

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2015**

Revenues

For the nine months ended September 30, 2015 as compared with the nine months ended September 30, 2014 revenue decreased by \$106 million due primarily 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 decreased by \$75 million as compared with 2014. Also contributing to the \$106 million decrease was the timing of the unbilled revenue accrual.

Operating Expenses

For the nine months ended September 30, 2015, amortization of the restructuring property decreased by \$67 million as compared with the nine months ended September 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 decreased by \$75 million as compared with 2014.

There was an increase in servicing, administration and other expenses of \$257,000 for the nine months ended September 30, 2015 as compared with the same period for 2014 due primarily an increase to Directors and Officers liability insurance expense.

Interest charges

For the nine months ended September 30, 2015, interest expense, net of amortization of bond premium and bond issuance costs, decreased by \$716,000 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)

	Nine Months Ended September	
	2015	2014
	(unaudited)	
Operating revenue	<u>\$ 50,178</u>	<u>\$ 156,494</u>
Operating expenses:		
Amortization of restructuring property	11,754	78,763
Uncollectible expense	396	670
Servicing and administrative fees	1,174	917
Total operating expenses	<u>13,324</u>	<u>80,350</u>
Operating income	<u>36,854</u>	<u>76,144</u>
Non-Operating Revenues and Expenses		
Other income and deductions, net	<u>26</u>	<u>4</u>
Interest charges and (credits)		
Interest expense	64,715	68,090
Amortization of restructuring bond premium and issuance costs	<u>(6,259)</u>	<u>(8,918)</u>
Total interest charges	<u>58,456</u>	<u>59,172</u>
Change in net position	(21,576)	16,976
Net position		
Total net position, beginning of year	<u>55,260</u>	<u>(2,771)</u>
Total net position, end of period	<u>\$ 33,684</u>	<u>\$ 14,205</u>

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Net Position

(Amounts in thousands)

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Current Assets:		
Restricted cash	51,396	22,483
Accounts receivable	16,090	38,338
Prepayments	59	322
Total current assets	<u>67,545</u>	<u>61,143</u>
Noncurrent Assets:		
Restructuring property	2,007,201	2,018,955
Regulatory asset - unamortized debt issuance costs	12,118	13,146
Total noncurrent assets	<u>2,019,319</u>	<u>2,032,101</u>
Total Assets	<u>\$ 2,086,864</u>	<u>\$ 2,093,244</u>
 Liabilities and Net Position		
Current Liabilities:		
Current maturities of long-term debt	45,000	15,000
Accrued interest	25,167	3,595
Accrued expenses	961	49
Total current liabilities	<u>71,128</u>	<u>18,644</u>
Noncurrent Liabilities:		
Long-term debt, including unamortized premium	<u>1,982,052</u>	<u>2,019,340</u>
Net Position - unrestricted	<u>33,684</u>	<u>55,260</u>
Total Liabilities and Net Position	<u>\$ 2,086,864</u>	<u>\$ 2,093,244</u>

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Cash Flows

(Amounts in thousands)

	Nine Months Ended September	
	2015	2014
	(unaudited)	
Cash flows from operating activities:		
Operating revenues received	\$ 72,030	121,835
Net restricted cash provided by operating activities	72,030	121,835
Cash flow from investing activities:		
Earnings received	26	4
Refund of bond issuance costs	—	20
Net restricted cash provided by investing activities	26	24
Cash flows from financing activities:		
Interest paid	(43,143)	—
Net restricted cash used in financing activities	(43,143)	—
Net increase in cash and cash equivalents	28,913	121,859
Restricted cash and cash equivalents, beginning of year	22,483	10,513
Restricted cash and cash equivalents, end of period	\$ 51,396	132,372
Reconciliation to net restricted cash provided by operating activities:		
Operating income	\$ 36,854	76,144
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	11,754	78,763
Changes in operating assets and liabilities:		
Accounts receivable	22,248	(33,988)
Prepaid assets and accrued expenses	1,174	916
Net restricted cash provided by operating activities	\$ 72,030	121,835