

LONG ISLAND POWER AUTHORITY
UTILITY DEBT SECURITIZATION AUTHORITY
Debt Management Policy
(as amended on March 26, 2015)

I. Purpose of Debt Management Policy

The debt management policy sets forth the parameters for issuing and managing the debt of the Long Island Power Authority (the “Authority”) and the Utility Debt Securitization Authority (“UDSA”) and provides guidance regarding the purposes for which debt may be issued, types and amounts of permissible debt, timing, method of sale, and structural features.

II. Issuance of Debt

The decisions related to the necessity to issue debt varies depending on the type of debt to be issued (e.g., new money, refundings, etc.).

A. *New Money Debt Issuances*

The size and sources of funding for the Authority’s annual Capital Budgets are determined as part of the budget and ratemaking process. The Authority’s management reviews the capital projects proposed by the Authority’s Service Provider, PSEG-Long Island, and evaluates the rate impacts of various financing alternatives, including the sale of bonds and the funding of capital projects from cash flow from operations. This process is further informed by the role of the Department of Public Service, which independently reviews and makes recommendations to the Authority’s Board of Trustees (the “Board”) with regard to capital projects and major rate increases. The cash flow from operations available for pay-as-you-go financing is a function of available revenues, including planned rate adjustments, less operating expense budgets and existing debt payments. In addition, the Authority investigates third-party sources of funding (for example, grants from Federal, state, or other sources). The portion of the annual Capital Budget remaining after contributions from cash flow from operations and third party sources is, out of necessity, funded from new money debt issuances. The Authority’s Board approves the annual Operating and Capital Budgets, which include projections for the funding of capital projects from operating cash flow, grants, and debt sales. Based on the Authority’s cash flow projections and other considerations related to the sale of debt, including estimated expenditures for periods beyond the annual budgeting cycle, Authority management will make recommendations to and seek the approval of the Authority’s Board as to the timing of debt issuances.

B. *Refunding Debt Issuances*

“Refundings” or the refinancing of outstanding bonds are an important debt management tools for the Authority. Refundings are commonly used to achieve savings, remove or change bond covenants, restructure debt, or refinance bonds that are enhanced by expiring bank liquidity facilities or that have similar mandatory refinancing features.

The Authority, its financial advisor(s), and its underwriting team monitor the debt markets and the Authority's outstanding debt on an ongoing basis to identify potential opportunities and to manage mandatory refinancing risks. Most refinancings will be undertaken to achieve debt service savings (i.e. replacing current debt with bonds that have lower principal and interest payments through maturity as measured on a present value basis). However, in certain circumstances, such as debt restructurings, changes in covenants or for other sound business or policy reasons, Authority management may recommend refinancing debt that does not necessarily result in present value savings or meet minimum savings targets. As a general policy, the Authority will not extend the average weighted life (i.e., average maturity) of bonds as a result of refinancings (other than may incidentally occur because of different payment dates, etc).

Generally, for a refinancing of fixed rate bonds with fixed rate bonds, the Authority will use three percent (3%) net present value ("NPV") savings as a minimum requirement for an advanced refunding (i.e. a refinancing that occurs more than 90 days in advance of the call date on the refunded bond). The arbitrage yield shall be used in calculating the NPV savings. This will be measured for the transaction as a whole. In certain circumstances, lower thresholds may be justified, such as if the advance refunding is being done for reasons other than economic savings or future opportunities to achieve greater savings appear to be limited (e.g. interest rates are at historically low levels or the bonds are approaching their maturity dates and have limited savings potential). Higher thresholds are required for financings that have a different risk profile than the bond refunded (e.g. variable-rate debt or interest rate swaps). Lower thresholds are acceptable for current refundings (i.e. refinancings after the call date on the refunded bond) as the savings potential on these bonds declines over time and there fewer tax law restrictions on such refinancings with tax-exempt bonds.

To the extent available, the Authority may contemplate the issuance of refinancing bonds through the UDSA to provide additional savings over that available from a refinancing with lower-rated Authority bonds.

C. Other Debt Issuances

From time-to-time, the Authority may be presented with financing ideas that require issuance of debt for purposes other than funding the annual Capital Budget or refinancing existing outstanding debt (e.g., natural gas or electricity pre-payment transactions). These potential transactions shall be evaluated on a transaction specific basis. To the extent that Authority management, after consultation with the Authority's advisor(s), determine that the issuance of debt for a specific transaction is in the best interest of the Authority and its customers, Authority management will recommend such issuance to the Board.

III. Required Authorizations for the Issuance of Debt

A. Board of Trustees

All issuance of debt by the Authority requires the authorization of the Authority's Board. The Authority's management will bring a recommendation to adopt a resolution to the Board for their

consideration. In general, a supplement resolution to either the Authority's General Bond Resolution or Subordinated Bond Resolution will be recommended and will describe the proposed debt and its purposes. In addition any necessary implementing agreements will be authorized. If the bonds are to be issued by the UDSA, the Trustees will adopt a Financing Order permitting such issuance and any other required implementing documents.

B. Public Authorities Control Board

Once the Trustees have adopted a resolution authorizing the issuance of debt, the Authority is required by the Long Island Power Authority Act and other provisions of the Public Authorities Law to obtain the approval of the New York State Public Authorities Control Board ("PACB"). The PACB typically meets monthly, usually the third Wednesday of the month. Under current practices, in order to be placed on the agenda for that month's meeting, the PACB's staff requests that all items be submitted no later than the first business day of each month. In connection with the authorization, the PACB staff requires the submission include a memo to the PACB summarizing the requested authorization including the use of the proceeds, the anticipated structure of the transaction, and other relevant details. In addition, a draft PACB resolution must be submitted, along with the resolution adopted by the Authority's Board authorizing the proposed debt issuance. PACB must approve the issuance unanimously.

The statutory provisions governing the approval by PACB require PACB to consider and make certain determinations relating to, among other matters, the financial feasibility of the financing, and the impact, if any, of the project financed on (i) the Authority's electric rates, (ii) utility rates in other areas of the State, and (iii) real property taxes collected in the Service Area and in other areas of the State. In order to provide a basis for PACB to approve the transaction, in addition to the details of the bonds and the expected use, the application should include the information relating to the Authority's projected revenues (or those of UDSA) which demonstrate the feasibility of providing for the payment of the proposed bonds and address impacts, if any, on such other matters.

C. Office of State Comptroller

Public Authorities Law, Section 1020-k(4) requires that the Authority obtain the approval of the Office of State Comptroller ("OSC") before issuing debt. When considering whether to approve a debt issuance, OSC will review the terms and conditions of the sale, including all costs of issuance paid or to be paid directly or indirectly by the issuer. OSC has established their "Debt Issuance Approval Policy Statement and Guidelines," which are available on their website. The Authority must comply with Section 1020-k(4) and OSC's guidelines for all debt issuances, including the use of interest rate derivative products. In addition, debt related contracts must be submitted to OSC for approval.

IV. Financial Advisors

In order to supplement the Authority's in-house expertise and obtain access to market information, the Authority retains the services of outside financial advisors. A financial advisor shall assist the Authority on all financings, including the sale of bonds (including pricing in a negotiated sale), the

use of financial derivatives, debt management, credit ratings management, and other general financial matters.

The Authority shall, on a periodic basis, select a financial advisor(s) on the basis of merit using a competitive process. A competitive process allows the Authority to compare the qualifications of proposers and to select the most qualified firm(s) based on the scope of services and evaluation criteria outlined in a Request for Proposals (“RFP”).

The financial advisor(s) may be any firm with the necessary experience and qualifications, including an independent firm or investment bank. However, if the Authority should select an investment bank to serve as a financial advisor, the investment bank is prohibited from participating in any financing transactions (i.e., bond sale, etc.) while serving in its role as financial advisor.

V. Method of Sale

Typically, due to the Authority’s current credit ratings, as well as the size and complexity of the Authority’s bond sales, the Authority issues debt through a public negotiated sale. The use of a public negotiated sale allows for pre-marketing efforts and outreach to specific investor segments (e.g. retail investors) prior to the sale. In addition, during periods of volatility, instability or uncertainty in the financial markets, a public negotiated sale may be necessary to ensure a successful and cost-effective bond pricing. In the case of a public negotiated sale, a senior managing underwriter(s) will be selected in accordance with Section VI of these Guidelines.

The Authority may consider a competitive sale when a particular debt issue will have structural features (credit ratings, amortization, size, etc.) that will benefit from a competitive sale process and market conditions are conducive to a competitive sale. The sale of bonds shall be advertised in a manner determined by Authority management, after consultation with the Authority’s financial advisor(s), to provide adequate notice for the most practical and efficient sale.

Where the size, complexity or risk of a debt issue would make it impractical or uneconomic to offer the bonds for sale to more than a limited number of ultimate purchasers, or when the Authority receives a proposal that it reasonably estimates will achieve the same or better economics (typically as the result of a competitive selection process) than a public market sale, the Authority may select a private placement sale.

VI. Selection of Underwriters (Negotiated Sale)

In order to ensure that the Authority obtains the lowest possible interest cost for bonds sold on a negotiated basis, the Authority maintains a pool of underwriters (senior managers, co-managers and remarketing agents/dealers) that have demonstrated strong banking, underwriting, and marketing/distribution capabilities, including a willingness and ability to commit capital to ensure a successful financing. The pool of underwriters is selected on a periodic basis through a competitive RFP process to promote fairness, objectivity and transparency. The RFP process allows the Authority to compare respondents and helps the Authority select the most qualified firms for the pool based on

the evaluation criteria established in the RFP. The Authority shall seek input from its financial advisor(s) in developing the RFP, as well as evaluating the responses to the RFP.

The senior (book running) manager(s) for each individual transaction will be selected on a transaction-by-transaction basis from the approved pool of senior managers based on a number of factors including, but not limited to: unique financing ideas presented by each underwriter; ongoing coverage and assistance provided to the Authority; demonstrated support or commitment to the Authority (e.g. extending bank facilities on attractive terms), and expertise and/or qualifications based on the specifics of the transaction.

VII. Bond Counsel and Disclosure Counsel

External counsel with securities experience is required for each financing. Disclosure Counsel helps the Authority ensure that offering documents are accurate, complete and meet relevant legal and regulatory requirements. Disclosure Counsel's opinion provides assurance to the underwriters and investors that the disclosures being made by the Authority are fair and accurate. In addition, Disclosure Counsel assists the Authority with its ongoing commitment to continuing disclosures and material events reporting (see further discussion below).

Bond counsel renders an opinion on the validity of the bond offering, the security for the offering, and whether and to what extent interest on the bonds is exempt from income and other taxation. The opinion of Bond Counsel provides assurance both to the Authority and to investors who purchase the bonds that all legal and tax requirements relevant to the matters covered by the opinion are met. The Bond Counsel also prepares the documents required to complete the bond sale.

Both Bond Counsel and Disclosure Counsel provide ongoing advice and guidance on financing matters separate to the actual bond issuance process.

The Authority selects Bond Counsel and Disclosure Counsel that have the necessary expertise to provide advice and the required legal opinions for completing financings. Bond Counsel and Disclosure Counsel may be separate firms or these services may be offered by the same firm.

VIII. Rating Agencies and Credit Ratings Management

Credit ratings and the credit rating agencies are necessary to obtain the lowest cost of debt financing. The Authority makes every reasonable effort to obtain and maintain the highest possible credit ratings consistent with providing its customers the lowest long-term electric rates. At a minimum, the Authority shall maintain credit ratings from at least two of the nationally recognized credit rating agencies.

In order to ensure that the rating agencies can perform the best credit review and reach the most informed ratings decision about the Authority and UDSA, the Authority's management make an effort provide the rating agencies with accurate and timely financial and operational information. The Chief Financial Officer and the Managing Director of Finance and Budgeting are responsible for

regular and ongoing communication with the rating agencies throughout the year, and particularly upon the occurrence of any material events. The types of information that should be conveyed to the rating agencies include changes in staffing, quarterly and annual financial statements, material reports or audits concerning the Authority, and budget and rate filing information and developments.

Normally, the Authority will meet with each rating agency at least once per calendar year, regardless of whether or not there is a planned debt offering. In addition, in advance of each debt offering, the Authority will contact each rating agency with sufficient advance notice as may be required by the rating agencies, notifying them of the planned sale and provide all relevant materials, including a draft of the official statement. A meeting or conference call should be scheduled to provide the rating agencies the opportunity to ask questions and obtain any additional required information.

IX. Use of Debt Related Derivatives Products

The Authority recognizes that the use of debt related derivative products can be an important interest rate management tool that, when used properly, can increase the Authority's financial flexibility, provide opportunities for interest rate savings, and otherwise limit or hedge variable rate interest payments. The Authority has adopted an interest rate derivative product policy, "Guidelines for the Use of Interest Rate Exchange Agreements." These Guidelines must be followed when entering into any debt related derivative product, as well as in the monitoring and reporting on existing derivatives.

X. Primary Market Disclosures - Official Statements

It is the Authority's policy to provide primary market disclosure to all its bond investors in compliance with the rules of the Municipal Securities Rulemaking Board ("MSRB"). MSRB rules require the filing by the broker dealer of an official statement within ten (10) days of the execution of a Bond Purchase Agreement.

The official statement will be prepared by the Authority, with the assistance of the Authority's Disclosure Counsel, Bond Counsel, financial advisor(s), and the senior underwriter(s) in connection with any new issue of debt. The official statement will describe the essential terms of the bonds, including whether and on what terms the bonds can be redeemed prior to maturity, the sources pledged to repay the bonds, the Authority's covenants for the benefit of investors, among other required disclosures.

The official statement will also contain certain financial and operating data about the Authority (or UDSA, as necessary). In addition, the official statement will contain the most current audited financial statements of the Authority (or UDSA). The Authority, based on counsel from its advisors, will consider what other material matters should be included in any such official statement, including any legal, regulatory or statutory matters. The Authority will use its best efforts to ensure that the disclosures made in any such official statement are accurate. The Authority, or its designee, will file its official statements with the MSRB's Electronic Municipal Market Access System ("EMMA").

XI. Continuing Disclosures and Material Events Reporting

The Authority and UDSA bonds are subject to the continuing secondary market disclosure requirements of Rule 15c2-12 of the Securities and Exchange Commission (“SEC”). A determination will be made as part of each bond issuance as to the undertakings that the Authority will have with respect to continuing disclosures. The undertakings will be specified in Continuing Disclosures Certificates delivered in connection with such bonds and shall outline specific financial information and operating data relating to the Authority to be provided by specific dates (the “Annual Report”). In addition, the Authority shall provide notices of the occurrences of certain specific events enumerated in such Certificates, if material (“Material Events Notices”). These Annual Reports and Material Events Notices shall be filed by or on behalf of the Authority and UDSA with the MSRB.