Gainesville Regional Utilities

2009 Financial statement audit plan

Ernst & Young
Quality In Everything We Do

Ernst & Young LLP
Suite 1700
390 North Orange Avenue
Orlando, FL 32801

Tel: +1 407 872 6600
Fax: +1 407 872 6626
www.ey.com

June 11, 2009

Financial Management Team

Gainesville Regional Utilities

Dear Members of the Financial Management Team,

We are meeting with you to discuss our audit approach and current year audit plan for Gainesville Regional Utilities (GRU). We will outline the scope of our services, identify the Ernst & Young team that will serve you and present some key considerations that will affect the 2009 audit.

Our audit is designed to express an opinion on the 2009 combined financial statements of GRU as of September 30, 2009. We are currently completing the planning phase of our audit. We will consider GRU's current and emerging business risks, assess those that could materially affect the financial statements and align our procedures accordingly. The plan will be responsive to your needs and will maximize audit effectiveness so we can deliver the high-quality audit you expect.

GRU selected Ernst & Young to perform its 2009 audit and we appreciate your confidence. Our commitment to quality will be reflected in every aspect of our work.

Very truly yours,

Michael Pattillo

Agenda

- Our client service commitment to GRU
- Audit services
- Global audit methodology
  - Overview of the audit process
  - Accounting and auditing developments
  - Critical policies, estimates and areas of emphasis (executive summary)
  - Fraud considerations and the risk of management override
- Client service team
- Communications timetable
- Appendix A — Timing of required communications
- Appendix B — Certain required communications
- Appendix C — Peer review reports
- Appendix D — Critical policies, estimates and areas of emphasis

Our client service commitment to GRU

Our service commitment	Ernst & Young is committed to delivering consistent high-quality client service to GRU. Our service commitment is centered on our most critical objective of performing a high-quality audit of GRU's combined financial statements. Additionally, we strive to provide "Quality In Everything We Do" and recognize that service quality extends well beyond execution of our audit methodology. It is driven by the quality of our team and the effectiveness and value of our communications with financial management. Our overall service commitment to GRU is depicted above and is aligned with our Ernst & Young Assurance Service Delivery Approach.

Audit services

	Audit services
Opinions	► Express an opinion on GRU's combined financial statements taken as a whole. ► The audit will be conducted in accordance with auditing standards generally accepted in the United States and generally accepted governmental auditing standards as set forth in the US General Accounting Office's (GAO's) *Government Auditing Standards* (January 2007 Revision) and rules of the Auditor General, State of Florida for the form and conduct of audits of Florida local governments, where applicable.
Internal control communications	► Issue reports on internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. This communication to management will describe significant deficiencies and material weaknesses identified during our audit, if any. ► Issue a management letter that provides our recommendations regarding internal controls and opportunities for improvement or efficiency, based on observations made during the course of our audit, in addition to state reporting requirements. ► Report on other matters as required by Chapter 10.800, Rules of the Auditor General.
Other services	► Issue a summary results report to the Audit and Finance Committees.

Global audit methodology

Overview of the audit process

Important planning matters for audit committee consideration

- Business and industry risk considerations
- Accounting and auditing developments
- Critical policies, estimates and areas of emphasis
- Fraud considerations and the risk of management override
- Using the work of others

Ernst & Young
Quality In Everything We Do

Business and industry risk considerations

	Considerations	Risks	Audit considerations
Economic conditions	Should Utilities be required to refinance existing debt levels, or obtain additional financing for future capital projects necessary to meet regulatory requirements or other growth objectives, they may find the capital market resources limited. This may subject GRU to higher interest rates or credit terms on refinanced debt. While Companies may not directly observe a direct impact of the current economic circumstances, they should not overlook the impact the economy may have on their customers ability to pay utility bills, or continue to operate their businesses, and the potential lowering energy demands from industrial customers.	Electricity and natural gas energy providers tend to be somewhat insulated from modest economic downturns. An economic slowdown, if sustained and severe, however, could materially impact the company's revenue and/or profitability particularly with regard to its large commercial and industrial (C&I) customer base. An economic downturn, particularly when coupled with relatively high energy prices, may increase the risk of uncollectible receivables and decrease cash flows. As of early 2009, the US is facing a deepening recession, as evidenced by negative gross domestic product (GDP) growth, declines in payroll employment, falling consumer spending and continued instability in housing markets. Many utilities and their state regulators have reported increases in both uncollectible accounts receivable and customer disconnections.	▶ Consider whether certain significant financial statement accounts and disclosures may now have a higher inherent risk, for example: ▶ Cash and cash equivalents ▶ Investments ▶ Revenue/Accounts Receivable ▶ Allowance for doubtful accounts ▶ Debt ▶ The complexity and professional judgment involved in the evaluation of significant accounting, auditing and financial reporting matters may necessitate timely consultation with Ernst & Young auditing and valuation specialists and accounting subject matter experts.

Business and industry risk considerations

	Considerations	Risks	Audit considerations
Continuing volatility in commodity prices	Since September 2008, US coal prices have begun to decline, reflecting the impacts of a slowing global economy, a strengthening US dollar, and growing competition from cheaper sources of supply. Longer-term demand for coal will reflect the impact of proposed carbon regulation and the growth of carbon capture and storage. Natural gas markets have likewise experienced significant volatility in the past year, moving in line with global crude oil prices, which have backed in the wake of the global economic downturn. The country's demand for more power and generating facility's increasing use of natural gas mixture may have a longer term impact on natural gas prices. Changes and futures speculation in long-term commodity pricing may impact investment decisions in deciding on new utility generating capacity. Utilities should take into account varying scenarios where the underlying economics of the commodity markets change during the life of their investment.	High and volatile energy costs can materially impact the profitability of an energy company in two ways. First, large industrial and commercial customers may switch energy sources or reduce consumption in the event of sustained high prices. Second, generation companies with portfolios heavily weighted toward gas-fired capacity may find margins squeezed if costs cannot be passed along. Many utilities are affected by energy commodity price volatility to the extent that regulation dictates the amount, timing, and form of cost recovery. Currently, the industry is facing a downward trend in commodity prices. The current economy and credit-related issues have caused liquidity issues within certain areas of the country that electricity and natural gas are traded.	► Understand GRU's risk assessment activities and decisions related to the effect of the current price environment. ► Determine whether the utility has effective cost recovery mechanisms for periods of rising fuel prices, and the potential for timing-impact on working capital needs. This may impact the Company's debt covenants, liquidity requirements, etc. ► Consider whether any significant fuel or Power Purchase Agreements (PPAs) expire in the short term and whether they can be renewed at favorable terms. ► Evaluate management's ability to identify, measure, monitor and mitigate exposure to commodity prices (i.e., are effective hedging activities employed?).

Business and industry risk considerations

	Considerations	Risks	Audit considerations
Infrastructure security and reliability	After 9/11 and other high profile incidents, security concerns have been a high priority of the Utilities sector. In addition, the blackout of 2003 raised awareness of the weaknesses within the US power grid and the importance of investment in grid reliability measures to prevent future catastrophic failures. The North American Electric Reliability Council (NERC) was established as the official electric reliability organization within the US under the Energy Policy Act of 2005 and they recently established security standards which phase in through 2010. The NERC's cyber security standards will require utilities to invest in their infrastructure to become compliant. Companies may be subject to increasing mandatory grid reliability standards of performance measurement. In November 2008, FERC issued three important, new reliability orders (i.e., two notices of proposed rulemaking [NOPRs] and one order on rehearing) aimed at strengthening the rules already in place for operators of the US' electric transmission grid.	Loss of significant assets and/or revenue as a result of a political attack or grid malfunction which prevents power from reaching consumers. Fines/penalties imposed by regulators as a result of the utility's noncompliance with new and emerging regulations. Ability to recover security and reliability costs incurred by the Utility may be limited by state or federal regulators in the political environment.	► Documentation of security expenditures. ► With significance of reliance on IT systems throughout the sector, new threats and vulnerabilities may affect the accuracy of the financial statements.

Business and industry risk considerations

	Considerations	Risks	Audit considerations
Environmental issues	With significant public attention on global warming and the Energy industry's footprint on the environment, there is increasing regulatory scrutiny on air emissions and the total footprint of a utility. There remains considerable uncertainty connected with the emissions reduction requirements. In 2005, the EPA issued the Clean Air Interstate Rule, Clean Air Mercury Rule, and Clean Air Visibility Rule under the existing Clean Air Act. While these rules were challenged and vacated by the courts in 2008, the District of Columbia Circuit Court ordered that the rule must remain "in place" while the EPA works to address the "fatal flaws" in the rule. Further, Several states have also initiated action to force generators to reduce greenhouse gas (GHG) emissions, either directly or through renewal portfolio standards (RPS), and Congress is gaining momentum on the issue of GHG emissions regulations. Many industry players see this as coming sooner rather than later, particularly in light of the transition to the Obama administration. Manufactured gas plant remediation is a significant potential liability facing many gas utilities. There is also growing pressure on utilities to pursue conservation initiatives aimed at decreasing pressure on energy supplies and improving environmental performance. An IOU's ability to prevent, identify, and manage environmental issues is critical.	Significant fines could be levied in the event of noncompliance with these new and emerging emissions standards. Recoverability of compliance and remediation costs as well as fines through rate base adjustments may be in question. Proper management of capital spending projects is essential to provide state regulators with adequate support that all costs were prudent. Additional monitoring or operating costs imposed by renewable resource programs may not be cost efficient or recoverable from customers in the short-term. This may impose additional working capital needs on the organization. A utilities growth plans may be evaluated by financing partners for investment in cost-effective demand reduction programs, renewable energy production, and reliability subjecting the Company to even greater oversight.	▶ Assess recovery of the regulatory assets that have been recorded. ▶ Long-lived or intangible asset values may be impaired. ▶ Liabilities may exist for which adequate reserves may not have been established.

Accounting and auditing developments

Accounting and auditing developments	Summary	Effect on the company
GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*	► This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups.	► This Statement is effective for fiscal years beginning after June 15, 2007, which would be the fiscal 2009 year for GRU.
GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*	► This Statement was issued on July 10, 2007, and the aim of this project was to provide users of financial statements with more complete and comparable information about intangible assets used in providing government services.	► This Statement is effective for fiscal years beginning after June 15, 2009, which would be the fiscal 2010 year for GRU. Currently, this is not expected to impact GRU.
GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*	► This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.	► The requirements of this statement are effective for periods beginning after June 15, 2009. For GRU, implementation will be necessary in the 2010 fiscal year.
GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*	► This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for periods beginning after June 15, 2010. For GRU implementation will be necessary in the 2011 fiscal year, if applicable.	► This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for periods beginning after June 15, 2010. For GRU implementation will be necessary in the 2011 fiscal year, if applicable. Currently, this is not expected to impact GRU.

Accounting and auditing developments

Accounting and auditing developments	Summary	Effect on the company
GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*	► This Statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature.	► The requirements of this Statement are effective immediately.
GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.*	► This Statement incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments.	► The requirements of this Statement are effective immediately.

Critical policies, estimates and areas of emphasis

Ernst &Young comments on quality of accounting policy and application
We are required to communicate our judgments about the quality, not just the acceptability, of GRU's accounting policies. The communications should be tailored to each company's circumstances, including accounting applications and practices not explicitly addressed in the accounting literature, such as those that may be unique to an industry. Statement on Auditing Standards No. 90 (SAS 90), *Audit Committee Communications*, notes that discussions on the quality of an entity's accounting principles generally should include such matters as the consistency of the entity's accounting policies and their application and the clarity and completeness of the entity's financial statements, which include related disclosures. The discussion also should include items that have a significant impact on the representational faithfulness, verifiability and neutrality of the accounting information included in the financial statements.

Ernst & Young
Quality In Everything We Do

Critical policies, estimates and areas of emphasis

Executive summary (refer to Appendix D for details)

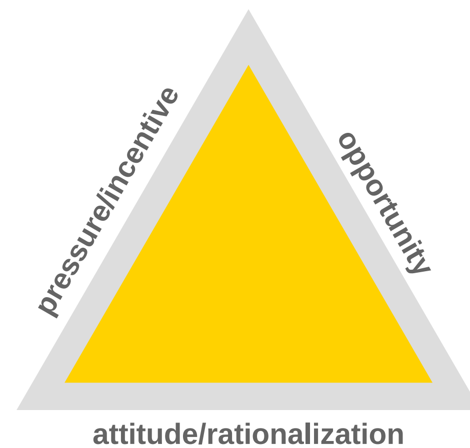
Area	Critical accounting policy	Ernst & Young comments on quality of accounting policy and application
Revenue		
Revenue recognition, including unbilled revenue and receivables	✓	► GRU recognizes revenue when services are delivered ► GRU employs an acceptable estimation process to unbilled revenue and then compares to actual results
Expenses		
Depreciation expense		► GRU depreciates capital assets systematically using the straight-line method over the estimated useful life considering FERC guidelines or license period of the asset
Assets		
Regulatory assets	✓	► GRU properly applies the guidance in FAS 71, *Regulatory Accounting*
Fuel inventory	✓	► GRU appropriately utilizes a specialist firm to value the fuel inventory on hand at year-end
Allowance for doubtful accounts	✓	► GRU employs a consistent, conservative method of estimating bad debts based on the aging of accounts receivable
Impairment of long-lived assets		► GRU assesses impairment when any indicators of impairment are present in accordance with applicable accounting standards
Derivatives and hedging activities	✓	► GRU applies the appropriate accounting guidance to account and report for derivatives
Liabilities		
Environmental reserves	✓	► GRU follows industry practice in establishing environmental reserves
Regulatory liabilities	✓	► GRU properly applies the guidance in FAS 71, *Regulatory Accounting*

Fraud considerations and the risk of management override

We are responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or by fraud (SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*).

Our audit procedures will encompass the requirements of SAS 99: brainstorming, gathering information to facilitate the identification of and response to fraud risks and performing mandatory procedures to address the risk of management override (including examining journal entries, reviewing accounting estimates and evaluating the business rationale of significant unusual transactions).

- We evaluate the risk of management override using the fraud triangle and consider the actions management has taken to respond to those risks.
- We consider, among other things:
  - Code of conduct/ethics
  - Effective and independent oversight by audit committee (consider AICPA Antifraud Paper for Audit Committees — January 2005)
  - Process for dealing with whistle-blower allegations
  - Adequacy of internal audit activity
  - Entity's risk assessment processes
- Role and oversight responsibilities of the audit committee:
  - Management's assessment of the risks of fraud
  - Programs and controls to mitigate the risk of fraud
  - Process for monitoring multiple locations for fraud
  - Management communication to employees on its views on business practices and ethical behavior

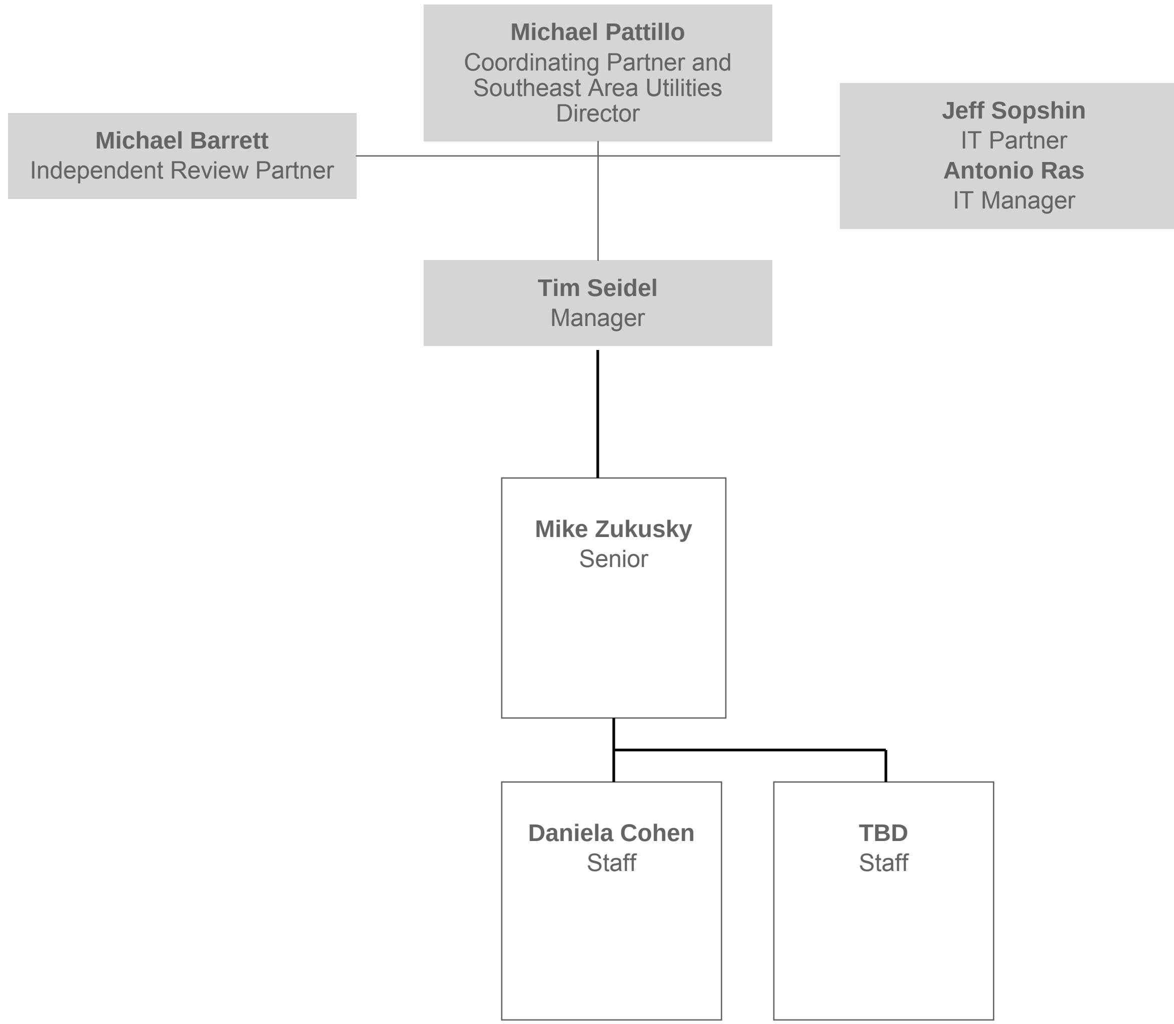


Occupational Fraud and Abuse, by Joseph T. Wells, CPA, CFR (Obsidian Publishing Co, 1997); *Fraud Examination*, by W. Steve Albrecht (Thomson South-Western Publishing, 2003)

Client service team

Experience highlights

- Mike Pattillo is the leader of Florida Public Sector Practice
- Mike Barrett is the leader of Ernst & Young's Southeast Area Utilities Sector and has over 30 years of utilities experience serving clients in electric, gas, water and wastewater.
- Tim has over four years of experience serving various municipal utilities in Florida.



Communications timetable

Assurance calendar

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March
Client events												
Management												
► Propose action plan and team			■									
► Audit planning/budgeting	■		■									
► Co-develop communication protocol			■									
► Co-develop consultation protocol			■									
► Establish audit timetable			■									
► Other planning items	■		■									
Financial management team												
► Propose action plan and team			■									
► Other required communications			■									■
► Interim testing ► Internal control testing					■							
► IT walkthroughs and control testing				■								
► Year-end fieldwork								■	■			
► Annual audit results												■

Appendix A

Timing of required communications

Timing of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Communications required on all audits		
Our responsibility under GAAS (or under PCAOB standards), including other information in documents containing audited financial statements		X
Major issues discussed with management in connection with initial or recurring retention	X	
Significant audit adjustments		X
Unrecorded audit differences considered by management to be immaterial		X
Our judgments about the quality of the Company's accounting principles		X
Disagreements with management	X	
Consultations with other accountants	X	
Serious difficulties encountered in dealing with management when performing the audit	X	
The adoption of, or a change in, an accounting principle	X	
Methods of accounting for significant unusual transactions and for controversial or emerging areas	X	
Sensitive accounting estimates		X
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	X	
Significant deficiencies and material weaknesses identified during our audit		X

Timing of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Additional communications required on audits of non-SEC clients		
Overview of planned scope and timing of the audit		X
Representations the auditor requests from management		X
Significant findings or issues arising from the audit that were discussed with management		X
Events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern	X	

Appendix B

GAS required communications

GAS required communications

You have engaged us to conduct an audit of GRU's combined financial statements for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States, the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities for testing and reporting on internal control and on compliance with laws, regulations, and provisions of contracts or grant agreements under those standards are described in the table below. In addition, the table contrasts our responsibilities in this engagement with other procedures that we could perform in other financial-related engagements.

Service that we will provide	Our responsibility regarding internal control	Our responsibility regarding compliance with laws and regulations and provisions of contracts or grant agreements and abuse
Financial statement audit – GAAS	We will consider GRU's internal control over financial reporting solely for the purpose of planning our audit and determining the nature, timing, and extent of our audit procedures to enable us to express an opinion on the financial statements. This consideration will not be sufficient to enable us to express an opinion on internal control. We communicate, in writing, any significant deficiencies or material weaknesses that are identified during the audit, including significant deficiencies and material weaknesses that were communicated to management and those charged with governance on previous audits, and have not yet been remediated. Our communication does not provide an opinion on the effectiveness of internal control over financial reporting.	We design our audit to provide reasonable assurance of detecting fraud that is material to the financial statements and illegal acts that have a direct and material effect on the determination of financial statement amounts. Our report does not express an opinion on compliance with laws, regulations, and provisions of contracts or grant agreements. We have no responsibilities to be alert for, or to report, abuse.

GAS required communications

Service that we will provide	Our responsibility regarding internal control	Our responsibility regarding compliance with laws and regulations and provisions of contracts or grant agreements and abuse
Financial statement audit – Government Auditing Standards	In addition to the GAAS responsibilities, we are required to issue a written report on our consideration of internal control over financial reporting and identify significant deficiencies, indicating those that are material weaknesses. Our reports do not provide assurance on internal control over financial reporting. If a significant deficiency is remediated before our report is issued, and we obtain sufficient, appropriate evidence supporting the remediation of the significant deficiency, then we will report the significant deficiency and the fact that it was remediated before our report was issued.	In addition to the GAAS responsibilities, we design our audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives. We are alert to situations or transactions that could be indicative of abuse. We issue a written report on the results of these procedures; however, our report does not express an opinion on compliance or on other matters. We report significant violations of provisions of contracts or grant agreements and significant abuse in our auditor's report. We report violations of provisions of contracts or grant agreements and abuse that are less than significant but more than inconsequential in a management letter.

GAS required communications

Service that we will provide	Our responsibility regarding internal control	Our responsibility regarding compliance with laws and regulations and provisions of contracts or grant agreements and abuse
Agreed-Upon Procedures Level Attestation Engagement – AICPA Attestation Standards	We could be engaged to perform agreed-upon procedures related to the design and operating effectiveness of internal control, or an assertion thereon. The objective of the agreed-upon procedures is to present specific findings to assist users in evaluating the design and operating effectiveness of internal control, or an assertion thereon. Our procedures generally may be as limited or extensive as the users desire as long as the users (a) participate in establishing the procedures to be performed and (b) take responsibility for the sufficiency of such procedures for their purposes.	We could be engaged to perform agreed-upon procedures related to an entity's compliance with specified rules and regulations, or an assertion thereon. The objective of the agreed-upon procedures is to present specific findings to assist users in evaluating the entity's compliance with specified rules and regulations, or an assertion thereon. Our procedures generally may be as limited or extensive as the users desire as long as the users (a) participate in establishing the procedures to be performed and (b) take responsibility for the sufficiency of such procedures for their purposes.
Agreed-Upon Procedures-Level Attestation Engagement – Government Auditing Standards	Same as the responsibilities under the AICPA attestation standards.	In addition to the responsibilities under the attestation standards, we would be alert to situations or transactions that could be indicative of violations of provisions of contracts or grant agreements and, if indications of such transactions or situations exist that could materially affect the subject matter or assertion, we would apply procedures specifically directed to ascertain whether such transactions or situations have occurred and the effect on the subject matter or assertion. We would be alert to situations or transactions that could be indicative of abuse.

Certain required communications

Government Auditing Standards paragraph 4.19 defines abuse as follows: "Abuse is distinct from fraud, illegal acts and violations of provisions of contracts or grant agreements. When abuse occurs, no law, regulation, or provision of a grant agreement is violated. Rather, abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances."

Further, *Government Auditing Standards* footnote 51 provides this example of abuse: "For example, in a financial statement audit, auditors might find abuse when examining sensitive payments such as travel of senior management officials to locations chosen for personal reasons rather than less costly locations which would have been appropriate to satisfy the business objectives of the travel."

Appendix C

Peer review reports

Ernst & Young
Quality In Everything We Do

345 Park Avenue
New York, NY 10017

Telephone 212 909 5600
Fax 212 872 3001

To the Partners of Ernst & Young LLP
and the AICPA Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Ernst & Young LLP (the Firm) applicable to non-SEC issuers in effect for the year ended June 30, 2007. The Firm's accounting and auditing practice applicable to SEC issuers was not reviewed by us since the Public Company Accounting Oversight Board (PCAOB) is responsible for inspecting that portion of the Firm's accounting and auditing practice in accordance with PCAOB requirements. A system of quality control encompasses the Firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the Firm. Our responsibility is to express an opinion on the design of the system and the Firm's compliance with that system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the AICPA Center for Public Company Audit Firms and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it since it was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice applicable to non-SEC issuers of Ernst & Young LLP in effect for the year ended June 30, 2007, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the Firm with reasonable assurance of complying with applicable professional standards.

As is customary in a peer review, we are issuing a letter under this date that sets forth comments relating to certain policies and procedures or compliance with them. The matters described in that letter were not considered to be of sufficient significance to affect the opinion expressed in this report.

KPMG LLP

December 20, 2007

KPMG

Attachment to the Peer Review Report of Ernst & Young LLP

Description of the Peer Review Process

Overview

Firms enrolled in the AICPA Center for Public Company Audit Firms (the Center) have their system of quality control periodically reviewed by independent peers. These reviews are system and compliance oriented with the objective of evaluating whether:

The reviewed firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers has been designed to meet the requirements of the Quality Control Standards established by the AICPA.

The reviewed firm's quality control policies and procedures applicable to non-SEC issuers were being complied with to provide the firm with reasonable assurance of complying with professional standards.

A peer review is based on selective tests and directed at assessing whether the design of and compliance with the firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers provides the firm with reasonable, not absolute, assurance of complying with professional standards. Consequently a peer review on the firm's system of quality control is not intended to, and does not, provide assurance with respect to any individual engagement conducted by the firm or that none of the financial statements audited by the firm should be restated.

The Center's Peer Review Committee (PRC) establishes and maintains review standards. At regular meetings and through report evaluation task forces, the PRC considers each peer review, evaluates the reviewer's competence and performance, and examines every report, letter of comments, and accompanying response from the reviewed firm that states its corrective action plan before the peer review is finalized. The Center's staff plays a key role in overseeing the performance of peer reviews working closely with the peer review teams and the PRC.

Once the PRC accepts the peer review reports, letters of comments, and reviewed firms' responses, these documents are maintained in a file available to the public. In some situations, the public file also includes a signed undertaking by the firm agreeing to specific follow-up action requested by the PRC.

Firms that perform audits or play a substantial role in the audit of one or more SEC issuers, as defined by the Public Company Accounting Oversight Board (PCAOB) are required to be registered with and have their accounting and auditing practice applicable to SEC issuers inspected by the PCAOB. Therefore, we did not review the firm's accounting and auditing practice applicable to SEC issuers.

Planning the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers

To plan the review of Ernst & Young LLP, we obtained an understanding of (1) the nature and extent of the firm's accounting and auditing practice, and (2) the design of the firm's system of quality control sufficient to assess the inherent and control risks implicit in its practice. Inherent risks were assessed by obtaining an understanding of the firm's practice, such as the industries of its clients and other factors of complexity in serving those clients, and the organization of the firm's personnel into practice units. Control risks were assessed by obtaining an understanding of the design of the firm's system of quality control, including its audit methodology, and monitoring procedures. Assessing control risk is the process of evaluating the effectiveness of the reviewed firm's quality control system in preventing the performance of engagements that do not comply with professional standards.

Performing the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers

Based on our assessment of the combined level of inherent and control risks, we identified practice units and selected engagements within those units to test for compliance with the firm's system of quality control. The engagements selected for review included audits performed under the Government Auditing Standards, audits performed under FDICIA, multi-office audits, and audits of Employee Benefit Plans. The engagements selected for review represented a cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagement reviews included examining working paper files and reports and interviewing engagement personnel. We also reviewed the supervision and control of portions of engagements for non-SEC issuers performed outside the United States.

The scope of the peer review also included examining selected administrative and personnel files to determine compliance with the firm's policies and procedures for the elements of quality control pertaining to independence, integrity, and objectivity; personnel management; and acceptance and continuance of clients and engagements. Prior to concluding the review, we reassessed the adequacy of scope and conducted an exit conference with firm management to discuss our findings and recommendations.

345 Park Avenue
New York, NY 10017

Telephone 212 909 5600
Fax 212 872 3001

December 20, 2007

To the Partners of
Ernst & Young LLP
and the AICPA Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Ernst & Young LLP (the Firm) applicable to non-SEC issuers in effect for the year ended June 30, 2007, and have issued our report thereon dated December 20, 2007. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report, which should be read in conjunction with this letter.

Engagement Performance

Comment **-** The Firm has comprehensive policies that require audit documentation sufficient to enable an experienced auditor having no previous connection with an engagement to understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached. In some instances, we believe more robust or comprehensive documentation was needed to support the conclusions reached by engagement teams in the following key areas:

- *Use of Service Organizations* – In some instances, the engagement team did not fully document its testing of user control considerations identified in the SAS No. 70 report.
- *Fair Value and Using the Work of a Specialist* – In some instances, there was insufficient documentation pertaining to the audit procedures performed over management data used to compute fair values and the engagement team's understanding and evaluation of the assumptions used by the specialist in its determination of fair value.
- *Income Taxes* – In some instances, there was insufficient documentation of audit procedures performed pertaining to the testing of deferred income tax balances and valuation allowances.
- *Combined Risk Assessments* – In some instances, there was insufficient documentation or inconsistencies in the documentation pertaining to changes the engagement team made in its preliminary combined risk assessment as a result of changes during the course of the audit.

We were able to satisfy ourselves through discussions with the engagement team or review of other supplemental documentation that the Firm is taking or has taken appropriate actions to remediate the deficiencies noted above.

Recommendation – We note that commencing with its 2007 audits, the Firm is deploying a new automated documentation tool that it believes will assist engagement teams in complying with firm policies and professional standards pertaining to documentation. We recommend that the Firm also emphasize the above documentation matters by reminding its executives of the importance of their involvement in supervising and reviewing audit engagements.

Employee Benefit Plans

Comment – The Firm has comprehensive policies regarding the audits of employee benefit plans, which include guidance regarding the audit procedures to be performed to verify the existence and market values of investments held by such plans. In some instances, engagement teams placed reliance on service provider's control reports, principally in the areas of investments, to limit the extent of the additional substantive audit procedures to be performed with respect to investment values at the plan year end. However, we believe that in certain instances, the engagement team did not sufficiently document the substantive audit procedures performed over investment values of the plan assets at year-end to comply with professional standards. We were able to satisfy ourselves through discussions with the engagement team that the Firm is taking or has taken appropriate actions to remediate the deficiencies noted above.

Recommendation – The Firm should emphasize its policies regarding audit documentation of the substantive audit procedures performed over investment values at year end when placing reliance on service provider's control reports.

Comment – The Firm has comprehensive policies regarding the content of its documentation pertaining to each audit engagement. In some instances, audit procedures performed during the audit of the plan sponsor were also relied upon for the audit of the employee benefit plan, for example, audit procedures pertaining to payroll and investments, without sufficient documentation in the files for the audit of the employee benefit plan. We were able to satisfy ourselves through discussions with the engagement team and review of certain audit work papers at the plan sponsor level that sufficient audit procedures had been performed.

Recommendation – For employee benefit plan audits, the Firm should emphasize its policies regarding the required contents of its audit documentation for each audit when the Firm audits both the employee benefit plan and the plan sponsor.

KPMG LLP

December 20, 2007

ERNST & YOUNG

Ernst & Young LLP
5 Times Square
New York, New York 10036

Phone: (212) 773-3000
www.ey.com

December 20, 2007

AICPA Center for Public Company Audit Firms Peer Review Committee

Dear Committee Members:

We are pleased to provide our response to the letter of comments issued in connection with our peer review for the year ended June 30, 2007. This letter should be read in connection with that letter. We believe the peer review program assists us in identifying areas where we can continue to improve our performance and quality control systems and processes.

Our overriding objective is to make certain that all aspects of our auditing and quality control processes are of high quality. As a result, the firm is in the process of deploying a new global audit documentation platform designed to help drive a more consistent and appropriate execution and documentation of our Global Audit Methodology. We believe the new platform also has been designed to better enable the supervision and review of the work performed by our engagement teams. The platform has been pilot tested on a sample of calendar 2006 audits and is being deployed for initial use on calendar 2007 audits.

We have been emphasizing during 2007 and will continue to emphasize awareness regarding the matters noted in the letter of comments through internal communications and learning programs. Examples of these activities include:

- Accounting and Auditing Update sessions held in the Fall/Winter 2007, which generally include partners through seniors. These sessions covered current A&A matters including the results of all internal and external inspection activities.

- Audit Release issued in December 2007. This communication covered the areas identified through all inspection activities along with excerpts and summary comments from our firm guidance reinforcing each of the topics.

- Audit Quality Executive Events annually held in the Spring/Summer. These events are attended by partners through managers and focus in-depth on current auditing topics and the importance of their involvement in supervising and reviewing audit engagements.

- Employee Benefit Plan annual training program held in the Spring.

In addition to these actions, our 2008 internal inspection program will focus on the matters noted in the letter of comments.

Ernst & Young LLP

Peer Review Program

December 28, 2007

James S. Turley, CPA
Ernst & Young, LLP
5 Times Square
New York, NY 10036-6530

Dear Mr. Turley:

It is my pleasure to notify you that on December 28, 2007, the Center Peer Review Committee accepted the report on the most recent peer review of your firm, the related letter of comments, and your firm's response thereto. Those documents will now be placed in the public files of the Center for Public Company Audit Firms. The due date for your next review is December 31, 2010. This is the date by which all review documents should be completed and submitted.

As you know, the reviewer's opinion was unmodified. The Committee asked me to convey its congratulations to the firm.

Sincerely,

James W. Brackens, Jr
Vice President -
Firm Quality & Practice Monitoring

cc: David T. Brumbeloe, CPA

American Institute of Certified Public Accountants
220 Leigh Farm Road, Durham, NC 27707-8110 • (919) 402-4502 • (919) 402-4500 • fax (919) 419-4713 • www.aicpa.org
ISO Certified

Report for Audit Committees: Information on Ernst & Young's Accounting and Auditing Practice

December 2007

Background

One of the requirements for audit committees in the New York Stock Exchange listing standards is to obtain at least annually a report by the independent auditors that includes a description of any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with such issues. This report on the accounting and auditing practice of Ernst & Young LLP (Ernst & Young) is responsive to such requirement. We do note that professional standards require that we maintain the confidentiality of client information, and specifically we may not disclose any confidential client information without the specific consent of the client.

External Practice Monitoring

PCAOB Inspections

One of the key provisions of the Sarbanes-Oxley Act of 2002 (the Act) was the formation of the Public Company Accounting Oversight Board (the PCAOB). In accordance with the Act, the PCAOB conducts inspections of registered public accounting firms to assess their compliance with the Act, the rules of the PCAOB and SEC, and professional standards in connection with the audits of SEC issuers.

During 2006, the PCAOB performed its third regular annual inspection of Ernst & Young, which followed an initial limited inspection in 2003. The inspection included a review of our processes, policies, and procedures in certain areas at the National office and reviews of audit engagements at a number of our practice offices where the PCAOB inspection team reviewed our audit documentation, made inquiries of the audit engagement teams, and performed other procedures considered necessary. The PCAOB issued its 2006 inspection report on May 2, 2007. The PCAOB has not yet issued a report on its 2007 inspection of our firm.

Because the inspection process is intended to be a constructive process, the Act provides that a section of the PCAOB inspection reports will have limited distribution to certain regulators. An inspected firm has one year in which to address any deficiencies to the PCAOB's satisfaction. Only deficiencies that are not satisfactorily remedied would then be reported publicly. The publicly available sections of the PCAOB reports on the 2003 through 2006 inspections of our firm and our written responses were made available to you following the issuance of the respective reports or are available at your request. The reports describe the procedures performed during the inspection and certain observations regarding audit performance. In the limited distribution section of its inspection reports, the PCAOB provided us with certain qualitative observations, primarily on our audit performance and certain elements of our quality controls. We have taken or are taking steps to address all of the matters described in the inspection reports.

AICPA Peer Review

Ernst & Young participates in the AICPA peer review program that requires a triennial review of our system of quality control for our non-SEC accounting and auditing practice. The purpose of the AICPA peer review program is to serve as a bridge between the PCAOB's inspection program and the firms' state licensing and other federal regulatory practice monitoring requirements.

The most recent peer review of Ernst & Young's non-SEC accounting and auditing practice was completed by KPMG for the year ended June 30, 2007. KPMG issued an unmodified opinion dated December 20, 2007. KPMG's report and letter of comments and our response to the letter of comments are available at your request.

Internal Practice Monitoring

Ernst & Young conducts an annual internal inspection program (Assurance Quality Review or AQR) that assesses the quality of our audit work for a cross-section of audit engagements. The objective of the AQR program is to evaluate the design and operating effectiveness of the firm's quality control policies and procedures for our accounting and auditing practice. The AQR program also aids our efforts to continually identify areas where we can improve our performance or enhance our policies and procedures.

Based on the results of our 2007 internal inspection, we concluded that the system of quality control for our accounting and auditing practice has been designed and has operated in a manner so as to provide the firm with reasonable assurance of complying with professional standards. As always, we noted improvement opportunities for our accounting and auditing practice and have acted upon them.

Governmental and Professional Inquiries and Investigations

As is true of all other national accounting firms, Ernst & Young participates from time to time in inquiries and investigations by the SEC and other governmental and professional bodies. A very small number of those investigations might involve allegations of material issues relating to the firm's compliance with auditing or other professional standards.

Whenever a regulatory investigation is initiated, we conduct our own internal review of the matter, if we have not already done so. We typically review all relevant audit working papers and other documents, interview the appropriate personnel, research the relevant professional standards applicable to the engagement, and perform any other necessary activities. Depending on the results of the internal or regulatory investigation, we determine what, if any, actions are appropriate to take with respect to the partner(s) and other members of the engagement team, the business unit in which they work, or the firm's entire audit practice. For example, with respect to partners and other professionals, we consider whether it is appropriate to separate them from the firm, assign them to non-audit practices, preclude them from participating in audits of public companies, require extra supervision and monitoring of their work, require them to take additional training, or take other remedial measures. We also make determinations as to whether changes in our audit methodology, new or revised implementation guidance, additional or modified training programs, or other actions are warranted at an office or firm wide level.

PeopleSoft Matter

On April 16, 2004, the Administrative Law Judge who heard the case entered an Initial Decision that we violated the SEC's independence rules with respect to our audit client PeopleSoft during the time period 1994–1999, although she did not find that there was anything wrong with the company's financial statements or our audit judgments. We determined not to appeal the decision, and the SEC entered a Final Order on April 26, 2004.

The SEC found that the activities of the firm's former software consultants (we sold our consulting practice in 2000) in connection with the implementation of PeopleSoft software for third parties violated the SEC's independence rules. In addition, the SEC found the firm's license agreement in connection with our EY/GEMs for PeopleSoft software product was an improper direct business relationship with an audit client, and further found the product itself to be a joint Ernst & Young and PeopleSoft product. The SEC ordered the following:

- A six-month suspension barring the firm from accepting engagements to perform audits for new clients that are SEC registrants (which ended on October 26, 2004);
- The firm must hire an independent consultant, acceptable to the SEC, to review our independence policies and procedures to ensure they are appropriately designed and implemented so they prevent future violations of the independence requirements relating to business relations with clients (the independent consultant was hired and his work has been submitted to the SEC Staff);
- Disgorgement of $1.7 million in audit fees, plus interest of $0.7 million; and
- A cease-and-desist Order, which requires that the firm comply with the SEC's independence rules in the future and not commit any further violations of the relevant statutes and rules.

The decision relates to business decisions made in the 1990s that involved our consulting and tax software practices. We are committed to restoring trust and confidence in the market, and therefore intend for our independence policies and procedures to provide controls that investors, regulators, and clients can respect, trust, and rely on. To this end, we had already begun an internal review of our independence quality controls and have continued this review in conjunction with the independent consultant. In addition, we have implemented enhanced independence policies and procedures, particularly with respect to business relationships.

In the wake of the SEC's PeopleSoft decision, a number of state boards of accountancy contacted us with questions regarding the PeopleSoft matter. In nearly all instances, those state boards concluded that no proceedings were appropriate because there was no nexus with their states. However, the California State Board of Accountancy opened a parallel proceeding because PeopleSoft was a California-based company and our auditors who worked on the audit engagement were California licensees. We reached an amicable settlement with the California State Board in September 2004, the terms of which called for a review by an independent consultant that was similar to the review of the independent consultant who worked for the SEC but with a focus on our California clients; a symposium on auditor independence issues to be offered to all California CPAs at Ernst & Young's expense; and a three-year probationary period, with the right to apply for early termination after one year. The independent consultant has completed his review, and the settlement does not affect our ability to continue to serve our existing audit clients in California, nor did it place any additional restrictions on accepting new public company audit clients in California beyond the SEC suspension period (which, as noted above, ended on October 26, 2004).

On August 9, 2004, the Washington State Board of Accountancy advised us that it was opening an investigation into the PeopleSoft matter and asked us to detail the firm's quality control measures and corrective actions undertaken by the firm relating to the independence issues arising out of the PeopleSoft case. At various times, we responded to the Washington State Board's requests for information on our quality control measures and corrective actions. We also provided information relating to Washington licensees who worked on the PeopleSoft audit, noting that only one partner had charged one hour to the engagement and believes that the charge may have been recorded in error. At the end of September 2007, firm representatives including the Americas Vice Chair, Independence met with the Board's representatives to describe the principal components of the auditor independence system at the firm. In December 2007, the firm and the Board's representatives reached agreement on a mutually satisfactory resolution of this matter.

The New Mexico State Board of Public Accountancy also opened an inquiry into the PeopleSoft matter, although we do not have an office in New Mexico and no New Mexico licensees worked on the PeopleSoft audit. We held several meetings with representatives of the New Mexico State Board and we are optimistic that the matter has been amicably resolved.

Finally, the Pennsylvania State Board of Public Accountancy recently filed a complaint seeking "reciprocal" disciplinary action based on the California PeopleSoft action. We have had several discussions with staff members from the Pennsylvania State Board and have scheduled a meeting to explain the steps that have been taken to address the issues arising out of the PeopleSoft decision.

Superior Bank Matter

The Office of Thrift Supervision (OTS) opened an investigation related to the July 2001 failure of Superior Bank, FSB. Superior specialized in "sub-prime" lending, primarily making high-interest home and auto loans to consumers with problem credit histories. Superior securitized these loans and recorded its residual interest in future cash flows from the loans at fair value. Superior failed when multiple and significant declines in interest rates coupled with a quickly deteriorating economy rapidly lowered the estimated fair market value of the residual interests. As it relates to Ernst & Young, the OTS investigation has focused on audit procedures applied to savings associations, including audit procedures performed in connection with residual interests. We cooperated fully with the OTS during its investigation and were able to reach a mutually agreeable resolution of the matter. Under the terms of a Consent Order signed by Ernst & Young in December 2004, in which the firm neither admitted nor denied wrongdoing, we agreed to implement new processes and procedures relating our audits of savings associations, covering training, staffing, executive involvement, consultation, and other quality control matters. We are voluntarily implementing these enhanced processes and procedures for all of our audits of insured depository institutions. In a press release announcing the settlement, the OTS recommended these procedures to all accounting firms that audit insured depository institutions.

In a separate action related to Superior, the Federal Deposit Insurance Corporation (FDIC) sued Ernst & Young in federal court for losses suffered by the deposit insurance fund. In a global resolution of all matters related to Superior, Ernst & Young agreed to pay $85 million to the OTS and $40 million to the FDIC, which will be used to replenish the federal deposit insurance fund. Neither settlement placed any restrictions on the firm's ability to perform audits for insured depository institutions or other entities in the financial services sector.

PNC Matter

The firm entered into a settlement with the SEC relating to violations of the auditor independence standards that occurred in 2001. According to the SEC, the firm violated those standards when a partner in the National Office assisted a non-audit client in its development and marketing of an accounting-driven financial product and then, later, the same National Office partner advised an audit client, the PNC Financial Services Group, Inc., on the appropriate accounting treatment for a version of that product in PNC's financial statements. According to the SEC, the firm failed to have another partner perform a meaningful separate analysis of the appropriate accounting treatment. The SEC believed that because of the National Office partner's dual roles, the firm lacked the requisite independence in our performance as PNC's auditor. The SEC order acknowledged the significant improvements we have made since 2001 in our independence policies and procedures.

Appendix D

Critical policies, estimates and areas of emphasis

Ernst & Young
Quality In Everything We Do

Critical policies, estimates and areas of emphasis

Area	GAAP basis	Ernst & Young comments on quality of accounting policy and application
Revenue recognition *Unbilled revenue and receivables* The Company recognizes revenues for estimated services provided on it's electric and natural gas infrastructure which have not yet been billed to the end customer at fiscal period-end.	SAB 104, *Revenue Recognition*	GRU estimates unbilled revenue based on previous months' consumption usage and compared to prior years. Based on procedures historically performed, we believe GRU's accounting is appropriate.
Depreciation expense Management estimates the useful lives and residual values of fixed assets based on expected service lives, industry unit accounting methods for mass property additions, cost of removal and current industry information. GRU's regulated utility depreciation rates are determined by periodic depreciation studies and are updated periodically. When all or a significant portion of an operating unit that was depreciated under the composite or group method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators.	ARB 43, *Restatement and Revision of Accounting Research Bulletins*	The estimation of useful lives and determination of residual values requires management judgments about future events. When assets are reviewed for impairment or other significant events, their remaining useful lives are also reviewed.
Regulatory assets/liabilities Regulatory accounting is used to appropriately defer certain costs and revenues to periods when the costs will be recovered or revenue will be earned.	SFAS 71, *Accounting for the Effects of Certain Types of Regulation*	GRU applies the provisions of SFAS 71. This statement permits rates to be set at levels intended to recover the estimated costs of providing regulated services or products, including the cost of capital. Specifically, revenues intended to cover some costs are at times provided either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, this Statement requires companies to capitalize those costs. If current recovery is provided for costs that are expected to be incurred in the future, this Statement requires companies to recognize those current receipts as liabilities. GRU appropriately applies the provisions of this statement.

Critical policies, estimates and areas of emphasis

Area	GAAP basis	Ernst & Young comments on quality of accounting policy and application
Fuel inventory (coal)	ARB No. 43, *Restatement and Revision of Accounting Research Bulletins*	An outside specialist is engaged to perform the fuel inventory observation and valuation. GRU records the valuation of fuel inventory based on this specialist's report taking into consideration cut-off issues.
Allowance for doubtful accounts An allowance for doubtful accounts is established based on the Company's best estimate of revenue dollars that will not be collected from its customers. This analysis is complex due to the inclusion of significant unbilled customer receivables.	SFAS No. 5, *Accounting for Contingencies*	For the majority of receivables, an allowance for doubtful accounts is based on an aging of those receivable balances. A percentage is applied to each aging category based on the Company's historical collection experience. On certain other receivable balances where the Company is aware of a specific customer's inability to pay, the Company will record an allowance against amounts due to reduce the net receivable balance to the amount reasonably expected to be collected.
Impairment of long-lived assets GRU assesses recoverability of long lived assets as indicators of impairment become known, as required by the applicable accounting standards. If a triggering event or change in circumstance affecting the value of the asset has occurred, GRU would evaluate the need for an impairment charge.	GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*	Impairment charges are based on the nature of the underlying assets, estimated future economic benefits, regulatory and political environments and historical and future expected cash flows and profitability measurements. Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment has occurred. Impaired assets are reported at the lower of carrying value or fair value. GRU properly applies the provisions of this guidance when prominent events or changes in circumstances occur.
Derivative and hedging activities GRU uses derivative contracts to manage its exposure to changes in fuel prices and interest rates. Interest rate swaps are not recorded on the Statement of Net Assets in accordance with GASB TB 2003-1, but related effects on interest expense is recorded in the Statement of Revenues, Expenses and Changes in Net Assets. The appropriate financial statement disclosures are made.	SFAS No. 80, *Accounting for Futures Contracts* GASB TB 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*	Fuel contract derivative instruments are carried at fair value. Fair value is determined by reference to market quotes or third party proprietary pricing models. The appropriate financial statement disclosures are made with respect to the interest rate swaps.

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 135,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

About Ernst & Young's Assurance Services

Strong independent assurance provides a timely and constructive challenge to management, a robust and clear perspective to audit committees and critical information for investors and other stakeholders. The quality of our audit starts with our 60,000 assurance professionals, who have the experience of auditing many of the world's leading companies. We provide a consistent worldwide audit by assembling the right multidisciplinary team to address the most complex issues, using a proven global methodology and deploying the latest, high-quality auditing tools. And we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.

For more information, please visit www.ey.com.

0906-1064325

Ernst & Young
Quality In Everything We Do