

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED
MARCH 31, 2014**

Revenues

For the three months ended March 31, 2014 revenue from the restructuring charge was \$20 million. The restructuring charge was established by the Long Island Power Authority (Authority) and imposed on utility customer bills effective March 1, 2014. The collection of the restructuring charge will be used to make scheduled principal and interest payments on the restructuring bonds.

Operating Expenses

The amortization of the restructuring property is based on the timing of the principal and interest due on the restructuring bonds. In addition, the UDSA recorded administrative expenses which are due to the Authority in accordance with the Servicing Agreement.

Interest expense

For the three months ended March 31, 2014, interest expense totaled \$20 million which included the amortization of debt issuance expenses and premium on the restructuring bonds.

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

Statements of Net Position
(Amounts in thousands)

| | March 31, 2014 (unaudited) | December 31, 2013 (audited) |
|----------------------------------------------------|----------------------------------|-----------------------------------|
| Assets | | |
| Current assets: | | |
| Restricted cash | \$ 10,513 | 10,513 |
| Accounts receivable | 20,065 | — |
| Total current assets | 30,578 | 10,513 |
| Noncurrent assets: | | |
| Restructuring property | 2,101,738 | 2,112,990 |
| Regulatory asset - unamortized debt issuance costs | 14,583 | 15,095 |
| Total noncurrent assets | 2,116,321 | 2,128,085 |
| Total assets | \$ 2,146,899 | 2,138,598 |
| Liabilities and Net Position | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 90,000 | 90,000 |
| Accrued interest | 25,869 | 3,173 |
| Accrued expenses | 305 | — |
| Total current liabilities | 116,174 | 93,173 |
| Noncurrent liabilities: | | |
| Long-term debt, including unamortized premium | 2,044,712 | 2,048,196 |
| Total noncurrent liabilities | 2,044,712 | 2,048,196 |
| Net position - unrestricted | (13,987) | (2,771) |
| Total liabilities and net position | \$ 2,146,899 | 2,138,598 |

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

Statement of Revenues, Expenses, and Changes in Net Position

(Amounts in thousands)

| | For the Quarter Ended March 31, 2014 |
|---------------------------------------------------------------|---------------------------------------------------|
| | <u>2014</u> |
| Operating Revenue: | \$ 20,065 |
| Operating expenses: | |
| Amortization of restructuring property | 11,252 |
| Servicing and Administrative Fees | <u>289</u> |
| Total operating expenses | 11,541 |
| Operating income | 8,524 |
| Interest charges: | |
| Interest Expense | 20,373 |
| Amortization of restructuring bond premium and issuance costs | <u>(633)</u> |
| Total interest charges | 19,740 |
| Change in net position | <u>(\$11,216)</u> |
| Net position, beginning of year | <u>(2,771)</u> |
| Net position, end of year | <u>\$ (13,987)</u> |

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

Statement of Cash Flows

(Amounts in thousands)

| | For the Quarter Ended March 31, 2014 |
|--------------------------------------------------------------------------------------------------|-----------------------------------------------|
| Cash flows from investing activities: | |
| Purchase of restructuring property | \$ — |
| Net cash used in investing activities | <u>—</u> |
| Cash flows from financing activities: | |
| Proceeds from issuance of restructuring bonds | — |
| Bond issuance costs | <u>—</u> |
| Net cash used provided by financing activities | <u>—</u> |
| Net increase in cash and cash equivalents | — |
| Restricted cash and cash equivalents at beginning of year | <u>10,513</u> |
| Restricted cash and cash equivalents at end of year | <u>\$ 10,513</u> |
| Reconciliation to net restricted cash provided by operating activities: | |
| Operating loss | \$ 8,524 |
| Adjustments to reconcile operating loss to net restricted cash provided by operating activities: | |
| Amortization of restructuring bond premium and issuance costs | (642) |
| Changes in operating assets and liabilities: | |
| Accounts receivable | (20,065) |
| Accrued interest | <u>22,696</u> |
| Net restricted cash provided by operating activities | <u>\$ 10,513</u> |