

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED
JUNE 30, 2015**

Revenues

For the six months ended June 30, 2015 as compared with the six months ended June 30, 2014 revenue from the restructuring charge decreased by \$54 million. This is primarily due to a decrease in the restructuring charge imposed on utility customer bills from \$.014 to \$.004 per KWh. The restructuring charge has a direct correlation with scheduled principal and interest payments on the restructuring bonds. Principal payments due in 2015 have decreased by \$75 million as compared with 2014.

Operating Expenses

For the six months ended June 30, 2015, amortization of the restructuring property decreased by \$37 million as compared with the six months ended June 30, 2014. UDSA recognizes the amortization of the restructuring property on a proportionate basis annually based upon the total principal payments due for the restructuring bonds. Principal payments due in 2015 have decreased by \$75 million as compared with 2014.

There was an increase in servicing, administration and other expenses of \$170 thousand for the six months ended June 30, 2015 as compared with the same period for 2014 due primarily to Directors and Officers liability insurance incurred.

Interest charges

For the six months ended June 30, 2015, interest expense, net of amortization of bond premium and bond issuance costs, decreased by \$474,000 due primarily to the decrease in outstanding debt as compared with the same time period in 2014.

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

Statements of Revenues, Expenses, and Changes in Net Position

(Amounts in thousands)

	Six Months Ended June 30,	
	2015	2014
Operating Revenue	\$ 25,206	79,245
Operating expenses:		
Amortization of restructuring property	7,836	45,007
Uncollectible expense	279	291
Servicing, administrative and other fees	808	638
Total operating expenses	<u>8,923</u>	<u>45,936</u>
Operating income	<u>16,283</u>	<u>33,309</u>
Other income	<u>22</u>	<u>-</u>
	<u>16,305</u>	<u>33,309</u>
Interest charges:		
Interest Expense	43,143	43,070
Amortization of restructuring bond premium and issuance costs	<u>(4,170)</u>	<u>(3,623)</u>
Total interest charges	<u>38,973</u>	<u>39,447</u>
Change in net position	<u>(22,668)</u>	<u>(6,138)</u>
Net position, beginning of year	<u>55,260</u>	<u>(2,771)</u>
Net position, end of period	<u>\$ 32,592</u>	<u>(8,909)</u>

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Net Position

(Amounts in thousands)

	June 30, 2015 (unaudited)	December 31, 2014 (audited)
Assets		
Current assets:		
Restricted cash	\$ 30,066	22,483
Accounts receivable	12,562	38,338
Prepaid assets	146	322
Total current assets	42,774	61,143
Noncurrent assets:		
Restructuring property	2,011,119	2,018,955
Regulatory asset - unamortized debt issuance costs	12,464	13,146
Total noncurrent assets	2,023,583	2,032,101
Total assets	\$ 2,066,357	2,093,244
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 45,000	15,000
Accrued interest	3,595	3,595
Accrued expenses	689	49
Total current liabilities	49,284	18,644
Noncurrent liabilities:		
Long-term debt, including unamortized premium	1,984,481	2,019,340
Net position - unrestricted	32,592	55,260
Total liabilities and net position	\$ 2,066,357	2,093,244

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Statements of Cash Flows

(Amounts in thousands)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Operating revenues received	\$ 50,704	52,821
Net cash provided by operating activities	<u>50,704</u>	<u>52,821</u>
Cash flow from investing activities:		
Earnings received	22	—
Refund of bond issuance costs	—	20
Net cash provided by investing activities	<u>22</u>	<u>20</u>
Cash flows from financing activities:		
Interest paid	(43,143)	—
Net cash used in financing activities	<u>(43,143)</u>	<u>—</u>
Net increase in cash and cash equivalents	7,583	52,841
Restricted cash and cash equivalents, beginning of year	<u>22,483</u>	<u>10,513</u>
Restricted cash and cash equivalents, end of period	<u>\$ 30,066</u>	<u>63,354</u>
Reconciliation to net restricted cash provided by operating activities:		
Operating income	\$ 16,283	33,309
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	7,836	45,007
Changes in operating assets and liabilities:		
Prepaid assets and accrued expenses	808	639
Accounts receivable	<u>25,777</u>	<u>(26,134)</u>
Net restricted cash provided by operating activities	<u>\$ 50,704</u>	<u>52,821</u>