

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED
JUNE 30, 2014**

Revenues

For the six months ended June 30, 2014 revenue from the restructuring charge was \$79 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 and an expense related to uncollectible accounts receivable of 0.547%.

Interest expense

For the six months ended June 30, 2014, interest expense totaled \$39 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)

	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Assets		
Current assets:		
Restricted cash	\$ 63,354	10,513
Accounts receivable	26,134	—
Total current assets	89,488	10,513
Noncurrent assets:		
Restructuring property	2,067,983	2,112,990
Regulatory asset - unamortized debt issuance costs	14,052	15,095
Total noncurrent assets	2,082,035	2,128,085
Total assets	\$ 2,171,523	2,138,598
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 90,000	90,000
Accrued interest	48,566	3,173
Accrued expenses	639	—
Total current liabilities	139,205	93,173
Noncurrent liabilities:		
Long-term debt, including unamortized premium	2,041,227	2,048,196
Net position - unrestricted	(8,909)	(2,771)
Total liabilities and net position	\$ 2,171,523	2,138,598

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Statement of Revenues, Expenses, and Changes in Net Position

(Amounts in thousands)

	For the Six Months Ended June 30, 2014
Operating Revenue:	\$ 79,245
Operating expenses:	
Amortization of restructuring property	45,007
Uncollectible expense	291
Servicing and administrative fees	638
Total operating expenses	45,936
Operating income	33,309
Interest charges:	
Interest Expense	43,070
Amortization of restructuring bond premium and issuance costs	(3,623)
Total interest charges	39,447
Change in net position	(\$6,138)
Net position, beginning of year	(2,771)
Net position, end of year	\$ (8,909)

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Statement of Cash Flows

(Amounts in thousands)

	For the Six Months Ended June 30, 2014
Cash flows from operating activities:	
Operating revenues received	\$ 52,821
Paid to suppliers:	
Servicing and Administrative Fees	—
Net cash provided by operating activities	<u>52,821</u>
Cash flows from financing activities:	
Refund of bond issuance costs	20
Net cash used provided by financing activities	<u>20</u>
Net increase in cash and cash equivalents	52,841
Restricted cash and cash equivalents at beginning of year	<u>10,513</u>
Restricted cash and cash equivalents at end of year	<u>\$ 63,354</u>
Reconciliation to net restricted cash provided by operating activities:	
Operating income	\$ 33,309
Adjustments to reconcile operating income to net restricted cash provided by operating activities:	
Amortization of restructuring property	45,007
Changes in operating assets and liabilities:	
Accounts receivable	(26,134)
Accounts payable	<u>639</u>
Net restricted cash provided by operating activities	<u>\$ 52,821</u>