracts made by the State”) certain Authority contracts that exceed \$50,000 in amount must be approved by the Comptroller before such contracts become effective. The LIPA Reform Act amended Section 1020-cc of the Act to exempt, among other things, contracts entered into between the Authority’s service provider and third parties from this requirement. In addition, the Comptroller’s office periodically conducts audits of the Authority to examine the Authority’s policies, procedures, controls and other financial and management practices.

Utility Intervention Unit. Under the LIPA Reform Act, the Utility Intervention Unit, within the Department of State, is empowered to participate in rate proceedings and hold regular forums in the Service Area.

State Board on Electric Generation Siting and the Environment. On August 4, 2011, Governor Cuomo signed legislation (the “Power NY Act of 2011”), which, among other things, establishes a new process for the siting of electric generating facilities and repowering projects over 25 megawatts. With respect to siting, the Power NY Act of 2011 is intended to provide greater certainty to the regulated community by providing a time-certain review process by a multi-agency board capable of granting all necessary permits, as well as to provide more meaningful input from those impacted by the siting of a facility.

Department of Environmental Conservation. The Department of Environmental Conservation (the “DEC”) is the principal agency of the State government regulating air, water and land quality. Before any federal license or permit can be issued for any activity involving a discharge into navigable waters, the DEC must certify that the discharge will comply with the State water quality standards (or waive certification). Certain aspects of the DEC’s regulatory authority over pollutant discharge permits, air quality permits and hazardous waste regulation arise from delegation of such authority to the State by federal legislation.

Public Authorities Reform. The Public Authorities Accountability Act of 2005 (the “PAAA”) was signed into law by the Governor in January 2006. The PAAA addressed a wide range of matters pertaining to many public authorities in the State, including the Authority. In December 2009, the Governor signed into law additional legislation (the Public Authorities Reform Act – “PARA”) intended to further reform the way public authorities conduct business in New York. Among other things, PARA creates an independent authorities budget office with certain oversight powers and expands on the filing and publication requirements of the PAAA.

Reforming the Energy Vision. The PSC recently commenced its Reforming the Energy Vision (or REV) initiative to reform New York State’s energy industry and regulatory practices. According to PSC, this initiative will lead to regulatory changes that promote more efficient use of energy, deeper penetration of renewable energy resources such as wind and solar, wider deployment of “distributed” energy resources, such as micro grids, on-site power supplies, and storage. It will also promote greater use of advanced energy management products to enhance demand elasticity and efficiencies. These changes, in turn, will empower customers by allowing them more choice in how they manage and consume electric energy.

The PSC has identified six core policy outcomes relating to customer knowledge, market animation, system-wide efficiency, fuels and resource diversity, system reliability and resiliency, and carbon reduction. A PSC “Staff Report and Proposal” sets forth a vision for how to accomplish the PSC’s objectives. PSC’s next steps include a public proceeding that is expected to examine and evaluate regulatory reforms that would be implemented to shape the roles and responsibilities of the regulated utilities and retail markets. While the Authority is not a regulated utility subject to PSC, it expects to monitor the REV initiative closely and evaluate any regulatory reforms that are ultimately implemented and their suitability for adoption by the Authority.

Federal

Nuclear Regulatory Commission. The NRC regulates the construction and operation of nuclear power plants. An operating license is required for the operation of any nuclear power plant. In addition, the NRC prescribes various operating standards and other rules.

Federal Energy Regulatory Commission. FERC regulates the rates, terms and conditions of: (i) the sale for resale of electric power by “public utilities”; and (ii) the provision of transmission service in interstate commerce by public utilities. Neither the Authority nor LIPA is a “public utility” under the FPA and therefore, FERC does not exercise direct jurisdiction over rates for service over LIPA’s facilities under either FPA Sections 205 or 206. Although the rates, terms and conditions under which the Authority provides transmission service are not currently subject to general FERC jurisdiction, FERC may order the Authority to provide transmission service to individual customers meeting the requirements of Sections 211 and 212 of the FPA on rates, terms and conditions comparable to those of the Authority for the Authority’s own use of its system. Further, FERC may, in the future, apply the provisions of FPA Section 211A to LIPA, in which case LIPA would become subject to FERC jurisdiction with respect to the provision of wholesale transmission service at rates that are comparable to the rates it charges itself, on terms and conditions that are comparable and not unduly discriminatory or preferential. FERC has not asserted jurisdiction over unregulated transmitting utilities under FPA Section 211A at this time.

While the Authority and LIPA are non-jurisdictional entities with respect to the establishment of rates, terms and conditions of service for the sale of energy and provision of transmission service, the Energy Policy Act of 2005 provided for the assertion of FERC jurisdiction over municipal utilities such as LIPA with respect to compliance with reliability standards and prohibitions against market manipulation. Under FPA, Section 215, all users, owners and operators of the bulk power system, including LIPA, are required to comply with reliability standards issued by the ERO (Electric Reliability Organization) and approved by FERC. Implementation of the reliability standards is largely undertaken by the regional entity, the Northeast Power Coordinating Council (“NPCC”). In June 2007, the initial reliability standards became effective establishing approximately 100 reliability standards for numerous aspects of transmission, generation and load serving operations conducted by, or on behalf of LIPA. In addition to ERO standards and NPCC standards and criteria, the NYISO and New York market participants are required to comply with NYSRC Reliability Rules for planning and operating the New York State Power System. NYSRC Reliability Rules are consistent with and more stringent and specific than associated ERO standards and NPCC standards and criteria. This is permitted by federal legislation in FPA Section 215. The NYSRC Reliability Rules include local rules that apply to New York City and Long Island that are more stringent than other NYSRC Rules. These Local Rules are more stringent because of the need to protect the reliable delivery of electricity for specific electric system characteristics and demographics relative to these zones. These conditions include unique circumstances and complexities related to the maintenance of reliable transmission service, and the dire consequences that would result from failure to provide uninterrupted service.

Separately, FPA Section 222 prohibits “any entity” (including otherwise non-jurisdictional entities such as LIPA) from engaging in the use of any manipulative or deceptive device or contrivance as part of its purchase or sale of electric energy or transmission service. FERC has implemented FPA Section 222 through the issuance of an anti-market manipulation rule set forth in 18 C.F.R. §1.c.2 and applied such rule to non-jurisdictional entities participating in wholesale energy markets. Violations of these requirements are subject to enforcement and potential sanctions by FERC, for which the Commission may apply its new Penalty Guidelines. As described above, the Penalty Guidelines have the potential to result in imposition of significant penalties in cases where a violation causes a significant pecuniary gain for the violator or loss caused by the violation. LIPA expects that future cases before FERC and courts of appeal will clarify the authority of FERC to apply monetary civil penalties to municipalities under the FPA.

Environmental Protection Agency. The EPA is the principal agency of the federal government regulating air, water and land quality. However, with respect to nuclear facilities, the NRC reviews environmental impacts as part of its permit and licensing proceedings. The Authority and LIPA are subject to EPA rules requiring the securing of routine discharge permits for non-radiological emissions and effluents from all Authority and LIPA facilities.

Department of Energy. The Economic Regulatory Administration of DOE is authorized to issue Presidential permits for international transmission interconnections.

United States Army Corps of Engineers. The United States Army Corps of Engineers is authorized to approve construction undertaken in connection with a power plant or transmission line, which affects navigation, involves dredging or filling in navigable waters, or involves crossing of navigable streams.

Other Jurisdictions

The regulatory procedures of neighboring states such as Connecticut and New Jersey impact the ability of LIPA to obtain additional power supplies through the construction of new cables which extend into such jurisdictions.

LITIGATION

The Offered Bonds

There is no litigation pending or threatened in any court (either State or federal) to restrain or enjoin the issuance or delivery of the Offered Bonds or questioning the creation, organization or existence of the Authority, the title to office of the Trustees or officers of the Authority, the validity or enforceability of the Resolution, Financing Agreement, the pledge of the Trust Estate, the proceedings for the authorization, execution, authentication and delivery of the Offered Bonds or the validity of the Offered Bonds.

Other Litigation

LIPA is involved in numerous actions arising from the ordinary conduct of its business both prior to and subsequent to the 1998 Acquisition of LILCO including claims related to Superstorm Sandy, claims challenging LIPA's current tax assessments and environmental claims brought by governments and individual plaintiffs alleging that LIPA is responsible for all or a portion of the clean-up costs or personal injuries or damages as a result of the alleged use, release or deposit of hazardous substances including asbestos. While LIPA cannot presently predict the costs of such pending claims, or additional similar claims which may arise in the future, LIPA believes that such litigation, in the aggregate, will not have a material adverse impact on the business or the affairs of the Authority or LIPA. See "Legal Proceedings" in Note 14 to the Authority's Basic Financial Statements for the years ended December 31, 2013 and 2012, included herein by specific cross-reference and "ENVIRONMENTAL MATTERS" in this Part 2 for a description of certain litigation in which LIPA is involved.

CERTAIN OTHER MATTERS

LIPA Assets and Liabilities

At the time of the 1998 Acquisition of LILCO, in addition to the electric assets described under "Introduction to the Authority and LIPA" in this Part 2, LILCO also retained certain other of its former assets (these electric and other retained assets are referred to collectively as the "LIPA Assets") and liabilities (the "LIPA Liabilities" and, together with the LIPA Assets, the "LIPA Assets and Liabilities"). The LIPA Assets included, among other assets (i) certain regulatory assets of LILCO, including the Shoreham Regulatory Asset, (ii) the judgments, actions and claims of LILCO for refunds of property taxes, including the judgment resulting from the litigation contesting the assessment of certain Shoreham Nuclear Power Station property and (iii) other intangible assets of LILCO's former retail electric business, including the right to provide electric service in the Service Area.

Upon the consummation of the 1998 Acquisition, LIPA recorded various purchase accounting adjustments to give recognition to the fact that LIPA is not subject to the regulatory jurisdiction of the PSC and is exempt from federal income tax. The primary result of these adjustments was the elimination of the regulatory assets and liabilities of LILCO, including the Shoreham Regulatory Asset, and the elimination of LILCO's net deferred federal income tax liability. The unamortized balance of the excess of the acquisition costs over the original net book value of the transmission and distribution and nuclear assets and the fair value of the other net assets retained appears on the financial statements included by specific cross-reference herein as the "Acquisition Adjustment." This Acquisition Adjustment is being amortized over 35 years (commencing in 1998) and is being recovered through LIPA's rates. In May 1998, when LIPA acquired LILCO, the original Acquisition Adjustment was approximately \$4.2 billion. At December 31, 2013, the balance of the Acquisition Adjustment, net of accumulated amortization was approximately \$2.15 billion.

The LIPA Liabilities included, among other liabilities, certain environmental liabilities of LILCO not otherwise transferred to or indemnified by a National Grid Sub.

Guarantees and Indemnities

Keyspan Corporation (now a subsidiary of National Grid) has absolutely and unconditionally guaranteed to the Authority (i) the full and prompt payment when due of all amounts required to be credited or paid by National Grid Subs under the PSA and (ii) the full and prompt performance of the covenants and agreements of the National Grid Subs under the PSA. Upon certain reductions in the credit ratings of Keyspan Corporation, LIPA has the right to have Keyspan Corporation obtain letters of credit securing these undertakings and agreements.

PSEG Power LLC, a wholly-owned subsidiary of PSEG, has absolutely and unconditionally guaranteed to the Authority (i) the full and prompt payment when due of all amounts required to be credited or paid by PSEG Long Island under the TSA and OSA up to \$60,000,000 and (ii) the full and prompt performance of the covenants and agreements of PSEG Long Island under the TSA and OSA. Upon certain reductions in the credit ratings of PSEG Power LLC, LIPA has the right to have PSEG Long Island obtain a letter of credit in lieu of the corporate guaranty.

ADDITIONAL INFORMATION

Certain of the corporations mentioned in this Part 2, including National Grid plc., PSEG, Lockheed, Exelon Corporation, the parent of Constellation Energy Nuclear Group, LLC, the operator of NMP2, file reports and other information with the Securities and Exchange Commission (the "Commission"), which reports and information are publicly available. None of the above-mentioned additional information is included herein by specific cross-reference, and neither the Authority nor the Underwriters take any responsibility for the accuracy or completeness thereof.

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LIPA

Long Island Power Authority



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